Notice of meeting and agenda

Pensions Committee

2pm, Wednesday 18 December 2013

Diamond Jubilee Room, City Chambers, High Street, Edinburgh

This is a public meeting and members of the public are welcome to attend

Contact

Gavin King

Committee Manager

E-mail: Gavin.king@edinburgh.gov.uk

Tel: 0131 529 4239

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1. Order of business

1.1 Including any notices of motion and any other items of business submitted as urgent for consideration at the meeting.

2. Declaration of interests

2.1 Members of the Committee and members of the Consultative Panel should declare any financial and non-financial interests they have in the items of business for consideration, identifying the relevant agenda item and the nature of their interest.

3. Deputations

3.1 None

4. Minute of Pensions Committee of 24 September 2013

4.1 Previous Minute 24 September 2013 – Submitted for approval as a correct record. (circulated)

5. Reports

5.1 Consultative Panel and Pensions Committee Membership – report by the Director of Corporate Governance (circulated)

5.2 Annual Report on the 2012/13 Accounts of Lothian Pension Fund by the External Auditor - report by the Director of Corporate Governance (circulated)

5.3 Contribution Stability Mechanism 2013 - report by the Director of Corporate Governance (circulated)

5.4 Investment Strategy Update- report by the Director of Corporate Governance (circulated)

5.5 Service Plan Progress - report by the Director of Corporate Governance (circulated)

5.6 Class Actions- report by the Director of Corporate Governance (circulated)

5.7 Environmental Social and Governance Activity - report by the Director of Corporate Governance (circulated)

5.8 EU Tax Claims - report by the Director of Corporate Governance (circulated)

5.9 Risk Management - report by the Director of Corporate Governance (circulated)

6. Agenda Planning

6.1 Agenda Planning – by the Director of Corporate Governance (circulated)

7. Motions

7.1 If any

Carol Campbell

Head of Legal, Risk and Compliance

Committee Members

Councillor Rankin (Convener), Councillor Child, Councillor Bill Cook, Councillor Orr, and Councillor Rose, John Anzani and Darren May.

Information about the Pensions Committee

The Pensions Committee consists of 5 Councillors and 2 external members and is appointed by the City of Edinburgh Council. The Pensions Committee usually meets every eight weeks.

The Pensions Committee usually meets in the Dunedin Room in the City Chambers on the High Street in Edinburgh. The meeting is open to all members of the public.

Further information

If you have any questions about the agenda or meeting arrangements, please contact Gavin King, Committee Services, City of Edinburgh Council, City Chambers, High Street, Edinburgh EH1 1YJ, Tel 0131 529 4239, e-mail gavin.king@edinburgh.gov.uk.

A copy of the agenda and papers for this meeting will be available for inspection prior to the meeting at the main reception office, City Chambers, High Street, Edinburgh.

The agenda, minutes and public reports for this meeting and all the main Council committees can be viewed online by going to www.edinburgh.gov.uk/cpol.

Item 4.1 - Minutes

Pensions Committee

2pm, Tuesday 24 September 2013

Present

Councillor Rankin (Convener), Councillor Child, Councillor Bill Cook, Alison Cosgrove, Darren May, Councillor Orr, and Councillor Rose.

Consultative Panel Members Present:

John Anzani, Sharon Dali, Guy Hughes and Eric MacLennan.

1. Minutes

Decision

To approve the minute of the Pensions Committee of 24 June 2013 as a correct record.

2. Lothian Pension Funds Annual Report 2013 Audited

Details were provided of the External Auditor's report on the audit of the Annual Report for the year ended 31 March 2013 for the Lothian Pension Fund, the Lothian Buses Pension Fund and the Scottish Homes Pension Fund. The Lothian Pension Funds Annual Report was also presented.

Decision

1) To note the External Auditor's report on the audit of the Annual Report for the year ended 31 March 2013 for the Lothian Pension Fund, the Lothian Buses Pension Fund and the Scottish Homes Pension Fund.

2) To note the Lothian Pension Funds Annual Report 2013 Audited.

(Reference –report by the Director of Corporate Governance, submitted.)

3. Annual Performance Report 2012/13

Details were provided of the key performance indicators for 2012/13 and a comparison of the Fund's pension administration costs with other local government pension funds.

Decision

To note the annual performance report.

(Reference – report by the Director of Corporate Governance, submitted.)

4. Service Plan Progress

An update was provided on the 2013-2016 Service Plan, in particular highlighting performance indicators and the key actions planned to meet the Fund's key objectives.

Approval was sought to relocate the Fund's staff to Atria on Morrison Street.

Decision

1) To note the progress of the Fund against its 2013-2016 Service Plan.

2) To approve the relocation of the staff of the Fund to Atria on Morrison Street and the associated capital budget provision for 2013/14 of £132,000.

3) To request that the Director of Corporate Governance providers a briefing on the transition progress regarding the implementation of the new investment strategies.

4) To request that the Director of Corporate Governance provides details of the financial implications of the office move.

(Reference – report by the Director of Corporate Governance, submitted.)

5. Funding and Contribution Stability

Work was ongoing to develop a contribution stability mechanism in accordance with the Funding Strategy Statement (FSS) commitment.

Decision

To note the report and that the date of the next internal training session was 12 November 2013.

(Reference – report by the Director of Corporate Governance, submitted.)

6. Pensions Administration Strategy Review

The Lothian Pension fund adopted a Pension Administration Strategy effective from 1 April 2010. This had been subsequently reviewed and approval was sought for the amended strategy.

Audit Scotland had previously highlighted poor employer performance. Regulation 38A of the Local Government Pension Scheme Scotland (Administration) Scotland Regulations 2008, allowed the fund to recover additional costs from an employer where these have been incurred due to an action or an omission by an employer. The strategy outlined in what circumstances this power may be used,

Decision

1) To approve the Pensions Administration Strategy as attached in the appendix to the Director of Corporate Governance's report.

2) To note section 8 of the strategy which included the circumstances where the Fund may recover costs from employers.

3) To request regular updates reporting instances when costs from employers were recovered in regard to poor employer performance.

(Reference – report by the Director of Corporate Governance, submitted.)

7. Update on Employers Participating in Lothian Pension Fund

An update was provided on employers who were currently looking to join the fund, employers leaving the fund and the merger of colleges.

Decision

To note the changes to the employers participating in Lothian Pension Fund.

(Reference – report by the Director of Corporate Governance, submitted.)

8. Reform of the Local Government Pension Scheme in Scotland and Regulatory Update

An update was provided of progress towards scheme specific regulation for the reform of the design and structure of the Local Government Pension Scheme in Scotland by April 2015, reform of the Pension Scheme in England and Wales and the proposal to introduce a flat-rate state pension from April 2016.

Decision

To note the regulatory update in the report, the significant implications for Lothian Pension Fund and Lothian Buses Pension Fund of the Public Services Pensions Act 2013 and the tight timescales for the implementation of a new Local Government Pension Scheme in Scotland.

(Reference – report by the Director of Corporate Governance, submitted.)

9. Risk Management

The Committee were asked to scrutinise a summary of the risk register.

Decision

To note the Risk Summary.

(Reference – report by the Director of Corporate Governance, submitted.)

Pensions Committee

2pm, Wednesday, 18 December 2013

Consultative Panel and Pensions Committee Membership

Item number	5.1
Report number	
Wards	All

Links

Coalition pledges	
Council outcomes	CO26
Single Outcome Agreement	15

Alastair Maclean

Director of Corporate Governance

Contact: Susan Handyside, Customer Service and Compliance Officer

E-mail: Susan.Handyside@edinburgh.gov.uk | Tel: 0131 529 4638

Executive summary

Consultative Panel Membership and Pensions Committee Membership

Summary

The purpose of this report is to note the appointment of two external members to the Pensions Committee and report changes to the membership of the Consultative Panel.

Three new members have recently been appointed onto the Consultative Panel, John Anzani, Midlothian Council as a member representative and Sharon Dalli, Pensions Manager, Edinburgh Police Scotland and Helen Carter, Finance Business Partner (Housing, Regeneration, Welfare & Europe), Scottish Government as employer representatives.

On 12th November 2013 the Lothian Pension Funds' Consultative Panel members nominated the following members for membership of the Pensions Committee for the forthcoming year:

- Darren May, HR Manager, Scottish Water
- John Anzani, Business Advisor, HR, Midlothian Council.

These nominations to the Pensions Committee were agreed by the City of Edinburgh Council on 21 November 2013.

Allison Cosgrove, a long standing member of the Consultative Panel will step down from her role at the end of December 2013. A replacement will be sought.

Recommendations

It is recommended that the Committee note the appointments of Darren May and John Anzani as members of the Pensions Committee.

It is recommended that the Committee welcome the new members of the Consultative Panel, John Anzani, Sharon Dalli and Helen Carter and that they thank Allison Cosgrove for her work and commitment whilst she has been a member of the Panel and Committee.

Measures of success

Strengthened governance for the benefit of the pension funds and their stakeholders.

Financial impact

There are no direct financial implications of this report. Costs associated with the governance of the pension fund are included in the Pension Fund's budget.

Equalities impact

There are no environmental implications as a result of this report.

Sustainability impact

An effective Consultative Panel and the appointments to the Committee should ensure the governance arrangements reflect the interests of pension fund stakeholders.

Consultation and engagement

The voting of Consultative Panel members onto the Pension Committee took place on 12 November, the vote was unanimous.

Background reading / external references

None.

Links

Coalition pledges	
Council outcomes	CO26 – The Council engages with stakeholders and works in partnerships to improve services and deliver agreed objectives.
Single Outcome Agreement	15 - Our public services are high quality, continually improving, efficient and responsive to local people's needs.
Appendices	None

Pensions Committee

2pm, Wednesday, 18 December 2013

Annual Report on the 2012/13 Accounts of Lothian Pension Fund by the External Auditor

Item number	5.2
Report number	
Wards	All

Links

Coalition pledges	
Council outcomes	CO26
Single Outcome Agreement	

Alastair Maclean

Director of Corporate Governance

Contact: John Burns, Pensions & Accounting Manager

E-mail: John.Burns@edinburgh.gov.uk | Tel: 0131 469 3711

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Executive summary

Annual Report on the 2012/13 Audit of the Lothian Pension Funds

Summary

The purpose of this report is to present the Auditor's Annual Report on the 2012/13 Audit of the Lothian Pension Funds. The report from Audit Scotland is shown at Appendix 1. This includes commentary from the Investment & Pensions Manager as to planned management actions. The report will be presented to Committee by Stephen O'Hagan, Senior Audit Manager, Audit Scotland.

In addition to members of the Pensions Committee, Audit Scotland has also sent the report to the Controller of Audit and has advised that the report will be published on its web-site in due course.

Audit Scotland has already provided "an unqualified opinion that the financial statements (of the Lothian Pension Funds) give a true and fair view of the transactions of the funds during the year ended 31 March 2013, and of the amount and disposition at that date of their assets and liabilities".

The Fund will be preparing audit plans for internal and external audit work to be undertaken in the next financial year. It is proposed that these plans are developed in consultation with the Convener of the Pensions Audit Sub-Committee prior to consideration by the Pensions Committee in March 2014.

Recommendations

To recommend that the Pensions Committee should:-

1. Note the Annual Report on the 2012/13 Audit of the Lothian Pension Funds;

2. Note the Action Plan at Appendix B of the Report and seek appropriate updates on progress;

3. Agree that the plans for internal and external audit are developed in consultation with the Convener of the Pensions Audit Sub-Committee prior to consideration by the Pensions Committee in March 2014.

Measures of success

Planned management action in relation to the points raised by Audit Scotland is stated at Appendix B.

Financial impact

There are no financial implications arising directly from this report.

Equalities impact

There are no adverse equalities impacts arising from this report.

Sustainability impact

There are no adverse sustainability impacts arising from this report.

Consultation and engagement

The Consultative Panel for the Lothian Pension Funds, comprising employer and member representatives, is integral to the governance of the Funds.

Background reading / external references

Not applicable.

Links

Coalition pledges	
Council outcomes	CO26 – The Council engages with stakeholders and works in partnerships to improve services and deliver agreed objectives.
Single Outcome Agreement	
Appendices	Audit Scotland report on 2012/13 Audit of Lothian Pension Funds

Lothian Pension Funds

Annual report on the 2012/13 audit

AUDIT SCOTLAND

Prepared for City of Edinburgh Council as administering body for Lothian Pension Funds and the Controller of Audit

October 2013

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. It provides services to the Auditor General for Scotland and the Accounts Commission. Together they ensure that the Scottish Government and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds.

Contents

Key messages

2012/13 audit findings

Financial Statements

We have given an unqualified opinion that the financial statements give a true and fair view of the transactions of the Funds during the year ended 31 March 2013, and of the amount and disposition at that date of their assets and liabilities.

Financial Position (Funding)

Triennial funding valuations were carried out by the Funds' actuary as at March 2011. Exhibit 1 summarises the movement in funding levels between triennial valuations.

Exhibit 1: Triennial valuation funding levels

Funds	Triennial Funding Level at 31 March 2011	Triennial Funding Level at 31 March 2008
Lothian Pension Fund	96%	85%
Lothian Buses	112%	95%
Scottish Homes	86%	86%

Source: Triennial funding valuations at 31 March 2008 and 2011

The results of the triennial valuation determines employer contribution rates required over the next three year period (2012/13 to 2014/15) to attain the objective of a fully funded scheme at a set future date. This valuation resulted in the rates for the major employers being set within the range 16.9% to 17.2% (2011/12: 18.3% to 21.8%).

The actuarial statement for the Funds at 31 March 2013, which has no immediate effect on employer contribution rates, reported reduced funding levels for Lothian Pension Fund (87%), Lothian Buses (103%) and Scottish Homes (85%).

Financial Position (Administration costs)

The Funds' actual expenditure compared to the approved budget disclosed an underspend of £1.305 million for the year to 31 March 2013, mainly due to an underspend of £1.302 million on investment managers fees.

Governance and accountability

Overall the council's governance arrangements for the Funds in 2012/13 were adequate. No material weaknesses in the accounting and internal control systems were identified during the audit.

Best Value, use of resources and performance

The Fund has not been subject to a Best Value review however, it is covered by the overall Best Value arrangements of the administering authority. A Best Value audit of City of Edinburgh Council was completed during 2012/13 with a report being submitted in May 2013. There were no specific observations relating to pension fund management.

Annual employer performance against the pension administration standards, as set out in the Pension Administration Strategy (PAS), has been consistently poor since their introduction three years ago. None of the five employer targets set out in the PAS were achieved in 2012/13. The implementation of the Employer On-line Portal resulted in a significant improvement in performance in the last quarter of 2012/13.

