

**Scottish Local Government Pension Scheme
Advisory Board**

Annual Report 2023-24

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Opening Remarks from the Chair

On behalf of the Local Government Pension Scheme Advisory Board, I am delighted to be able to present the seventh SAB Annual Report. The aim of this Annual Report is to provide a primary source of information about the work of the Board over the last financial year for LPGS members, employers, and other stakeholders. This report summarises the financial position of funds across Scotland, and each local Pensions Fund has made decisions to invest their funds bearing in mind their own fiduciary duty. Although the positions of individual funds vary, overall, across Scotland, the LGPS continues to be fully funded and sustainable, which is very welcome. I hope you find this report useful. The Board welcomes feedback on the information provided and how this can be developed for future reports.

More information can be found about the Board's work at our website: <https://lgpsab.scot/>

Andrew Thomson, Chair of SAB for 2023/24

Introduction

1. The Scottish Local Government Pension Scheme Advisory Board (SAB) was established under the Public Services Pension Act 2013 to provide advice to the Scottish Government Minister on the desirability of changes to the design of the scheme and the implications of other policy issues.
2. The SAB also provides advice to the Scheme Managers or the Scheme's Pension Boards in relation to the effective and efficient administration and management of the scheme.
3. The Scheme Advisory Board is responsible for:
 - Providing advice on request about the desirability of changes to the design of the scheme; policy issues and changes to scheme regulations.
 - Discussing and commenting on the potential implications of future valuation outcomes.
 - Making recommendations on adjustments to the Scheme, in the event that costs breach the employer cost cap.
 - Providing advice to the Scheme Managers or the Scheme's Pension Boards in relation to the effective and efficient administration and management of the Scheme.

Structure and People

4. The SAB is a bipartite Board comprising equal representation from employers and trade union representatives. It meets at least four times a year and considers Scotland-wide issues relating to the governance of the scheme.
5. In the past, these have included Fiduciary Duty, "pensions choice", scheme governance, reviews of pension regulations, Guaranteed Minimum Pensions, and the Audit Scotland review of funds.

6. Current issues include investment cost transparency, scheme valuation, fund structures, climate risk to investments, and board member training.
7. The partnership approach is also reflected in our administration arrangements with Joint Chairing on a rotational basis between the two sets of representatives and a Joint Secretariat sourced from existing resources within the Employers and Trade Union organisations.

SAB Members (during 2023-24)

Chair – Cllr David Parker, Scottish Borders Council (COSLA)

Vice-Chair – Andy Thompson, GMB

Members representing Scheme Member interests:

Simon Watson, UNISON

Stephen Smellie, UNISON

Dr Davena Rankin, UNISON

Brian Robertson, Unite the Union

Wendy Dunsmore, Unite the Union

Andy Thompson, GMB

Annette Drylie, GMB

Members representing COSLA, Scheduled and Admitted Bodies:

Cllr Mandy Watt, City of Edinburgh Council (COSLA)

Cllr David Richardson, East Ayrshire Council (COSLA)

Cllr David Parker, Scottish Borders Council (COSLA)

Cllr Simon Mountford, Scottish Borders Council (COSLA)

Cllr Vaughan Moody, East Dunbartonshire Council (COSLA)

Brian Strathie, Scottish Water (Scheduled and Admitted Bodies)

Kenny Dick, Care Inspectorate (Scheduled and Admitted Bodies)

Joint Secretary – Employers Jonathan Sharma, COSLA Joint Secretary – Trade Unions Simon Watson, UNISON

8. There are a number of observers and advisers who support the SAB in the deployment of Board business. These include representatives from, and on behalf of, the Scottish Government, formal COSLA officials, pension scheme managers and representatives from professional associations.