During 2012/13 the Funds achieved an annual return equal to or greater than their scheme specific benchmarks. Over the three years to 31 March 2013, the Lothian Pension Fund delivered the same performance as its investment strategy but failed to achieve its higher target return (i.e. in excess of the strategy).

Outlook

The current period is a challenging one for pension fund management. With the global economic outlook and the uncertainty in the financial markets there are particular problems for investment management and strategy. With investment performance key to the funding position of the Local Government Pension Scheme (LGPS) this uncertainty may impact on employer contributions in the medium term.

The Public Service Pensions Act received Royal Assent on 24 April 2013. The Act implements the key recommendations of Lord Hutton's Commission as follows:

- the end of final salary benefit arrangements with the introduction of the career average revalued earnings basis
- retirement age linked to state pension age
- cost control system to provide affordability and sustainability
- measures to strengthen governance
- the latest date for commencement of new schemes under the Act is 6 April 2015.

Proposed changes to the LGPS will impact on administrative workloads going forward as will any further severance activity by employers. Additionally auto enrolment requirements affect information requirements and administration arrangements. Actions such as the introduction of the employer on-line system resulted in an improved employer performance in the final quarter of 2012/13 which will help towards minimising the impact of increases in administrative workloads in the medium term.

The co-operation and assistance given to us by members of the Pension Committee, officers and staff of the Investment and Pensions Division is gratefully acknowledged.

Introduction

1. This report is the summary of our findings arising from the 2012/13 audit of Lothian Pension Funds. The nature and scope of the audit were outlined in the Audit Plan presented to the Pensions Committee on 13 March 2013, and follow the requirements of the Code of Audit Practice prepared by Audit Scotland in May 2011. The purpose of the annual audit report is to summarise the auditor's opinions (i.e. on the financial statements) and conclusions, and to report any significant issues arising. The report is divided into sections which reflect the public sector audit model.

2. Appendix B is an action plan setting out the high level risks we have identified from the audit. Officers have considered the issues and agreed to take the specific steps in the column headed "planned management action". We do not expect all risks to be eliminated or even minimised. What we expect is that those charged with governance understand the risks and have arrangements in place to manage these risks. The administering body should ensure that those charged with governance are satisfied with the proposed management action and have a mechanism in place to assess progress.

3. This report is addressed to City of Edinburgh Council as administering body for Lothian Pension Funds and the Controller of Audit. It should be made available to the public and other stakeholders where appropriate. Audit is an essential element of accountability and the process of public reporting. This report will be published on our website after consideration by those charged with governance.

4. The management of Lothian Pension Funds is responsible for preparing financial statements that show a true and fair view and for implementing appropriate internal control systems. Weaknesses or risks identified by auditors are only those which have come to their attention during their normal audit work, and may not be all that exist. Communication by auditors of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

Financial statements

5. Audited bodies' financial statements are an essential part of accounting for their stewardship of the resources made available to them and their performance in the use of those resources.

6. Auditors are required to audit financial statements in accordance with the timescales set by Audit Scotland, which may be shorter than statutory requirements, and give an opinion on:
   - whether they give a true and fair view of the financial transactions of the Funds during the year ended 31 March 2013 and of the amount and disposition at that date of its assets and liabilities
   - whether they have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements.

7. Auditors review and report on, as appropriate, other information published with the financial statements, including the sections titled Review of the Year, About the Funds and Investment and Financial Performance and the Governance Compliance Statement. This section summarises the results of our audit on the financial statements.

Audit opinion

8. We have given an unqualified opinion that the financial statements of Lothian Pension Funds for 2012/13 give a true and fair view of the financial transactions of the Funds during the year ended 31 March 2013 and of the amount and disposition at that date of its assets and liabilities.

Legality

9. Through our planned audit work we consider the legality of the Pension Fund's financial transactions. In addition the Pensions and Accounting Manager has confirmed that, to the best of his knowledge and belief, the financial transactions of the Pension Fund were in accordance with relevant legislation and regulations. There are no legality issues arising from our audit which require to be brought to the attention of those charged with governance.

Governance compliance statement

10. Regulation 27 of the Local Government Pension Schemes (Administration) (Scotland) Regulations 2008 (SSI 2008/228) requires that the administering authority prepare a Governance Compliance Statement stating where their arrangements complied with Scottish Ministers Guidance, and where they did not. Although the regulations allow for this statement to be referred to in the annual report, the Funds took the decision to include the full statement. We are satisfied that this statement covers the areas and levels of compliance required by the Scottish Government's guidance.

Annual report

11. The Scottish Government Guidance requires that the annual report for the Pension Fund incorporates the following:

- the financial statements
- a report about the management and financial performance of the Funds during the year
- a report explaining the authority's investment policy and reviewing the performance during the year of the investments of each Fund, and a report of the arrangements made during the year for the administration of the Funds
- a statement by the actuary of the level of funding disclosed by their valuation
- a governance compliance statement, funding strategy statement, and statement of investment principles (or details of where these statements may be obtained)
- the extent to which levels of performance set out in the pension administration strategy have been achieved
- any other material which the authority considers appropriate.

12. We are satisfied that the report incorporates the above sections and that the other sections are consistent with the audited accounts.

Accounting issues

13. Local authority bodies in Scotland are required to follow the Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 (the 2012 Code) and the Service Reporting Code of Practice 2012/13, supported by International Financial Reporting Standards (IFRSs). We are satisfied that the financial statements have been prepared in accordance with the 2012 Code requirements.

Accounts submission

14. The Fund's unaudited financial statements were submitted to the Controller of Audit prior to the deadline of 30 June 2013. This enabled us to conclude the audit and certify the financial statements by the target date of 30 September 2013.

Significant findings (ISA260)

15. During the course of the audit we identified a number of issues regarding the appropriateness of accounting policies or accounting estimates and judgements, the timing of transactions, the existence of material unusual transactions or the potential effect on the financial statements of any uncertainties. The key issues identified are detailed in the following paragraphs.

16. **Investment Management Expenses:** Investment management expenses disclosed in the Pension Fund Account and supporting notes do not fully reflect the fees charged. Fees relating to private equity funds are accounted for within 'changes in market value of investments' and 'investment income'. However, the calculation of the fees is a complex area, particularly in regard to pooled investment funds, and it is not always possible to separately

identify these fees. The CIPFA Code on Local Authority Accounting in the UK 2012/13 recommends that investment management expenses be shown as a separate item in the fund account and further analysed in a note. Consequently the current presentation does not fully comply with the Code. This matter does not relate solely to Lothian Pension Funds but also applies to other Pension Funds in Scotland.

Resolution: The Investment and Pensions Service Manager will aim to improve the transparency of management fees in accordance with CIPFA's stated requirements by consulting with CIPFA, other Local Authority Pension Funds, the Fund's investment managers and custodian.

17. **Employee Contributions-Lothian Pension Fund:** Officers compiled a reconciliation of the employee contributions received from the seven largest employers, comparing the expected amount per the pension administration system to the actual amounts received. The reconciliation indicated that contributions received were £117,993 more than anticipated with the largest overpayment being from Midlothian Council (£39,131). This equates to 0.34% of the contributions receivable by the Fund for the seven employers. Officers have confirmed that these should represent valid contributions and the reconciliation differences arose very largely due to delays in the notification of the entry of new members to the scheme.

18. **Change in Accounting Policy:** The results for the year ended 31 March 2012 have been restated to reflect a change in the accounting policy on income generated by unquoted private equity and infrastructure investments. Previously all distributions arising from these investments were treated as capital and included in the Fund accounts as a 'change in market value of investments'. The new policy splits distributions into capital and income elements with the latter being classed as 'investment income' in the Fund account. The new policy reflects the Fund's increasing investment in infrastructure which produces a significant part of its distributions as income. The effect of the change was to increase the prior year 'investment income' received by £6,547,000 and to reduce the prior year 'change in market value of investments' by the same amount. This restatement had no impact on the net assets of the Fund brought forward from 2011/12.

Presentational and monetary adjustments to the unaudited accounts

19. In line with International Standards on Auditing 260 *Communication of audit matters to those charged with governance*, we reported the conclusions of our audit to the Pensions Audit Sub-Committee on 20 September 2013 and to the Pensions Committee on 24 September 2013. The report was also noted by the City of Edinburgh Council at its meeting on 24 October 2013. A number of presentational adjustments were identified within the financial statements during the course of our audit. These were discussed with senior finance officers who agreed to amend the unaudited financial statements. No monetary adjustments were identified.

Financial position

20. Audited bodies are responsible for conducting their affairs and for putting in place proper arrangements to ensure that their financial position is soundly based.

21. Auditors consider whether audited bodies have established adequate arrangements and examine:
    - financial performance in the period under audit
    - compliance with any statutory financial requirements and financial targets
    - ability to meet known or contingent, statutory and other financial obligations
    - responses to developments which may have an impact on the financial position
    - financial plans for future periods.

22. These are key areas in the current economic circumstances. This section summarises the financial position and outlook for the Funds.

Financial results

23. The Funds' actual expenditure compared to the budget disclosed an underspend of £1.305 million for the year to 31 March 2013. The main areas of underspend were supplies and services (£0.132 million), investment managers fees (£1.302 million), employee costs (£0.071 million) and central support costs (£0.046 million).

24. Investment manager's fees are dependent on market values and on a performance element for some managers. The savings on investment manager fees mainly arose as a result of changes in fund management arrangements including the termination of active currency overlay contracts.

Funding position

25. The latest triennial valuation of the three Funds was completed at 31 March 2011. The results of the triennial valuation determines employer contribution rates required over the next three year period to attain the objective of a fully funded scheme at a set future date.

26. The results of the valuation are disclosed in Exhibit 2. The valuation discloses that Lothian Pension Fund actual funding level rose from 85% at the 2008 valuation to 96% at 2011. This valuation resulted in the rates for the major employers in Lothian Pension Fund being set for 2012/13 within the range 16.9% to 17.2% (2011/12: 18.3% to 21.8%). Lothian Buses Pension Fund funding level rose from 95.5% to 112.4% and Scottish Homes Pension Fund showed a slight increase from 85.9% to 86.3%.

Exhibit 2: Movement in valuations 2008 to 2013

Fund Details	31 March 2008* £'m	31 March 2011* £'m	31 March 2013** £'m
Lothian Pension Fund			
Assets	2,903	3,477	4,095
Liabilities	3,427	3,619	4,707
Net Liability	(524)	(142)	(612)
Funding Level	85%	96%	87%
Lothian Buses Fund			
Assets	199	257	312
Liabilities	208	229	303
Net Asset / (Liability)	(9)	28	9
Funding Level	96%	112%	103%
Scottish Homes Fund			
Assets	126	124	140
Liabilities	147	144	165
Net Asset / (Liability)	(21)	(20)	(25)
Funding Level	86%	86%	85%

*Sources: * Triennial Valuations reports 2008 and 2011; ** Projected figures based on year end net assets value and funding level identified in 2012/13 actuarial statement for each fund*

27. In accordance with accounting standard IAS 26 'Accounting and Reporting by Retirement Benefit Plans' the present value of promised retirement benefits (actuarial value) is disclosed by way of a note to the Pension Funds financial statements. This liability is projected using a roll forward approximation from the latest formal funding valuation at 31 March 2011. Exhibit 2 includes these figures for each Pension Fund at 31 March 2013. The figures are only prepared for the purposes of the accounts and are not relevant for calculations undertaken for funding purposes and setting contributions payable to the Funds.

28. The Lothian Pension Fund (funding level of 87%) and Lothian Buses (funding level of 103%) have fallen. The present value of promised retirement benefits for Lothian Pension Fund rose by £761 million in 2012/13 mainly as a result of a change in assumptions used by the actuary which increased the actuarial present value liability by £482 million.

Membership

29. During the year overall membership of the Lothian Pension Fund increased from 66,354 to 69,888 per Exhibit 3. One of the key changes of the Pensions Act 2011 was the introduction of auto enrolment. To ensure the Pension Fund is auto enrolment compliant the Pension Fund membership was opened to casual workers. The inclusion of these workers explains the increase in Pension Fund membership in 2012/13. Active members increased by 441 and pensioners increased by 1,564.The total number of members retiring early was 686 of which 271 (2011/12: 607) related to members retiring as a result of employers offering Voluntary Early Release Arrangements (VERA).

Exhibit 3: Membership at 31 March 2013 - Lothian Pension Fund

Status	Membership at 31 March 2011	Membership at 31 March 2012	Membership at 31 March 2013
Active	28,919	28,337	28,778
Deferred	15,218	15,392	16,577
Pensioners	17,894	18,905	20,469
Dependants	3,682	3,720	4,064
Total	**65,713**	**66,354**	**69,888**

Source: Audited Financial Statements

30. The Funds have recognised the significant impact of the early release programmes in the Funding Strategy Statement which states that "the Fund shall undertake a regular review of its investment strategy to ensure appropriate alignment with its liabilities. Employer covenant and membership maturity profile reflecting any decision to close the Scheme to new entrants are both risk factors which may impact on liabilities and therefore will be taken into account by the Fund in its review of investment strategy."

31. The Funds are liaising with Hymans Robertson to explore the feasibility of developing a financial model to provide greater insight into cash flow forecasting as the Lothian Pension Fund is expected to move from net positive cash flows from dealings with members to a negative position. In the short term, as Fund maturity increases, investment income will be required to pay pension benefits. The sale of assets may be required to pay pension benefits but the Fund's actuary has advised that this not likely to happen for a number of years.

32. Cash flow monitoring reports are prepared monthly to ensure that sufficient cash balances are held to meet on-going pension commitments, and that any excess balances are passed periodically to the Fund’s investment portfolios. These cash flow reports are submitted to management and a summary is reported to the Investment Strategy Panel.

Outlook

2013/14 budget

33. The 2013/14 annual budget for administration costs is £13.49 million, an increase of £0.19 million from 2012/13. The most significant increases are:
    - employee costs (£0.25m) as result of two new posts (bond manager and solicitor / risk manager) plus three transferred posts in respect of the new pension payroll
    - third party payments (£0.24 million) offset by a reduction in support costs of £0.15 million due to the transfer of the pension payroll function to the LPF.

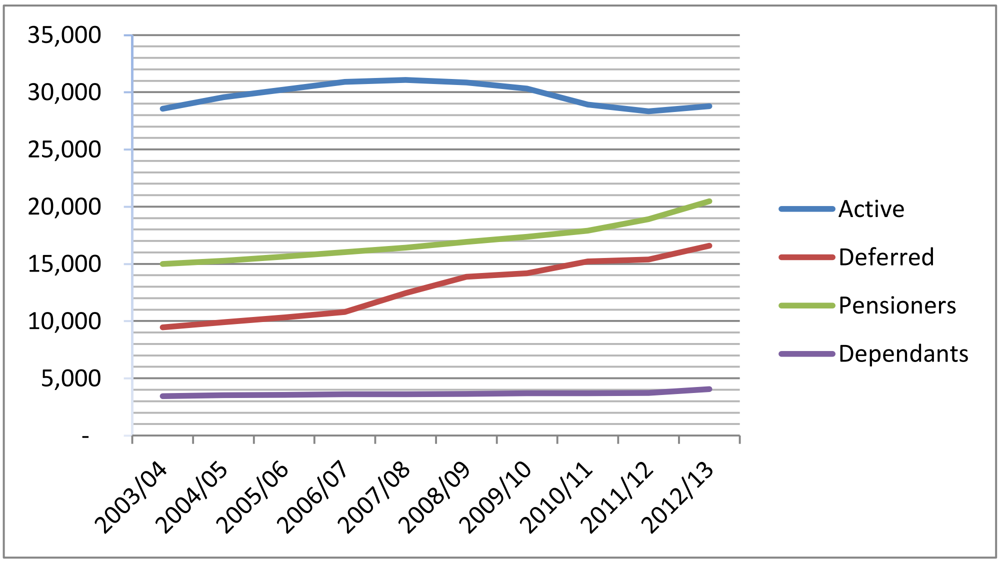
34. The Service Plan progress report presented to the September 2013 Pensions Committee projects an underspend of £0.43 million, mainly as a result of a reduction in investment managers fees.

Forecasts beyond 2013/14

35. Looking ahead, it is clear that the outlook for public spending for the period 2013/14 to 2015/16 remains very challenging. There are a number of ongoing developments in the public sector pension environment that could have a significant impact on the operation of local government pension schemes.

36. As a result of widespread severance schemes and recruitment freezes across participating employer bodies, it is likely that the membership profile of the fund will increasingly have a higher proportion of pensioner members compared to active members. Exhibit 4 tracks the movements on membership for the last 10 years which shows a convergence between active members and deferred / pensioner members.

Exhibit 4: Membership of Lothian Pension Fund for 10 years to 31 March 2013



Source: Lothian Pension Funds Annual Reports

37. Auto enrolment may lessen the impact on the profile of the Fund. At some point in the future the increase in pensioner numbers will result in monthly income not being sufficient to meet the Fund's monthly commitments, requiring the use of investment income to pay pension benefits. This has been considered as part of the Fund's review of its Investment strategy highlighted in paragraph 30 and 31.

Refer Action Point no. 1

Governance and accountability

38. The three fundamental principles of governance – openness, integrity and accountability – apply to all audited bodies, whether their members are elected or appointed, or whether they comprise groups of people or an individual accountable officer.

39. Through its chief executive or accountable officer, each body is responsible for establishing arrangements for ensuring the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Audited bodies usually involve those charged with governance (including audit committees or similar groups) in monitoring these arrangements.

40. Consistent with the wider scope of public audit, auditors have a responsibility to review and report on audited bodies' governance arrangements as they relate to:

- governance and systems of internal control
- the prevention and detection of fraud and irregularity
- standards of conduct and arrangements for the prevention and detection of corruption.

41. In this part of the report we comment on key areas of governance.

Corporate governance

Processes and committees

42. As the administering authority, City of Edinburgh Council has statutory responsibility for the administration of the Funds. Its functions are carried out in accordance with the Local Government Pension Scheme (Scotland) Regulations 1998 and the Superannuation Act 1972.

43. Responsibility for the overall strategic direction of the Funds is delegated by the council to the Pensions Committee (the committee) which is comprised of elected members of the council and employer and member representatives. This replaced the Pensions and Trusts Committee in December 2012 as part of the overall review of governance arrangements in the council.

44. The committee meets quarterly to consider Pension Fund matters including reports on investment monitoring, budget monitoring and service plans. The committee's current membership consists of five councillors, one member representative and one employer representative with a quorum of three.

45. A Pensions Audit Sub-Committee consisting of 3 members was established in 2012/13 and is responsible for the audit scrutiny of the Pension Funds. The sub-committee reports to the Pensions Committee. The auditor's ISA260 report and proposed audit opinion were all reported to members of this committee. It is expected to meet three times per year and should

cover issues relating to financial statements, internal and external audit and risk control framework.

46. The Consultative Panel is the main mechanism for engagement with the Funds' stakeholders and enables their involvement in the decision-making process. The panel meets quarterly on the same cycle as the committee. Two members of the panel are also members of the Pensions Committee.

47. Day to day administration of the Fund is carried out by the Investment and Pensions Division which is part of the council's Corporate Governance department. The Head of Finance serves as the Section 95 Officer for all of the council's accounting arrangements, including those of the Lothian Pension Funds. For the Lothian Pension Funds, however, this Section 95 responsibility has been delegated to the Pensions and Accounting Manager.

Governance Compliance Statement

48. Pension Funds are required to produce a governance compliance statement, setting out areas where it does and does not comply with guidance issued by the Scottish Government on committee governance arrangements. The guidance covers membership of the pension committee, frequency of meetings, training of members and several other areas. The governance compliance statement produced by the Funds meets the requirements of this guidance.

Annual Governance Statement/Governance Compliance Statement

49. The Fund's financial statements currently include a Governance Compliance Statement and an Annual Governance Statement. The Code of Practice on Local Authority Accounting in the UK (the Code) does not require an Annual Governance Statement to be included in the financial statements. Guidance issued for the 2012/13 financial statements indicated that a single statement, covering key areas, is preferable. However, this is an area currently under consideration by CIPFA/LASAAC and it is likely that further guidance will be issued clarifying expectations in this area.

Internal Audit

50. Internal Audit holds a key role in the authority's governance arrangements, providing an independent appraisal service to management by reviewing and evaluating the effectiveness of the internal control system. The Fund's internal audit service is provided by the City of Edinburgh's internal audit function. Following a change in the arrangements in 2012/13, PricewaterhouseCoopers provide the internal audit function for the council and Pension Fund on a co-sourcing basis.

51. Our review of internal audit was conducted as part of the audit of the City of Edinburgh Council. The review found that the work is conducted in accordance with CIPFA's Code of Practice for Internal Audit in Local Government and we were generally able to place reliance on their work for the 2012/13 audit. The level of sample selection used by Internal Audit was below that requested by external audit. For those areas (transfers in and out and pension

payments) additional samples were selected and tested by external audit during the financial statements audit.

Internal control

52. While auditors concentrate on significant systems and key controls in support of the opinion on the financial statements, their wider responsibilities require them to consider the financial systems and controls of audited bodies as a whole. However, the extent of this work should also be informed by their assessment of risk and the activities of internal audit. As part of our work, we took assurance from key controls within the Fund's systems, with some controls being tested by internal audit. No significant control weaknesses were identified during this work.

53. The Fund's financial systems are run alongside those of the City of Edinburgh Council and some of its systems are used by the Investments and Pensions Division. We obtained confirmation from the external auditors of the council that there were no significant weaknesses in the internal controls for those systems utilised by the Investments and Pensions Division for 2012/13.

Prevention and detection of fraud and irregularities

54. Audited bodies are responsible for establishing arrangements to prevent and detect fraud and other irregularity. Auditors review and report on these arrangements. The Funds have arrangements in place to prevent and detect fraud, corruption and inappropriate conduct. These arrangements include standing orders and financial regulations, a whistle blowing policy, an anti-fraud and corruption policy and codes of conduct for elected members and staff. We have concluded that the arrangements in Lothian Pension Funds are satisfactory and we are not aware of any specific issues that we need to identify in this report.

NFI in Scotland

55. Audit Scotland has co-ordinated another major counter-fraud exercise working together with a range of Scottish public bodies, external auditors and the Audit Commission to identify fraud and error. These exercises, known as the National Fraud Initiative in Scotland (NFI), are undertaken every two years as part of the statutory audits of the participating bodies. The latest round of NFI commenced in June 2012, and will look to expand the range of data sets and bodies.

56. The NFI works by using data matching to compare a range of information held on bodies' systems to identify potential inconsistencies or circumstances that could indicate fraud or error which are called 'matches'. Where matches are identified these are made available to bodies to investigate via a secure web application. Bodies investigate these and record appropriate outcomes based on their investigations.

57. As part of our local audit work we monitor the council's approach to participation in NFI both in terms of the submission of the required datasets and strategies for investigating the subsequent data matches. For the council, internal audit plays a key role in co-ordinating the

investigation of matches with priority given to 'recommended matches' (i.e. indication of higher risk). Service departments are responsible for investigating matches within their area of remit.

58. With regard to pension matches being investigated by the Investment and Pensions Division, there were 1,086 from the most recent NFI data matching exercise. Of these, 330 were 'recommended matches'. These matches identify people who are in receipt of a pension but also appear on DWP and registrars records as being deceased, or who appear on another payroll system. The latest report summary in September 2013 indicates that, so far, 99 cases have been investigated and 15 are still being investigated. The Investment and Pensions Division intend to review all 'recommended matches' and expect to have this work completed by the end of March 2014. We will continue to monitor progress.

Standards of conduct & arrangements for the prevention / detection of bribery & corruption

59. Audited bodies are responsible for ensuring that their affairs are managed in accordance with proper standards of conduct and have proper arrangements in place for implementing and monitoring compliance with standards and codes of conduct, standing orders and financial instructions. Auditors consider whether bodies have adequate arrangements in place. Overall we concluded that arrangements are adequate and there are no issues that we require to include in this report.

Pension reform agenda

60. The Public Service Pensions Act received Royal Assent on 24 April 2013. The Act implements the key recommendations of Lord Hutton's Commission as follows:

- the end of final salary benefit arrangements with the introduction of the career average revalued basis
- retirement age linked to state pension age
- cost control system to provide affordability and sustainability
- measures to strengthen governance
- The latest date for commencement of new schemes under the Act is 6 April 2015.

61. The proposed changes to the LGPS will impact on administrative workloads going forward as will any further severance activity by employers. Auto enrolment requirements will also affect information requirements and administration arrangements. The Funds' Pensions Administration Strategy sets out standards for exchange of information, including the requirement for the employer to keep the Fund informed about planned changes to their pension provision including bulk transfers of staff and any outsourcing. The Fund engages with employers on a regular basis as follows:

- monthly bulletins are issued to employer contacts highlighting relevant issues
- employer events are held throughout the year
- by providing dedicated resource in the form of an Employer Relations Officer

62. The changes to relevant regulations and policies and the implications of these changes are communicated to employers, with consultation exercises carried out where appropriate.

Outlook

63. There are on-going developments that may have a significant impact on the form and operation of local government pension schemes. For example, the full extent of the recommendations made in the Hutton report and how they impact upon pension schemes in Scotland remains uncertain. Other Government initiatives, including workplace pension reforms and the creation of single Police and Fire Services, are also likely to have an impact on operational processes.

64. Auto-enrolment is now being implemented across employers who are members of the Funds. This will inevitably have an impact on administrative workloads, and early preparation for the changes is required to ensure continuing compliance with guidance. We will continue to keep this are under review in 2013/14.

65. The Funds should ensure that they prepared for the introduction of career average pensions. There will be a requirement to maintain pension records for each individual that will bring together a range of entitlements arising from benefits built up under different pension regimes. This will increase administrative workload initially, and there is a likelihood that there will be more queries and enquiries from Fund members seeking clarification on benefits.

66. We will continue to monitor the Funds' arrangements for dealing with these changes and any potential risks that arise.

Best Value, use of resources and performance

67. Audited bodies have a specific responsibility to ensure that arrangements have been made to secure Best Value.

68. Auditors of local government bodies also have a responsibility to review and report on the arrangements that specified audited bodies have made to prepare and publish performance information in accordance with directions issued by the Accounts Commission.

69. As part of their statutory responsibilities, the Accounts Commission may procure, through Audit Scotland, examinations of the use of resources by audited bodies and publish reports or guidance. Auditors may be requested from time to time to participate in:

- a performance audit which may result in the publication of a national report
- an examination of the implications of a particular topic or performance audit for an audited body at local level
- a review of a body's response to national recommendations.

70. Auditors may also consider the use of resources in services or functions, where the need for this is identified through local audit risk assessments.

71. During the course of their audit appointment auditors should also consider and report on progress made by audited bodies in implementing the recommendations arising from reviews in earlier years.

72. This section includes a commentary on the Best Value and performance management arrangements within the Pension Fund. We also note any headline performance outcomes/ measures used by the members and any comment on any relevant national reports and the body's response to these.

Management arrangements

Best Value

73. The Pension Fund has not been subject to a Best Value review however, it is covered by the overall Best Value arrangements of the administering authority. A Best Value audit of City of Edinburgh Council was completed during 2012/13 with a report being submitted in May 2013. The report focussed on the two judgements at the centre of the current Best Value audit approach:

- how well the council is performing in relation to services and outcomes. On this the report assessed the council's overall performance as "good"
- the council's prospects for future improvement, based on leadership and management, partnership working and resource use. Because many of the changes the council has

made are relatively recent and improvements are required in key aspects of Best Value, the report concluded that the council has "fair" prospects for improvement

74. The audit focused on the council and there is no expected impact on the Investments and Pensions Division. The Commission has asked the Controller of Audit to report on the council's progress in around eighteen months' time, from May 2013. The full report can be found on Audit Scotland's website: www.audit-scotland.gov.uk

Investment Performance

75. Investment advice and support is provided to the Fund by its Investment Strategy Panel (ISP) which is comprised of investment advisers and senior officers. The role of the ISP includes the development of investment strategy and the monitoring of the Funds' investments.

76. To ensure value for money is obtained the Funds carry out a structured procurement process which includes the consideration of fees. In addition the managers are monitored and their performance discussed at regular meetings. The results of the monitoring are reported to the Investment Strategy Panel. Fund management arrangements were reviewed during 2012/13 for Lothian Pension Fund resulting in the termination of active currency overlay contracts.

77. At the year end, an annual report on overall investment performance and activity is produced and reported to committee. A summary of investment performance for each Fund has been included in Exhibit 5.

Exhibit 5: Annualised Returns to 31 March 2013 (% per year)

Fund	1 Year Bench mark	1 Year Actual return	3 Year Bench mark	3 Year Actual return	10 Year Bench mark	10 Year Actual return
Lothian	13.9%	13.9%	8.1%	8.1%	9.5%	10.3%
Lothian Buses	13.8%	16.4%	8.7%	10.4%	10.1%	11.3%
Scottish Homes*	13.0%	13.0%	11.1%	11.2%	8.8%*	8.8%*

** Based on return from July 2005, inception date*

Source: Audited Financial Statements 2012/13

78. Over the three years to 31 March 2013, the Lothian Pension Fund delivered the same performance as its investment strategy but failed to achieve its higher target return which is in excess of the strategy.