Communications

9. The SAB has developed a bespoke website to act as a unique source of information and advice to all stakeholders. The site includes the SAB meeting papers and minutes along with other governance documentation, guidance documents and details of the Board's membership. The content of the website will develop as the work of the Board continues. It is at <https://lgpsab.scot>.
10. Similar information is also published on the local government pages of the Scottish Public Pensions Agency (SPPA) website - www.sppa.gov.uk.
11. A short bulletin is also published after each meeting covering the key decisions, which is circulated to key stakeholders and on the SAB website.

SPPA links and useful resources for local government employers to each Fund: <https://pensions.gov.scot/local-government/your-local-government-pension-scheme/useful-links>

Links to local government employer websites: <https://www.cosla.gov.uk/>

Links to Funds: <https://lgpsab.scot/related-websites/>

Review of the year 2023-4

12. After LGPS scheme-wide valuation (now every 4 years) a cost management exercise is undertaken to determine if employer costs have varied significantly beyond a target level. This uses a similar formula across all public sector schemes. If costs do vary, then adjustments are made to scheme benefits or member contributions. It was not expected that this “collar” would be breached unless unforeseen events occurred. However, across many public sector pension schemes it was, albeit once the additional costs of the McCloud Remedy (about which regulations were introduced) were factored in this breach was nullified.
13. Therefore, HM Treasury undertook a review of the mechanism to ensure it was fit for purpose. The SAB submitted a response highlighting both the unique position of the LGPS as a funded scheme, whereby the real world financial position should be used rather than a formula, and of Scotland in having a different position to other UK countries. Ultimately the Treasury resolved to widen the “cost-collar” from +2% to +3%, to exclude “legacy scheme” (pre-2015) costs, and introduce an economic check to ensure any changes were affordable.
14. In the event of a potential breach of the “cost-collar”, the English and Welsh LGPS has a mechanism to make any changes more incremental. Given the major financial impact of any breach, the Scottish SAB decided to examine if such a “pre-breach” mechanism was appropriate for Scotland.,
15. Scottish Ministers asked the SAB for its view on the UK Chancellor’s Mansion House Speech, including issues on pooling and good governance. The SAB reported the outcomes from its existing work on this, and this topic has formed an ongoing item in the SAB’s work programme.
16. The SAB also hosted a seminar to review of the “Cost Transparency System”, which collects data from LGPS funds and analyses the average returns from, and fees for, different types of investment mandates. It looked at how the system was working, and how it’s functionality could be improved for the future.
17. The SAB noted the SPPA revised guidance to employers and funds on ill-health retirement. Some employers had simply followed the advice of their Independent Registered Medical Practitioner, rather than also taking into account any other relevant information in arriving at a view of whether members were eligible for ill-health retirement. The guidance helpfully clarified the correct approach.

18. In terms of promoting good governance, the SAB previous identified training of SAB members as an important issue, and during this year Clare Scott delivered a programme of training sessions for members. These brought in the expertise of external experts, and covered Governance, Investments, and Delivery Models. They are available online for training as future members join the advisory board. Following these, a session looked at lessons learned and produced a range of recommendations for improving the working of the SAB, covering Communications with Boards and Funds, additional governance support for the SAB and support local Board members. From this, the SAB did contract for external specialist support for one year.
19. The SAB also adopted new guidance for Funds on their annual reports, in line with that in England and Wales, reviewed overall scheme membership data, and agreed to participate in a LGPS working group to look at the Gender Pensions Gap. There were a number of legislative initiatives during this year which the SAB considered, and which may have impacted the Scottish LGPS, but were ultimately not taken forward. These included the National Care Service Bill (in Scotland) and the Economic Activity of Public Bodies Bill (across the UK).

Membership overview

Table 1: Membership Status of Scottish Local Government Pension Scheme – 31 March 2024

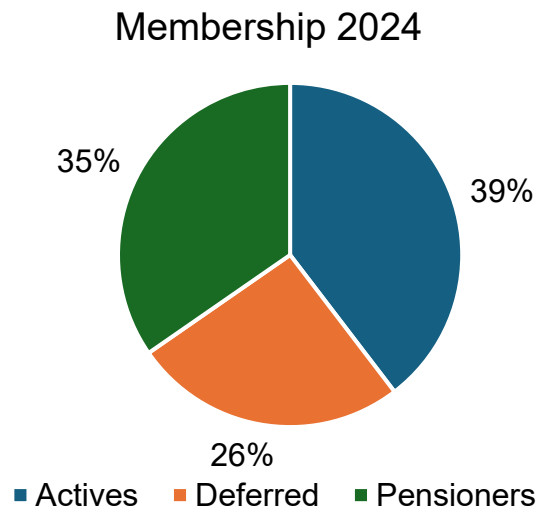


Chart 1: Membership per individual Scottish Local Government Pension Fund – 31 March 2024

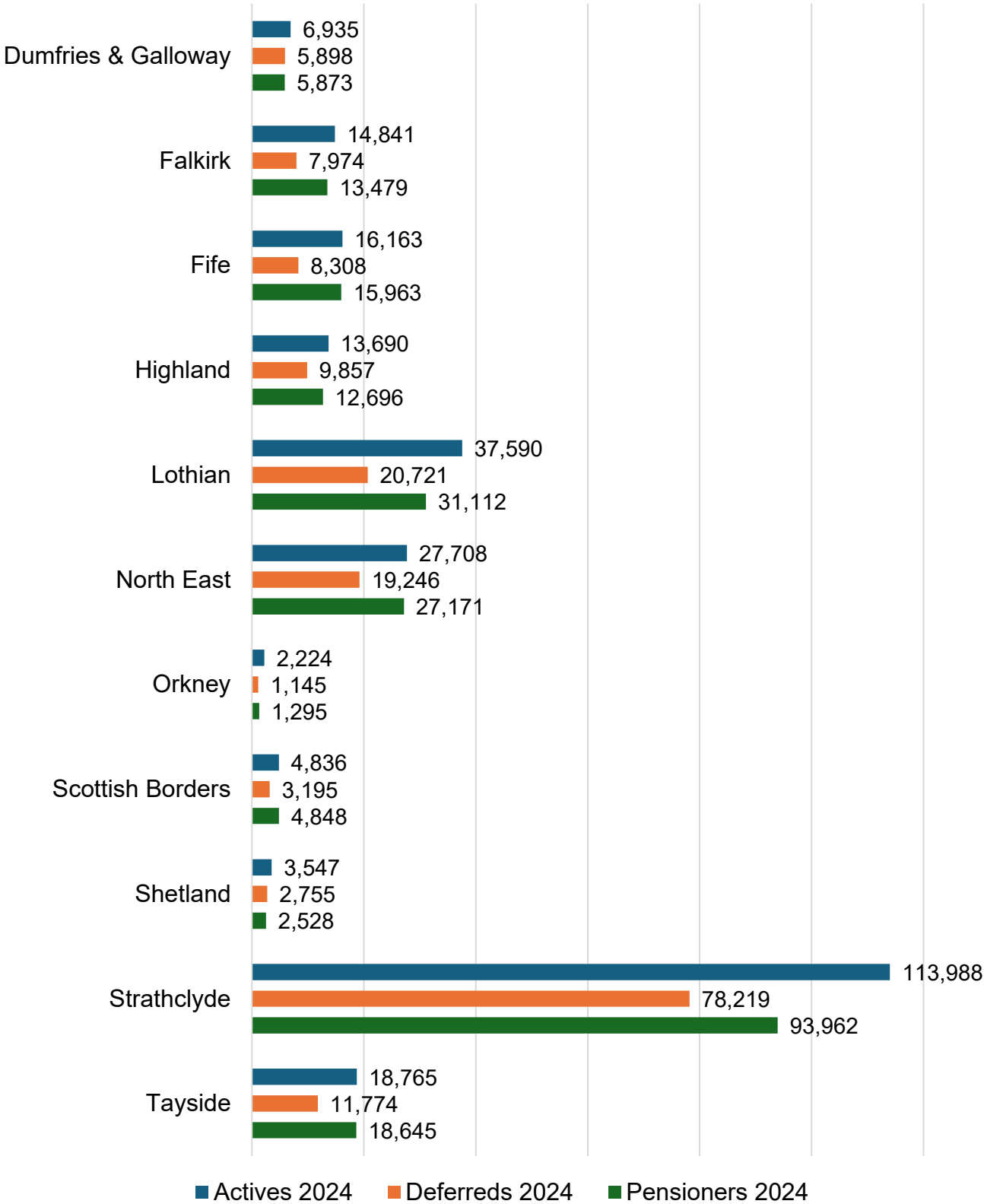


Table 2: Membership per individual Scottish Local Government Pension Fund – 31 March 2024

	Contributors	Pensioners	Deferred	Total
Dumfries and Galloway	6,935	5,873	5,898	18,706
Falkirk	14,841	13,479	7,974	36,294
Fife	16,163	15,963	8,308	40,434
Highland	13,690	12,696	9,857	36,243
Lothian	37,590	31,112	20,721	89,423
North East	27,708	27,171	19,246	74,125
Orkney	2,224	1,295	1,145	4,664
Scottish Borders	4,836	4,848	3,195	12,879
Shetland	3,547	2,528	2,755	8,830
Strathclyde	113,988	93,962	78,219	286,169
Tayside	18,765	18,645	11,774	49,184
Total	260,287	227,572	169,092	656,951

Financial overview

Fund Account

22-23 (£m)		23-24 (£m)
	Dealings with Members, Employers and Others Directly Involved in the Fund	
1,717.05	Contributions and other income	1,881.36
(1,769.82)	Benefits and other payments	(1,998.47)
(44.44)	Net additions from dealings with members before management expenses	(117.11)
	Fund Running Costs	
(297.18)	Investment & fund management costs and expenses (see breakdown below)	(338.60)
(283.18)	Net additions including management expenses	(342.45)
	Investment Returns	
1,112.64	Investment income	1,220.55