79. Following the review of the investment strategy in 2012, the indicator for the investment performance of the Lothian Pension Fund has been amended. The target of outperforming the benchmark by 1% has been removed and replaced with a target of delivering benchmark return over the long-term with lower volatility of returns.

80. The Investment and Pensions Division reviewed the investment strategies of all their Pension Funds following the 2011 actuarial valuations. The review concluded that there was scope to

reduce the investment risk over the next few years and increase the focus on investment income to reduce returns volatility over the coming years. For Lothian Pension Fund and Lothian Buses Pension Fund the implementation of the new strategies involves increasing the amount of assets managed by the internal team. This work is progressing and is expected to be completed in the coming months. For Scottish Homes, the proportion of Funds invested in equities was reduced from 40% to 35% to reduce the risk in-line with the new investment strategy.

81. We note that this change in investment strategy for Lothian Pension Fund and Lothian Buses means that decisions by the Investment Strategy Panel and the internal investment team will influence the Funds' return to a greater extent, once the new strategies are in place. The Pensions Division is assessing the risks of these changes and we will consider the conclusions and the actions taken by the Pension's division to mitigate, manage and monitor any additional risks from the new strategies.

Administration Performance

82. The Funds' Administration Strategy was approved by the Pensions and Trusts Committee in March 2010 and was reviewed in 2012/13. It contains the standards which are required of the participating employers to ensure that the Fund meets its statutory obligations and is able to deliver services efficiently. The strategy contains a variety of performance measures against which the Fund and the participating employers are assessed.

83. In accordance with Regulation 60A of the LGPS (Administration) (Scotland) Regulations 2008, the Fund's annual report discloses performance against the measures detailed in the Pension Administration Strategy.

84. In relation to its own performance the Fund met all key performance targets with the exception of staff satisfaction with present job and investment performance.

85. The changes to the LGPS as a result of the Public Service Pensions Act will impact on administrative workloads going forward as will any further severance activity by employers. Auto enrolment will also affect information requirements and administration arrangements. There is a risk that the increased workload will increase pressure on staff and key tasks and statutory requirements will not be delivered.

Refer Action Plan no. 2

Employer Performance

86. Annual employer performance against the pension administration standards, as set out in the Pension Administration Strategy (PAS), has been consistently poor since their introduction three years ago. None of the five employer targets set out in the PAS were achieved in 2012/13. Exhibit 6 summarises the performance against target.

Exhibit 6: Employer performance against target

		2011/12		2012/13	
	Target (working days)	Number received	% within target	Number received	% within target
New member: paper forms	20	111	64	31	74
New member: electronic	20	1,779	90	2,693	89
Leaver information	20	1,049	69	592	64
Retirement information	20	917	39	803	39
Death in service information	10	39	30	37	19

Source: Audited Annual Report and Accounts 2012/13

87. The Employer On-line Portal for pension administration was implemented on a phased basis from November 2012. All employers currently have access to the system. The implementation of the system resulted in a significant improvement in performance in the final quarter of 2012/13.

Refer Action Plan no. 3

National performance reports

88. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. Reports in the last year which may be of interest to members and officers are detailed in Exhibit 7 below.

Exhibit 7: A selection of National Performance Reports 2012/13

- Managing performance: are you getting it right
- Responding to challenges and change - An overview of local government in Scotland 2013
- The National Fraud Initiative in Scotland
- How Councils work: using cost information to improve performance
- Managing early departures from the Scottish public Sector
- National Scrutiny Plan for Local Government

Source: www.audit-scotland.gov.uk

89. We suggest that officers review relevant national performance reports as they become available and consider any findings which may impact on the Pension Fund.

Outlook

90. Continuing to meet performance targets will become more challenging in the coming years. Investment targets are set based on advice from investment advisors and standard industry benchmarks. The Funds will have to remain vigilant, and ensure that they have the right diversification of Funds to deliver the required returns, whilst managing the investment risk.

91. Improvements that are being made to the pension administration system, and the way in which data is received, should improve performance going forward, although this is dependent on the provision of information timeously by scheduled and admitted bodies.

92. Increased workloads may affect staff morale and it is important that the Funds monitor workloads and plan accordingly.

Appendix A: audit reports

External audit reports and audit opinions issued for 2012/13

Title of report or opinion	Date of issue	Date presented to Committee
Annual Audit Plan	21 February 2013	13 March 2013
Report on financial statements to those charged with governance (ISA 260)	6 September 2013	20 September 2013 (Pension Audit Sub-Committee) 24 September 2013 (Pensions Committee)
Audit opinion on the 2012/13 financial statements	6 September 2013	20 September 2013
Report to Members on the 2012/13 audit	31 October 2013	16 December 2013 (Pension Audit Sub-Committee) 18 December 2013 (Pensions Committee)

Appendix B: action plan

Key Risk Areas and Planned Management Action

Action Point	1
Refer Para	37
Risk Identified	The changing profile of the Funds' membership may eventually result in monthly income not being sufficient to meet the Fund's monthly commitments, requiring the use of investment income to pay pension benefits. ***Risk: Financial plans prepared by the pension Funds are not achieved.***
Planned Management Action	Financial planning of the Funds continues to be reviewed regularly and appropriate cognisance is taken of actual and anticipated changes in membership profile. It should be emphasised that a reduction in contributions receivable in comparison to benefit expenditure, that is a move to a cash flow negative position requiring investment income to finance pension payments, is an inevitable consequence of a maturing Pension Fund. Management monitor short-term (monthly) cash flow to ensure there is sufficient cash to pay benefits and to ensure excess cash can be invested as soon as practical. Short term cash flow can fluctuate significantly. The Investment Strategy Panel considers medium-term (up to 2 year) cash flow projections on a quarterly basis. Long-term cash flow, including projection, is reported to Committee as part of funding and investment strategy reviews. The Fund has procured further long-term cash flow modelling from its actuary in order to provide requisite assurance in developing new contribution stability proposals, the results of which will be reported to the Pensions Committee in December 2013. The Fund will continue to monitor and manager cash flows.
Responsible Officer	Investment & Pensions Service Manager
Target Date	Ongoing

Action Point	2
Refer Para	85
Risk Identified	Changes to the LGPS as a result of the Public Pensions Act will impact on administrative workloads going forward as will any further severance activity by employers. Additionally auto enrolment will also affect information and administration arrangements. ***Risk: The increased workload will increase pressure on staff and key tasks and statutory requirements will not be delivered.***
Planned Management Action	It is recognised that impending reform of the LGPS in Scotland is likely to increase significantly the burden of pension administration. The risk is being managed. Lothian Pension Fund has included additional provision in its annual expenditure budget (from 2012/13) in anticipation of changes and has focused on enhancements both to operational efficiency and to data quality. Specifically, data quality improvements as a result of the system enhancements to transfer data electronically from employers to the Fund ("Employer On-line") should be most beneficial in the transition to a Career Average Revalued Earnings scheme. Communication to employers and other stakeholders of the LGPS reform issues by Lothian Pension Fund has been ongoing, with regular updates provided to both Pensions Committee and Consultative Panel. The most recent communication highlighted the proposed Heads of Agreement for the new scheme. The need to ensure that both employer HR / payroll systems and the pension administration software can cope with demands of a new scheme has already been raised at the Scottish Local Government Pensions Advisory Group (SLOGPAG) forum and also separately with CoSLA. Appropriate and timely liaison with the key system suppliers, at a national level, is therefore anticipated. There is certainly some degree of risk exposure for Lothian Pension Fund from the perspective of key staff expertise. During the year, steps have been taken to introduce greater flexibility in the organisational structure and also enhance career progression opportunity. Other measures have also been progressed with the intention of raising staff satisfaction levels. Hopefully, these should serve to alleviate such staff retention risk.
Responsible Officer	Investment & Pensions Service Manager
Target Date	Ongoing

Action Point	3
Refer Para	87
Risk Identified	Administration performance in relation to employers has been disappointing in 2012/13 with none of the five targets being achieved. ***Risk: delays in information provision may impact on the delivery of accurate and timely services to members.***
Planned Management Action	The Pensions Administration Strategy has been revised and approved by the Pensions Committee in September 2013, with an explicit objective to enhance employer data submission performance. Escalation procedures have been tightened and financial penalties for employer poor performance emphasised. On a positive note, as is stated, the investment in the "Employer On-line" portal has resulted in some improvement already to overall employer performance. This reflects the commitment of significant staff resources by the Fund to implement the project, supported by ongoing employer liaison. The intention is to capitalise on these initial gains and thereby secure excellence in service provision to customers. Progress is expected to be evolutionary, however, recognising the significant financial pressures facing public sector employers. Evidence from the England and Wales actuarial valuations 2013 has already pointed to reductions in overall pensions administration data quality arising from employer staffing cutbacks in HR and Payroll Sections.
Responsible Officer	Investment & Pensions Service Manager
Target Date	Ongoing

Pensions Committee

2pm, Wednesday 18 December 2013

Contribution Stability Mechanism 2013

Item number	5.3
Report number	
Wards	All

Links

Coalition pledges	
Council outcomes	CO26
Single Outcome Agreement	

Alastair Maclean

Director of Corporate Governance

Contact: John Burns, Pensions & Accounting Manager

E-mail: john.burns@edinburgh.gov.uk | Tel: 0131 469 3711

Executive summary

Contribution Stability Mechanism 2013

Summary

This report provides an update on the work undertaken to progress a Contribution Stability Mechanism for the main Lothian Pension Fund.

Recommendations

Pensions Committee is requested to approve the Contribution Stability Mechanism from 1 April 2014 as detailed in Appendix 1.

Measures of success

The principal objective of the Fund is to ensure its long-term solvency. The Fund therefore targets full funding on an ongoing basis over the long-term. Employer contribution stability is also a policy commitment of the Fund.

Financial impact

The proposed contribution stability mechanism, if implemented, would provide certainty of pension contributions to certain Fund employers for future years, together with appropriate assurance of funding level to the Fund.

Equalities impact

There are no adverse equality impacts arising from this report.

Sustainability impact

There are no adverse sustainability impacts arising from this report.

Consultation and engagement

The Consultative Panel for the Lothian Pension Funds, comprising employer and member representatives, is integral to the governance of the Funds.

Pensions Committee and Consultative Panel members attended a training session on 12 November 2013. This included a specific session covering the setting of employer contribution rates and the rationale for the proposed contribution stabilisation measures.

Consultation on the proposed contribution stability mechanism has been undertaken with the Fund employers. The outcome of this consultation is covered in the main report.

Background reading / external references

None

Report

Contribution Stability Mechanism 2013

1. Background

1.1 The Funding Strategy Statement of Lothian Pension Fund states “The policy of the Fund is to operate a contribution stability mechanism on an ongoing basis subject to regular reviews”.

1.2 At its meeting on 24 September 2013, Pensions Committee noted the report “Funding and Contribution Stability”. This report outlined the ongoing work to develop suitable contribution parameters.

2. Main report

Financial Modelling – Key Assumptions

2.1 In developing the proposed contribution stability mechanism the Fund commissioned, from its Actuary, detailed financial modelling of liability and asset cashflows under a range of employer contribution scenarios. Forecasts were made over the long term horizon relevant to the Local Government Pension Scheme.

2.2 Key financial assumptions reflected a prudent approach to funding obligations. The assumed replacement ratio of new entrants reflects an anticipated long term reduction in the public sector workforce.

2.3 Expected investment returns and the future level of gilt yields are critical elements of the modelling. Additional scrutiny of these financial assumptions was achieved using an independent adviser to the Fund’s Investment Strategy Panel. Investment return expectations reflect the Fund’s recent adoption of a lower volatility investment strategy.

2.4 The modelling work enables quantification of the likelihood that a given contribution strategy would lead to the Fund being fully funded in the long term. The Actuary needs to satisfy professional requirements that valuations be carried out in compliance with the actuarial principles of prudence, affordability, stewardship and stability.

2.5 Accordingly, the Fund’s Actuary has confirmed that this financial modelling provides suitable assurance for his approval of the proposed contribution stability mechanism.

2.6 The financial modelling report is shown in full at Appendix 2 “Asset-liability modelling of stabilised contribution scenarios – 25 October 2013”.

Contribution Stability Mechanism – Proposal and Consultation

2.7 The proposed contribution stability mechanism is detailed at Appendix 1. This was provided to all the Fund’s employers as a consultation document. Face to face discussions have also been held with senior officials from affected employers.

2.8 Initial employer feedback to the proposal has been very positive. Employers welcomed the early notification ahead of the 2014 actuarial valuation and also the proposed stability. An oral update on any recent responses to the consultation will be provided to the Pensions Committee.

2.9 The contribution rates for the employers who will not be covered by this proposal will be set, as normal, during 2014/15 as part of the 2014 actuarial valuation.

Allowance for Different Employers

2.10 The proposed contribution stability mechanism is applicable to only some employers and is also subject to employer covenant. The Fund is undertaking an employer survey to assess the status of each employer in terms of its financial status, funding sources, changes to organisation etc. This information will assist the Fund in assessing employer covenant.

2.11 As part of this covenant review, it is proposed that the Fund take a proactive approach to updating employer admission agreements, some of which have become out of date.

Cashflow

2.12 The modelling also provided updated cashflow projections based on Fund membership as at March 2013 (slides 51 to 58). They show that due to low salary growth and reduced membership since the projections undertaken in 2010, the Fund is expected to move to a cashflow negative position in the near future. Currently, contributions received by the Fund remain sufficient to pay pension benefits. When cashflow does move negative the Fund will use investment income to pay pensions, rather than reinvesting.

2.13 There continue to be uncertainties affecting the Fund’s cashflow. Employers are expected to reduce workforce numbers further. Scheme reform may also have an impact on cashflow, particularly the option for members to opt for 50% of benefits. The full impact of auto-enrolment will not be known until at least 2017, as the Fund’s largest employers have delayed the full introduction of auto-enrolment until 2017. It will be important to continue to monitor the position.

3. Recommendations

Pensions Committee is requested:

3.1 to approve the Contribution Stability Mechanism for employer contribution rates until March 2021 as detailed in Appendix 1;

3.2 to agree the proposal to take a proactive approach to updating employer admission agreements.