(8.55)	Taxes on income	(8.12)
(2,137.06)	Profits and losses on disposal of investments and change in value of investments	4,670.96
(1,082.49)	Net return on investments	5,832.47
(1,138.40)	Net increase / (decrease) in the net assets available for benefits during the year	5,407.05
61,380.00	Opening net assets of the scheme	60,248.99
60,241.60	Closing net assets of the scheme	65,656.04

Investment & Fund Management Costs & Expenses Breakdown

22-23 (£m)		23-24 (£m)
	Administration and Governance	
(16.40)	Administration	(21.66)
(6.90)	Oversight and governance	(12.00)
(0.48)	Other	(0.02)
(309.46)	Total administration and governance	(3.68)
	Investment Management Costs	
(249.80)	Management fees	(277.84)
(7.08)	Performance fees	(7.84)
(16.98)	Transaction costs	(13.72)
(1.22)	Custody costs	(1.26)
(10.62)	Other costs	(13.39)
(285.70)	Total investment management costs	(314.04)

Net Assets Statement

22-23 (£m)	Investment Assets	23-24 (£m)
30,571.11	Equities	34,586.24
8,685.07	Bonds	7,380.73
2,186.24	Property	5,362.59
10,114.06	Infrastructure	7,065.89
3,034.10	Private equity	1,318.61
1,494.11	Multi-asset credit	1,566.66
423.21	Private debt	455.33
137.94	Diversified growth funds (DGF)	1,748.57
	Liability driven investments (LDI)	
138.86	Hedge funds	2,728.44
38.73	Derivatives	9.22
1,751.39	Cash	1,479.02
1,454.59	Other (incl. net current assets)	2,063.55
60,242.12	Total net assets	65,764.83

Minor discrepancies due to rounding.