4. Background reading / external references

None

Alastair Maclean

Director of Corporate Governance

Links

Coalition pledges	
Council outcomes	CO26 – The Council engages with stakeholders and works in partnerships to improve services and deliver agreed objectives.
Single Outcome Agreement	
Appendices	Appendix 1 - Contribution Stability Mechanism 2013 Appendix 2 – Asset-liability modelling of stabilised contribution scenarios – 25 October 2013

Contribution Stability Mechanism 2013

Background

The 2011 triennial actuarial valuation set employer contribution rates for the three years to 31 March 2015. Pension schemes, however, have a long-term time horizon. Lothian Pension Fund wishes both to avoid volatility in contribution rates based on fluctuations in short-term funding levels and also, where possible, to assist employers with their budgeting.

The funding objectives as stated in the Funding Strategy Statement include:

- to ensure the long-term solvency of the overall Fund and that of sub-funds;
- to minimise the degree of short-term change in employer contribution rates;
- maximise the returns from investments within reasonable and considered risk parameters, and hence minimise the cost to the employer;
- to ensure that sufficient cash is available to meet all liabilities as they fall due for payment;
- to help employers manage their pension liabilities;
- where practical and cost effective, to make allowance for the different characteristics of different employers and groups of employers.

These objectives are desirable individually, but may be mutually conflicting.

The principal issues facing the solvency of the Fund include the ability to finance liabilities as and when they arise, the rate or volatility in the rate of contribution paid by the employers, the pace at which deficits are recovered (or surpluses used up) and the returns on the Fund's investments.

The Fund therefore targets full funding on an ongoing basis over the long term with an acceptable likelihood of success and attempts to keep risks within tolerable limits, whilst ensuring contributions are as affordable and stable as possible.

An explicit commitment has been made to operate a contribution stability mechanism on an ongoing basis subject to regular reviews.

Contribution Stability

The cost of the benefits is not known in advance. The approach to funding determines the pace at which employers pay for the benefits and the ways in which the Fund ensures that it will have enough money to pay the benefits due to its members.

Accordingly, the Fund has received detailed modelling of liability and asset cashflows under a range of employer contribution scenarios from the Fund's actuary. The scenarios included consideration of different levels and duration of contribution stability.

Financial assumptions were tailored to reflect specific factors. These included the anticipated long term level and volatility of gilt yields, equity and other investment returns plus inflation. A reduction in the public sector employer workforce was also reflected. The Fund has thereby taken appropriate steps to assess the implications of potential contribution strategies to ensure compliance with professional standards, the relevant actuarial principles being prudence, affordability, stability and stewardship. The Fund can provide any employer with more detail on the actuarial modelling if required.

Risks to the Fund & Employers

The risk to the Fund in providing contribution stability is that the likelihood of achieving full funding is reduced. This has been a key consideration and the actuarial modelling has provided sufficient comfort on this matter.

The risk to employers is that, if they pay less than the theoretical contribution rates now, they would face increased pensions costs in future years, (As a reminder, however, the contribution rates agreed at actuarial valuations represent minimum contributions. Employers retain the discretion to pay more.)

Conversely, a risk facing employers should the level of stabilised contributions prove to be overly prudent, is that outlays will have been greater than actually required. In this case, employers would benefit from any accrued surplus in future years by reduced contributions.

A further risk to the Fund is the potential inability of employer(s) to finance increased pension costs in the future and stabilising contributions may increase this risk. As a multi-employer scheme, this is, in effect, a risk to all the employers in the Fund. This proposal allows for the specific circumstances of employers in an attempt to manage this risk. (See below)

Allowance for Different Employers

In parallel with the actuarial modelling, ongoing work to assess the financial security offered to the Fund by its respective employers is being undertaken. This includes guarantor and admission agreement reviews, as well as analysis of financial covenant and membership profiles. The strength of the employer covenant influences the extent to which it would be appropriate for the Fund to accord contribution stability to individual or groups of employers.

Councils and other statutory bodies have tax-raising powers, a large membership and will be in existence for a long period of time. There is therefore a low risk that such authorities will fail to meet pension obligations. Other large employers may also offer good financial security to the Fund and some employers with the Fund are guaranteed by the Scottish Government.

Employers to whom the Fund will not accord Contribution Stability:

- Employers which have closed the Lothian Pension Fund to new entrants (or are deemed by the Fund to have closed based on experience).

  As the duration of Fund membership of these employers is finite, it is not considered prudent to offer the discretion of contribution stability to these employers.

- Transfer Admission Bodies (i.e. Public Service Contractors)

  Such employers again have a finite duration of membership of the Fund, i.e. limited to the contract period with the awarding authority. Contractors should continue to pay contributions that target full funding by the end of the participation period.

- Community Admission Bodies included with the smaller employer “pool”

  As part of a pool of employers with similar membership characteristics, a degree of inherent stabilisation of contributions and risk mitigation is already provided. The Fund also has to consider the potential volatility in the smaller employer pool should some employers cease membership and exit the Local Government Pension Scheme.

Contribution Stability Mechanism – Proposal

What level of contributions?

- **"Frozen contribution rate until 31 March 2018 then +0.5% / -0.5% p.a."**
  i.e. contributions frozen at the total 2014/15 combined rate (as determined by Actuarial Valuation as at 31 March 2011) until 31 March 2018. Thereafter, for the next actuarial valuation period of three years, rates could only vary from this rate by a maximum of 0.5% per annum (or minimum of -0.5% per annum).
- This total rate above would be inclusive of contributions to recover the deficit in the Fund i.e. Past Service Deficit. This Past Service Deficit, however, would continue to be based on fixed monetary sum at each Actuarial Valuation. Suitable actuarial adjustment therefore would be made to the Future Service Rate to achieve requisite parity with total payable 2014/15. This is to guard against significant falls in Fund membership between actuarial valuations.

To Whom ?

- "Open" employers with individual contribution rates as at 2011 actuarial valuation:
  - Subject to assessment by Lothian Pension Fund of employer covenant as satisfactory.
  - Subject to agreement by guarantor(s) to inclusion of employer in Contribution Stability Mechanism.
  - Subject to the impact of the new Local Government Pension Scheme in Scotland from 2015 leading to a materially higher cost of future service benefit accrual as assessed by Lothian Pension Fund.

Continuing inclusion in the Contribution Stability Mechanism between actuarial valuations is subject to ongoing review. Factors which would lead to review / removal of an employer from Contribution Stability Mechanism would be:

- Significant adverse change in financial status (covenant) as assessed by Lothian Pension Fund. This could include, e.g. threatened or actual loss in funding or banking facilities / terms.
- Significant change in active membership payroll from previous actuarial valuation, e.g. payroll falls by more than 20%.
- Employer becomes closed to new entrants (or is deemed closed).

On removal from Contribution Stability Mechanism, an employer would immediately revert to the relevant rate as determined by the most recent actuarial valuation.

Duration of the Contribution Stability Mechanism

- The Contribution Stability Mechanism should be designed to cover a reasonable period of time in order to demonstrate value to its employers and meet its objectives.
- The proposal is therefore that the duration of the Contribution Stability Mechanism should be two actuarial valuation periods, i.e. the remaining period of the Actuarial Valuation as at 31 March 2011 plus six years. The Actuarial Valuation as at 31 March 2011 encompasses the current year 2013-14 and also 2014/15.
- The Contribution Stability Mechanism would therefore apply for:
    - 2014/15, as previously determined by Actuarial Valuation 2011
    - 2015/16, Actuarial Valuation 2014 – year 1
    - 2016/17, Actuarial Valuation 2014 – year 2
    - 2017/18, Actuarial Valuation 2014 – year 3
    - 2018/19, Actuarial Valuation 2017 – year 1
    - 2019/20, Actuarial Valuation 2017 – year 2
    - 2020/21, Actuarial Valuation 2017 – year 3

- However Lothian Pension Fund retains the right to review or withdraw the Contribution Stability Mechanism as protection against extreme adverse financial experience. Lothian Pension Fund shall monitor the overall funding level and theoretical contribution rate on an annual basis to ensure these remain within the acceptable parameters.

Actuarial "sign off"

- Regulations and professional standards require that the Fund's Actuary be content with the minimum level of contributions levied by the Fund. Suitable assurance has been received from the proposed Contribution Stability Mechanism from the Fund's Actuary, Hymans Robertson LLP.

Hymans Robertson LLP has carried out an asset liability modelling exercise for the Lothian Pension Fund (“the Fund”) as at 31 March 2013, details of which are set out in this report (“the Report”), which is addressed to the Lothian Pension Fund (the Client”). The Report was prepared for the sole use and benefit of our Client and not for any other party; and Hymans Robertson LLP makes no representation or warranties to any third party as to the accuracy or completeness of the Report.

The Report was not prepared for any third party and it will not address the particular interests or concerns of any such third party. The Report is intended to advise our Client on the risks inherent in the current contribution strategy and how these risks might change if we adopted alternative strategies, and should not be considered a substitute for specific advice in relation to other individual circumstances.

As this Report has not been prepared for a third party, no reliance by any party will be placed on the Report. It follows that there is no duty or liability by Hymans Robertson LLP (or its members, partners, officers, employees and agents) to any party other than the named Client. Hymans Robertson LLP therefore disclaims all liability and responsibility arising from any reliance on or use of the Report by any person having access to the Report or by anyone who may be informed of the contents of the Report.

The Report must not be used for any commercial purposes unless Hymans Robertson LLP agrees in advance.

All modelling is subject to inevitable limitations, including the time at which it was done and subjective choices. As such, no inferences should be drawn from this Report without written confirmation from Hymans Robertson LLP.

In order to protect the intellectual capital of Hymans Robertson LLP, various sections of this report have been removed. The information remaining in the report is sufficient to allow the Pensions Committee to understand the extent of the modelling carried out. The report provided to City of Edinburgh Council, as the Administering Authority to the Lothian Pension Fund was complete, and the entirety of the advice provided to the Administering Authority complied with the Technical Actuarial Standards of the Actuarial Profession.

Lothian Pension Fund
Managing Employer Contribution Rates
For Pensions Committee

Asset/liability modelling

- Richard Warden FFA
- Steven Scott FFA
- 25 October 2013

Contents

1. Contribution strategy modelling

Addressee and purpose

Addressee and purpose

- This report is addressed to the Lothian Pension Fund ("the Fund").
- The analysis in this report follows the approach developed by Hymans Robertson, described as comPASS, which effectively carries out asset/liability analysis to compare the potential long term position of the Fund under the current and various alternative contribution strategies. We have considered 6 scenarios, which are described later in this report. All of the scenarios in this report are based on the strategic benchmark investment strategy as at the time the modelling was commissioned.
- The results of this analysis help explain the risks inherent in the current contribution strategy and how these risks might change if we adopted alternative strategies.

comPASS results

- The compass approach investigates the range of outcomes under each scenario in 4 key areas (Prudence, Affordability, Stewardship and Stability).
- In this report, we have concentrated on central and adverse outcomes for funding level and contribution rates depending on the likelihood of particular scenarios over the course of the next 22 years.
- This report shows the results for each scenario as a series of charts and provides commentary on the results.
- This report does not recommend particular stabilisation parameters. We welcome discussion in order to identify the most appropriate stabilisation parameters for the Fund and to identify which types of employers this should apply to.
- Any agreed contribution stabilisation mechanism should be documented in the Funding Strategy Statement (FSS).

1. Contribution strategy modelling

Method and inputs

Method

Our approach to setting contribution rates for long term secure employers is as follows:

1) Decide funding **objectives** e.g. 65% chance of being fully funded in 20 years and contribution rate does not increase by more than say 1% of pay per annum.
2) Measure **current funding level** using consistent market valuation for assets and liabilities;
3) Generate long term **cashflows**;
4) Agree initial level of contributions and future pattern (e.g. fixed % of pay, cash for deficit, variable % pay within a range);
5) Project **future funding level** over next say 22 years (7 valuation cycles) based on

   (a) contribution pattern being tested;

   (b) current investment strategy;

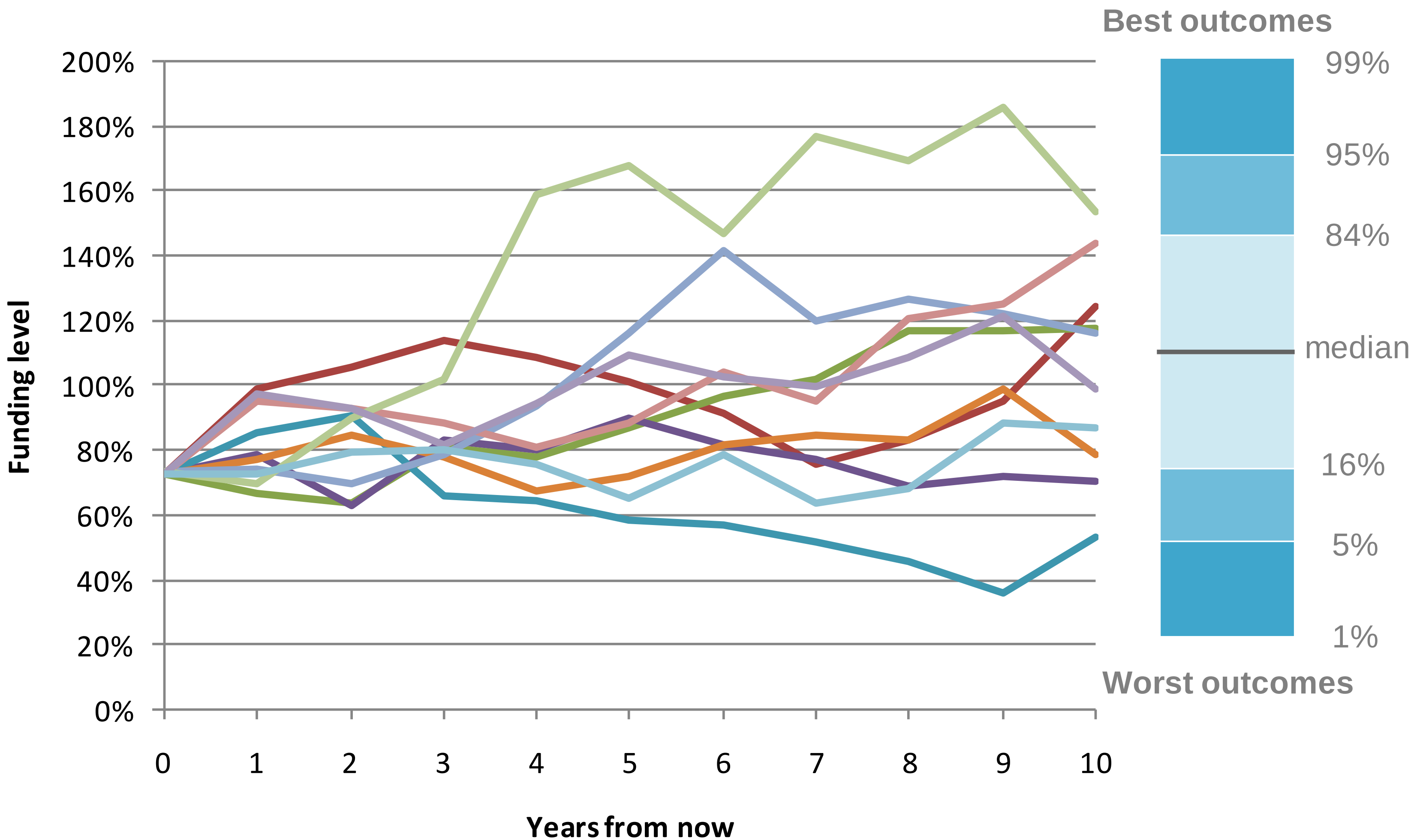
   (c) 5,000 different future outcomes for investment returns, inflation and interest rates (please see description of economic scenario generator in the Appendices).
6) Consider outputs: median outcome for funding level, likelihood of achieving full funding, range of outcomes and outcomes in unfavourable scenarios. Check whether they meet objectives;
7) Repeat with different **contribution strategies** based on current investment strategy to determine the contribution strategy that strikes the best balance between:

   (i) desire for **affordable contributions**;

   (ii) an **acceptable likelihood of success** (e.g. 65% chance of full funding in 22 years); and

   (iii) **tolerance for risk** (e.g. 1/20 chance of future funding level being 40% or less)

Model future funding levels probabilistically



Assess the likelihood of different outcomes

Inputs: data and funding level at start

- The modelling is carried out based on the funding position as at 31 March 2013 .
- **Membership data** was provided as at 31 March 2013.
- **Demographic assumptions** are unchanged from those used at the 2011 valuation of the Fund. For further details, please refer to the 2011 valuation report dated 15 February 2012.
- The starting assets, liabilities and funding level are set out below:

Assumptions	**Flat**	**Yield curve**
Discount rate	4.5%	BoE nominal gilts +1.5% p.a.
Salary growth	4.8%	BoE Inflation curve + 1.5% p.a.
Pension increases (CPI)	2.5%	BoE inflation - 0.8% p.a.
Assets	**£4,095m**	**£4,095m**
Liabilities, split by		
Actives	£2,329m	£2,493m
Deferreds	£596m	£633m
Pensioners	£1,816m	£1,995m
Total	**£4,741m**	**£5,121m**
Funding level	86%	80%
Surplus (deficit)	**(£646m)**	**(£1,026m)**

Important notes:

- Changes in **future longevity assumptions** at the 2014 valuation are likely to increase past and future liabilities. All future benefit accrual is assumed to be under the **current scheme** (i.e. future cashflows do not reflect any 2015 scheme changes) – this may slightly overstate future benefits.

HYMANS ROBERTSON

Inputs: strategic benchmark for investments

Asset Class	Long-term LPF strategic benchmark	Revised Allocation (scenario 7 only)
	Current	Lower beta
UK Equities	10.0%	9.0%
Overseas Equities	50.0%	45.0%
Private Equity	5.0%	5.0%
Total Equities	**65.0%**	**59.0%**
Index Linked Gilts (medium dated)	7.0%	7.0%
Corporate bonds (medium dated)	10.0%	10.0%
Total Bonds	**17.0%**	**17.0%**
Commercial Property	8.0%	8.0%
Infrastructure	10.0%	10.0%
Cash	0.0%	6.0%
Total	**100%**	**100%**

1. Contribution strategy modelling

comPASS results

A reminder of the Fund's objectives

- To target full funding on an ongoing basis over the long term with an acceptable likelihood of success
  - e.g. 65% chance of being fully funded on an ongoing basis in 22 years
- keeping risks within acceptable limits
  - e.g. funding level in worst 1 in 20 outcomes no worse than 40%
- while ensuring contributions are as affordable and stable as possible
  - e.g. contribution rate does not increase by more than 0.5% of pay per annum

The above objectives give us a framework against which to assess alternative contribution strategies

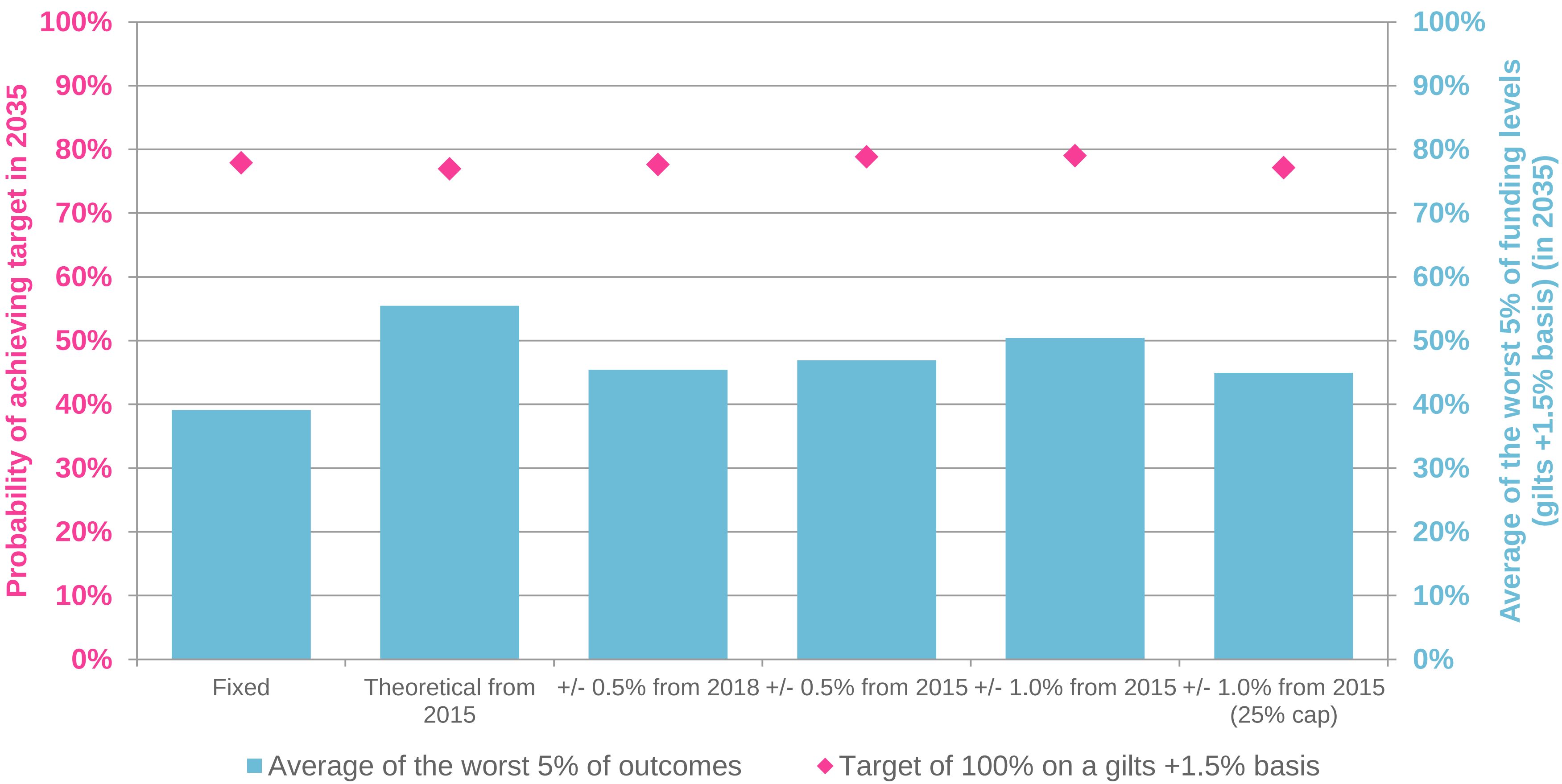
Scenarios tested

Scenario	Investment strategy	Long term stabilisation parameters	Contribution cap (% of pay)
1	Current	Contribution rates fixed at the current level	No cap
2	Current	Theoretical rate from 2015	No cap
3	Current	Frozen rate until 31 March 2018 then +0.5% / -0.5% p.a.	No cap
4	Current	+0.5% / -0.5% p.a. from April 2015	No cap
5	Current	+1% / -1% p.a. from April 2015	No cap
6	Current	+1% / -1% p.a. from April 2015	25%
7	Lower beta	Frozen rate until 31 March 2018 then +0.5% / -0.5% p.a.	No cap

Notes:
- Initial rate of 20.7% p.a. applies under all scenarios.
- 20 year deficit recovery spread period assumed under all scenarios
- Contribution cap is that payable by employers only and includes a contribution to expenses (0.3% p.a. of pay)
- Details of the ‘Current’ and ‘Lower beta’ investment strategy assumptions are set out on page 11.
- The results relating to the ‘Lower beta’ scenario are shown on pages 19 to 22.

Prudence summary – long term outlook

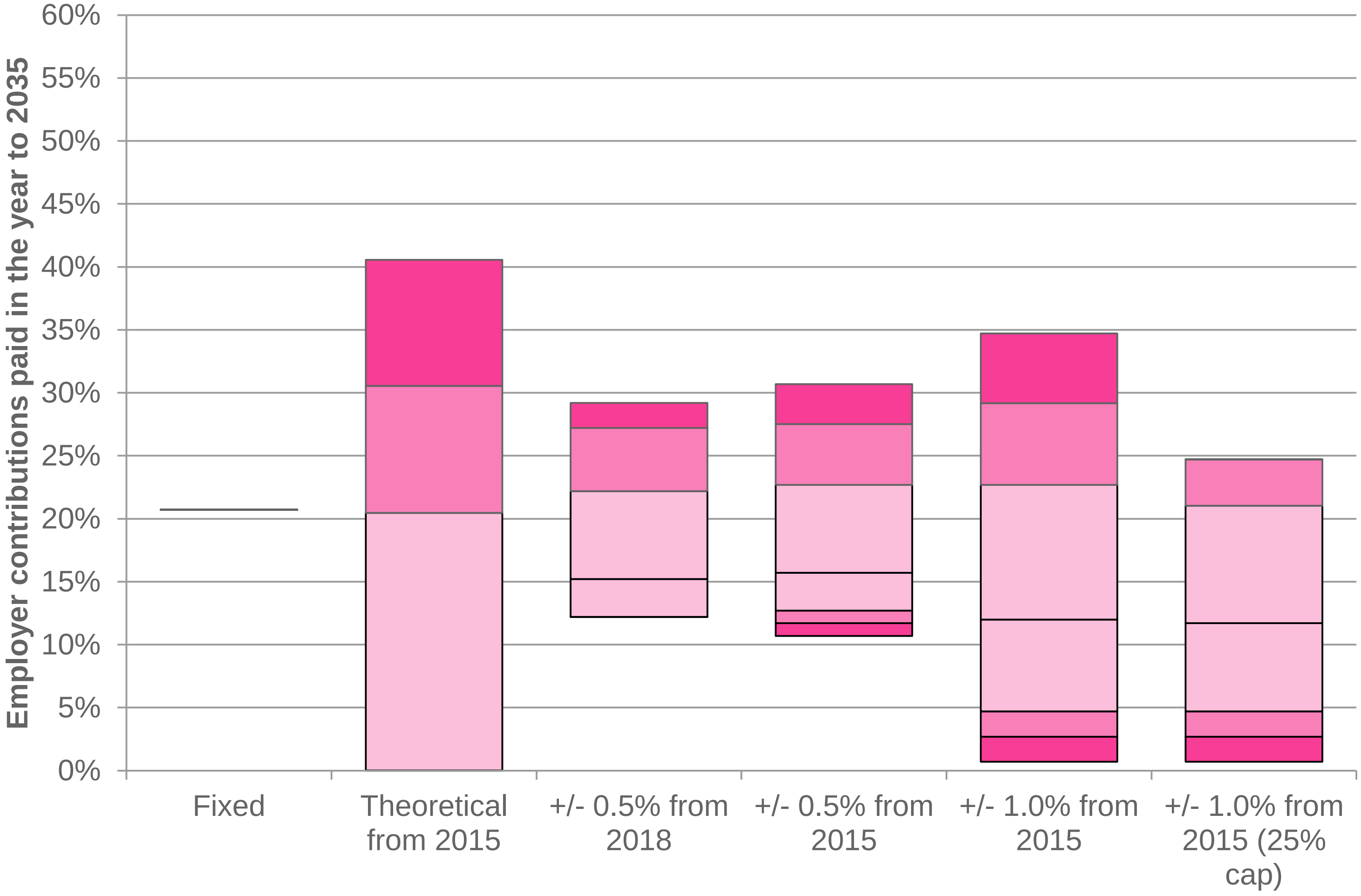
Probability of being above 100% funded in 2035