Investments

Investment Assets	2024 (£m)	2024 (as % of total)	2023 (£m)	2023 (as % of total)	Change between 2023 and 2024
Bonds	7,381	11.6%	8,695	14.8%	-2.2%
Equities	34,586	54.3%	30,571	52.2%	6.9%
Property	5,363	8.4%	2,186	3.7%	5.4%
Private equity	1,319	2.1%	3,034	5.2%	-2.9%
Infrastructure	7,066	11.1%	10,114	17.3%	-5.2%
Mult asset credit	1,567	2.5%	1,494	2.6%	0.1%
Private debt	455	0.7%	423	0.7%	0.1%
Diversified growth funds	1,749	2.7%	138	0.2%	2.7%
Liability driven investments	-	-	-	-	-
Hedge funds	2,728	4.3%	139	0.2%	4.4%
Derivatives	9	0.0%	39	0.1%	-0.1%
Cash	1,479	2%	1,751	3%	0%

Chart 2: Change in Asset Allocation between 2023 and 2024

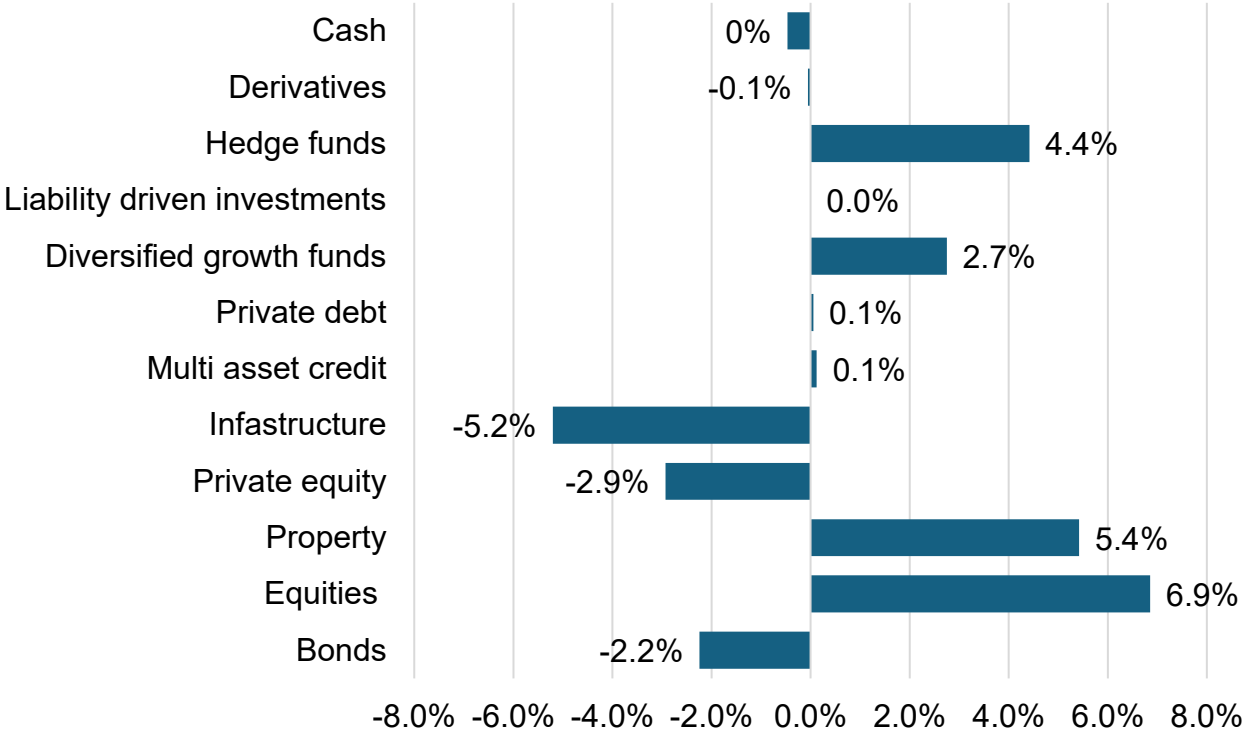


Chart 3: Asset Allocation 2024 breakdown