Application of a fixed rate (scenario 1) increases downside risk

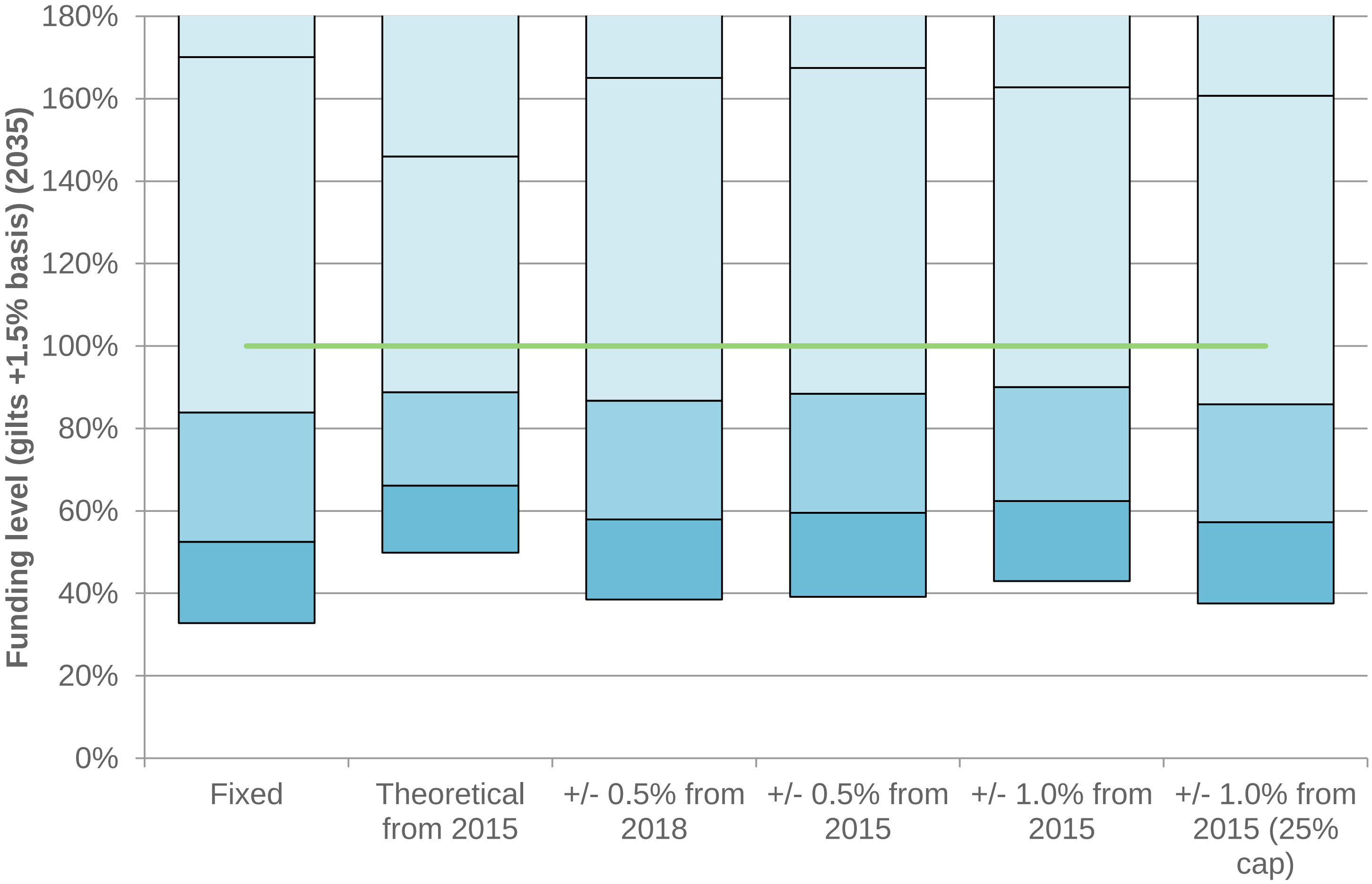
Affordability summary – long term outlook

Contribution rates in 2035



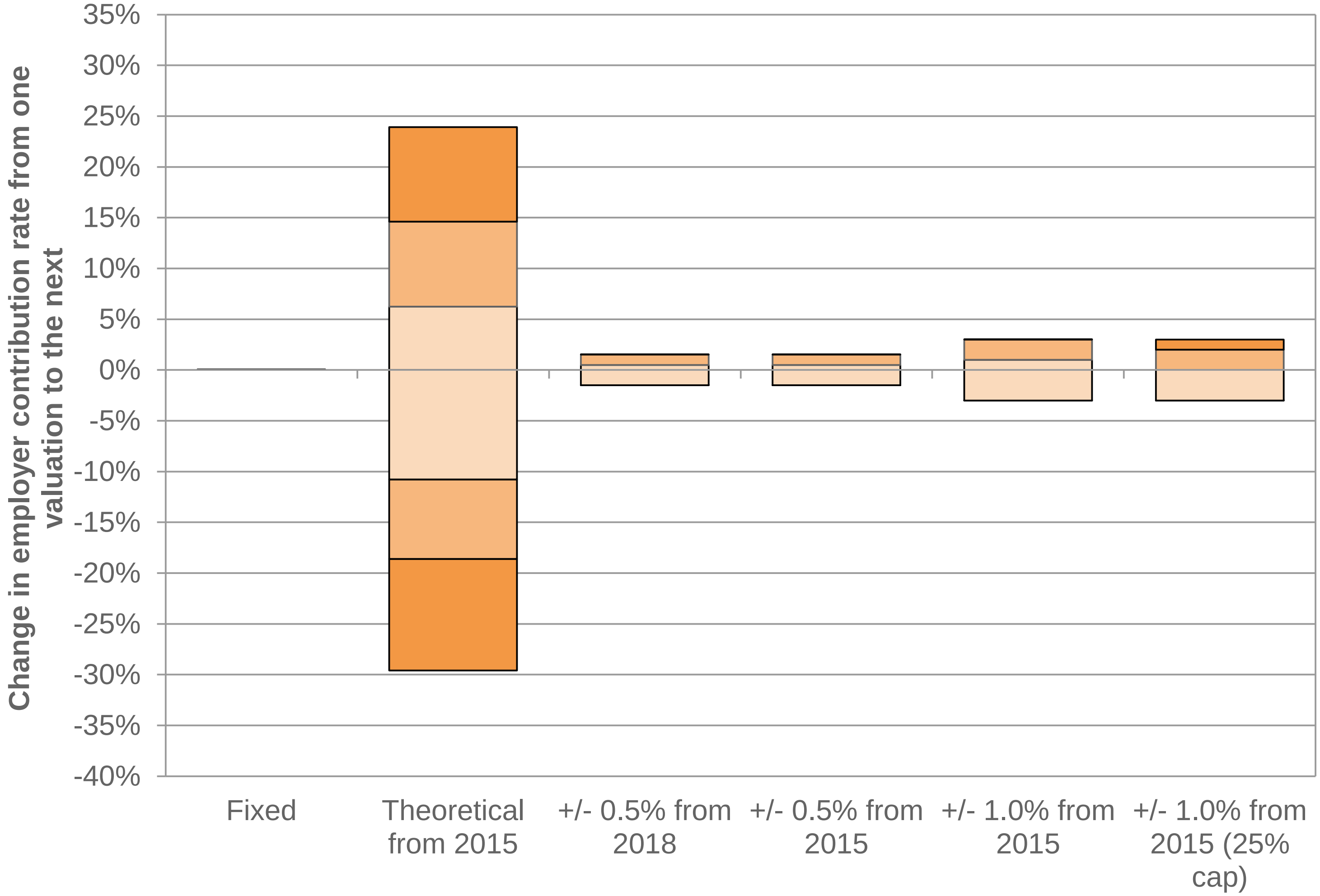
Stewardship summary – long term outlook

Funding level in 2035



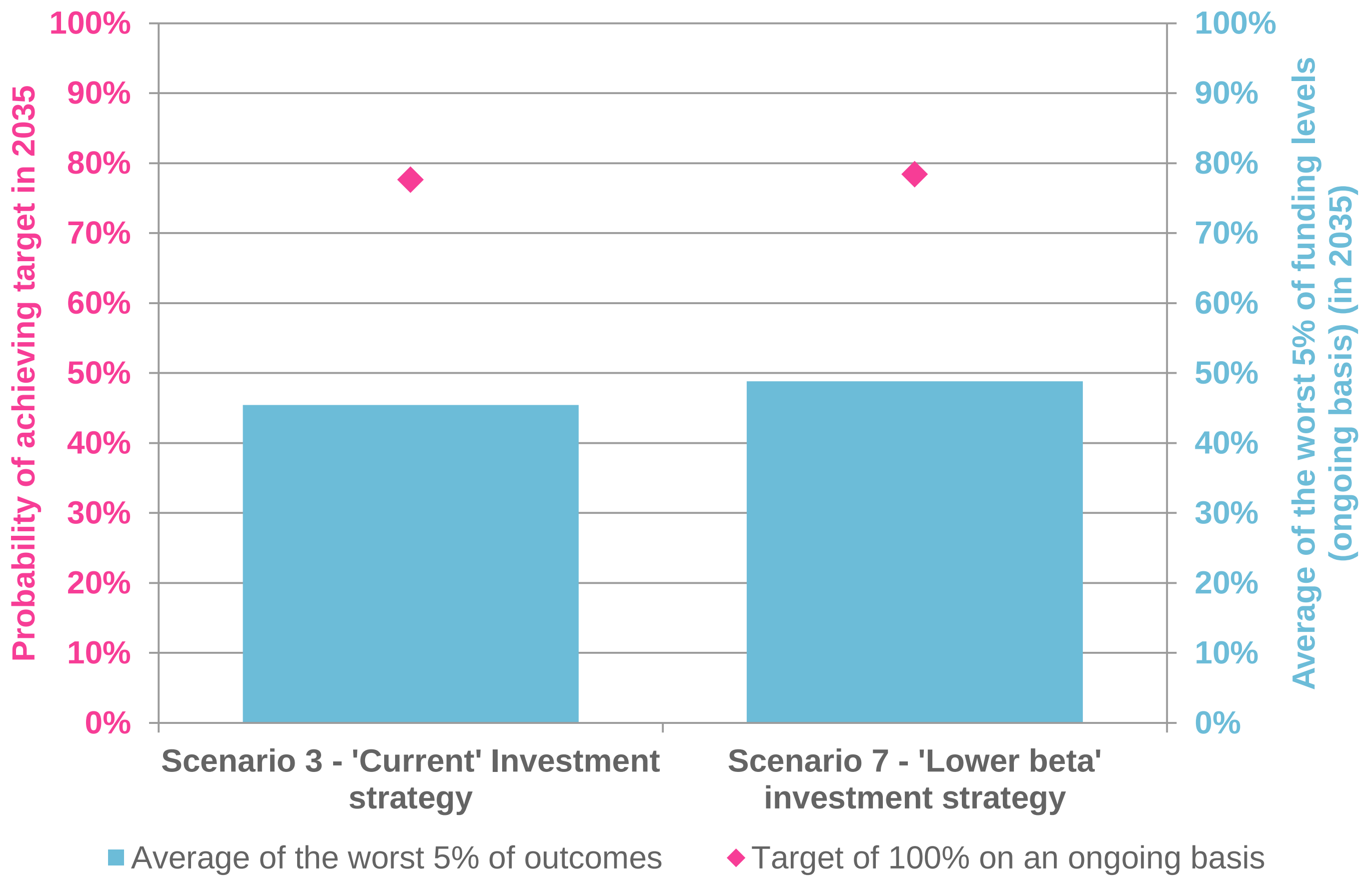
Stability summary

Change in contribution rates



Prudence summary – long term outlook

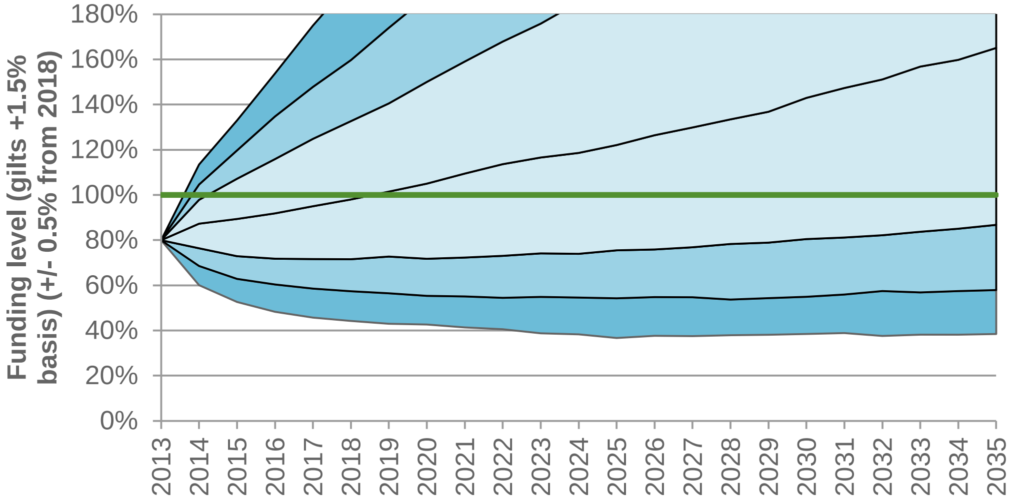
Probability of being above 100% funded in 2035



‘Lower beta’ investment strategy reduces downside risk with similar probability of success

Stewardship – 'Lower beta' investment strategy

Potential range in outcomes for the funding level until 2035



Scenario 3

'current' investment strategy

Median at 2035 = 165%

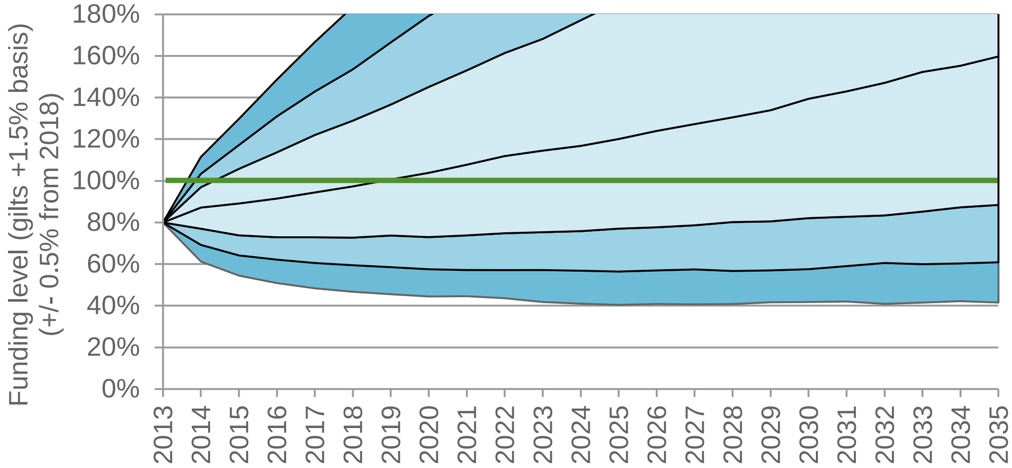
'Worst' case = 38%

Scenario 7

'Lower beta' investment strategy

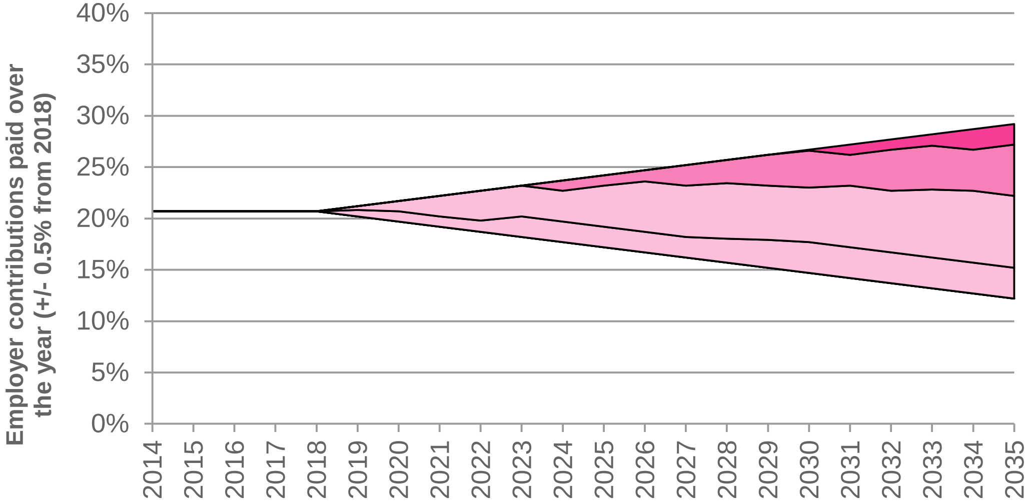
Median at 2035 = 160%

'Worst' case = 42%



Affordability – ‘Lower beta’ investment strategy

Range of potential contribution rates until 2035



Scenario 3

‘current’ investment strategy

Median at 2035 = 15%

‘Worst’ case = 29%

(inc expenses)

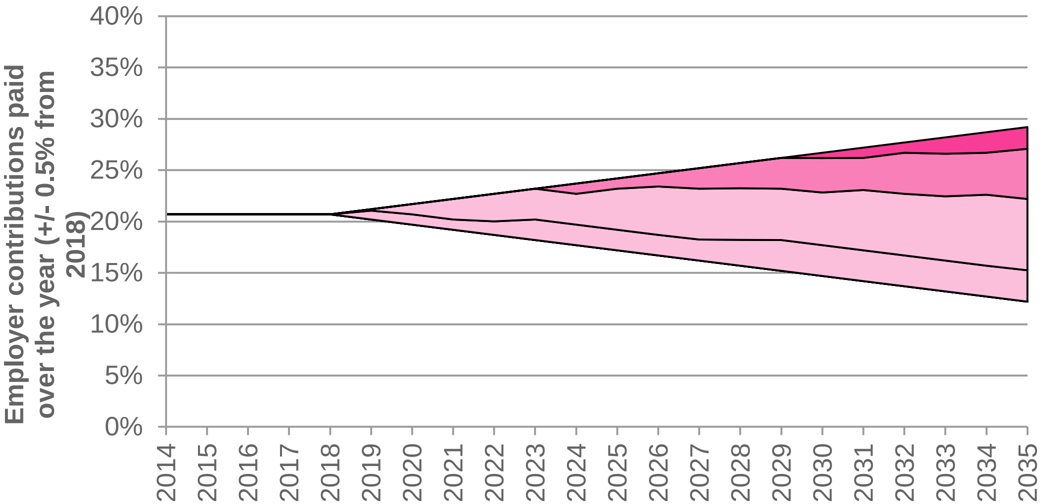
Scenario 7

‘Lower beta’ investment strategy

Median at 2035 = 15%

‘Worst’ case = 29%

(inc expenses)



Note 1 – 1% of outcomes lie outside this range

Commentary on impact of 'Lower beta' investment strategy

- **Prudence** – the 'Lower beta' investment strategy leads to a reduction in downside risk with a similar probability of success.
- **Stewardship** – the 'Lower beta' investment scenario leads to a slightly lower median funding level in the long term (due to lower projected return) and a reduction in downside risk (due to lower projected asset volatility).
- **Affordability** – the modelling suggests no material change in projected contribution rates under the 'Lower beta' investment scenario.

1. Contribution strategy modelling

Summary

Summary of results

CONTRIBUTION STRATEGY	INVESTMENT STRATEGY	Prudence: LONG TERM LIKELIHOOD OF SUCCESS		Prudence: AVERAGE OF THE WORST 5% OF FUNDING LEVELS IN 2035	Stewardship: MEDIAN FUNDING LEVEL IN 22 YEARS		Affordability: AFFORDABILITY (HIGHEST MEDIAN CONTS DURING THE NEXT 22 YEARS)
		FULL YIELD REVERSION	REAL YIELD OF 0.5% p.a. BY 2035*	FULL YIELD REVERSION	FULL YIELD REVERSION	REAL YIELD OF 0.5% p.a. BY 2035*	
Fixed	Current	78%	65%	39%	170%	140%	20.7%
Unconstrained	Current	77%	64%	55%	146%	116%	27.0%
3 year freeze then ±0.5 p.a.	Current	78%	65%	45%	165%	135%	20.7%
±0.5 p.a.	Current	79%	66%	47%	167%	137%	21.7%
±1.0 p.a.	Current	79%	66%	50%	163%	133%	22.7%
±1.0 p.a. capped at 25%	Current	77%	64%	45%	161%	131%	22.7%
3 year freeze then ±0.5 p.a.	Lower beta	78%	65%	49%	160%	130%	20.7%

Please note that RAG ratings are subjective

The criteria for each band was set with the agreement of the Administering Authority

*Alternative figures on a lower yield assumptions were provided to the Administering Authority in response to a detailed technical question

3. Appendices

All appendices, including details of the methodology and assumptions adopted have been removed due to commercially sensitive nature of this.

Reliances and limitations

This document is provided to our client, City of Edinburgh Council, in its capacity as Administering Authority to the Lothian Pension Fund (the “Fund”). It has been prepared by Hymans Robertson LLP to evaluate the suitability of various contribution stability mechanism for future contribution rates.

Individual employer results will differ from whole Fund results.

Hymans Robertson LLP accepts no liability to any party unless we have expressly accepted such liability in writing.

Whilst the results are based on Fund specific information as provided by the Administering Authority, there are some elements of the analysis which are based on a sample fund (which are highlighted as such).

TAS compliance

- Technical Actuarial Standards (TASs) are issued by the Financial Reporting Council and they set the standard for certain items of actuarial work, in terms of the type of information provided and the way it is communicated. As your actuary, we must comply with these standards when presenting the results of the triennial valuation.
- The following Technical Actuarial Standards are applicable in relation to this report and have been complied with in a material and proportionate manner except where specifically stated:
  - TAS R – Reporting;
  - TAS D – Data;
  - TAS M – Modelling; and
  - Pensions TAS

Pensions Committee

2pm, Wednesday, 18 December 2013

Investment Strategy Update

Item number	5.4
Report number	
Wards	All

Links

Coalition pledges	
Council outcomes	CO26
Single Outcome Agreement	

Alastair Maclean

Director of Corporate Governance

Contact: Bruce Miller, Investment Manager

E-mail: Bruce.Miller@edinburgh.gov.uk | Tel: 0131 469 3866

EDINBVRGH
THE CITY OF EDINBURGH COUNCIL

Executive summary

Investment Strategy Update

Summary

The Pensions Committee agreed the Lothian Pension Fund's investment strategy in October 2012.

	Strategy 2012-17 %	Permitted Range %
Equities (1)	65	50-75
Inflation-linked assets (2)	7	0-20
Alternatives (3)	28	20-35
Cash	0	0-10
Total	100	

(1) Includes listed and private equity; (2) Includes index-linked gilts & bonds and gold; (3) Includes property, infrastructure, timber and corporate credit

The strategy targets lower risk and a move away from portfolios that are constrained by market capitalisation indices. This is reflected in a reduction in exposure to equities and an increase in exposure to index-linked bonds and alternatives.

Equities

An important element of the risk reduction comes from a shift within the equity allocation. The Fund appointed an external transition manager in November 2013 to reshape the equity allocation to reduce risk.

The Fund is moving decisively away from portfolios that are constructed along market capitalisation lines. A balance between capital preservation and growth are more important for the Fund than tracking error relative to a market capitalisation index.

The table below shows the change in the interim strategy benchmark between March 2013 and December 2013. It demonstrates how the transition will reduce the assets under management in regional equity portfolios and increase the assets under management in global equity portfolios. These global portfolios are characterised by significantly lower risk.

	Long Term Strategy 2012-17 %	Interim Strategy at 1 April 2013 %	Interim Strategy at 31 Dec 2013 %
Equities			
Regional Listed		44.5	19.7
Global Listed		19.5	44.3
Private Equity		6	6
Subtotal	**65**	**70**	**70**
Inflation-linked Assets			
Index Linked Gilts	7	5	5
Subtotal	**7**	**5**	**5**
Alternatives			
Property		10	10
Other Real Assets		8	8
Other Bonds		6	6
Subtotal	**28**	**24**	**24**
Cash		**1**	**1**
TOTAL	**100**	**100**	**100**

In addition, the transition increases the equity assets managed by the internal team. Approximately one third of the Fund's equities will be invested in the two internally managed global portfolios – one in high quality income-producing equities and the other in low volatility equities. Both portfolios will invest in companies with low volatility compared with the global equity benchmark and are expected to perform relatively well when equity markets are weak and produce positive absolute returns in rising equity markets. Over the long term, they are expected to enhance the Fund's risk-adjusted returns.

The transition is targeting a meaningful reduction in risk, and so, its scale is significant – purchases and sales of equities are approximately £1bn each, and involve a large number of securities.

An external transition manager from the Fund's panel has been appointed to carry out the transition. Members of the panel are selected because of the adequacy of their resources and their ability to minimise risks, which include maintaining the correct market exposure throughout the transition period and trading carefully to reduce market impact.

At the time of writing, equity assets are being transitioned. A verbal update will be provided to the Committee when the transition is complete and the Audit Committee is expected to scrutinise the details of the transition.

The internal team and the Investment Strategy Panel continue to research and review complementary equity strategies that can provide a suitable risk-adjusted return for the Fund.

Non-equity Assets

There have been no changes to the interim strategy allocations for inflation-linked assets and alternatives since 1 April 2013.

The Fund is continuing to identify and invest in attractive assets within the Alternative category, which includes assets with attractive yields and inflation protection, such as infrastructure, bond-like assets and timber. Recent investments have been made in UK Private Finance Initiative (PFI) projects, such as schools and hospitals, which offer stable income over the term of the concession periods and some protection against inflation.

Lothian Buses Pension Fund

The Fund's actual and benchmark allocation to each manager and asset class is shown in the table below together with the new investment strategy.

	Long Term Strategy 2012-17 %	Interim Strategy wef 01/04/13 %	Actual Allocation 31/03/13 %	Estimated Allocation Post Transition 31/12/13 %
Equities (Baillie Gifford)			59.9	31.1
Equities (internal)			5.0	31.1
Total Listed Equities			**64.9**	**62.2**
Private Equity (internal)			2.1	2.0
Total Equities	**55.0**	**62.5**	**67.0**	**64.2**
Index-linked Bonds (Baillie Gifford)	15.0	10.0	7.5	6.9
Index-linked Gilts (internal)				4.0
Total Index-linked Bonds	**15.0**	**10.0**	**7.5**	**10.9**
Other Real Assets (internal)		7.5	5.7	5.3
Other Bonds (Baillie Gifford)		10.0	7.7	7.3
Property (Standard Life)		10.0	7.9	9.0
Total Alternatives	**30.0**	**27.5**	**21.3**	**21.6**
Central Cash (internal)	0	0	4.2	3.3
Total Fund	**100.0**	**100.0**	**100.0**	**100.0**

The main focus of the implementation of investment strategy to date has been on equities given the Fund's significant exposure. After the shift away from UK equities to a global equity structure in March 2013, the focus has been on reducing the risk within the equities. The proportion of the Fund invested internally in high quality income-producing equities is expected to be increased in December to approximately 31%. At the same time the index-linked exposure will be increased by approximately 4% in an internal portfolio. These increases will be funded from the Baillie Gifford equity portfolio.

New investments have also been made in property and the exposure has increased by 1%. Opportunities to increase the Fund's investment in infrastructure continue to be explored.

The equity allocation will be reduced further over time as suitable alternative assets become available.

Scottish Homes Pension Fund

The Fund's strategic allocation is set out in the table below:

	Long Term Strategy 2012-2017 %	**Interim Strategy wef 01/04/13 %**	**Current Strategy wef 30/11/13 %**
Equities			
UK	**30**	8.8	6.6
US		12.4	9.3
Europe (ex UK)		8	6
Pacific inc Japan		7.6	5.7
Emerging markets		3.2	2.4
Sub-total		**40**	**30**
Bonds			
UK Fixed Interest Gilts	**65**	10	13
UK Index Linked Gilts		40	52
Subtotal		**50**	**65**
Property	**5**	**10**	**5**
Cash	**-**	**-**	**-**
TOTAL	**100**	**100**	**100**

Over the last year, the funding level of the Scottish Homes Pension Fund has increased gradually. As a result, the sale of equities and the move to the long term strategy has been accelerated.

In September 2013, the equity allocation was reduced to 35%. At the end of November 2013, the funding level increased further and was estimated to be in-line with the target funding level as prescribed in the agreement with Scottish Government (approximately 91%) and the equity allocation was reduced to 30%.

In addition, the property allocation of the Fund was reduced in the third quarter of 2013.

As at the start of December, the investment allocation of the Fund is in-line with the revised investment strategy for 2012-2017.

Further work to reduce the risk within the Fund's equities is the outstanding element of the implementation of the strategy. Further progress will be made once discussions with the Scottish Government on funding issues ahead of the 2014 actuarial valuation are complete.

Other Issues

Given the increase in assets under management by the internal team, the Fund has appointed an external, independent consultant to appraise the current risks for the Funds. The review will cover the following ten factors across operations, execution, and control functions:

- Governance
- Organisational structure and operating model
- Regulation ,compliance and audit
- Technology
- Risk Management
- Execution and controls
- Administration and controls
- Human capital
- Third party relationships and outsourced services
- Business continuity and disaster recovery plans.

The conclusions will be reported to Committee.

As part of the Fund's efforts to ensure industry best practice, it is also investigating whether there would be any benefits to the Fund becoming authorised by the Financial Conduct Authority (FCA).

Recommendations

The Committee is asked to note the progress made in implementing the Investment Strategy 2012-17, in particular the transition to lower risk equities.

Measures of success

The investment performance of the funds is crucial to the achievement of the required investment return which impacts on the funding level and employer contributions. The objectives for the investments are:

- Over long-term economic cycles (typically 5 years or more), the achievement o the same return as that generated by the strategic allocation;
- Over shorter periods, the Fund should perform better than the strategic allocation if markets fall significantly.

Financial impact

This report provides an update on investment strategy. The investment strategy has a significant impact on the funding levels and potentially on the contributions required from employers.

Equalities impact

There are no equalities implications as a result of this report.

Sustainability impact

The Statement of Investment Principles sets out the Funds' approach as responsible asset owners, and details how voting, engagement and other Environmental, Social and Governance activity is undertaken. Compliance with it is expected to contribute to the sustainability of the Funds' investments.

Consultation and engagement

The Consultative Panel for the Lothian Pension Funds, comprising employer and member representatives, is integral to the governance of the Funds.

Background reading / external references

None

Links

Coalition pledges	
Council outcomes	CO26 – The Council engages with stakeholders and works in partnerships to improve services and deliver agreed objectives.
Single Outcome Agreement	
Appendices	None

Pensions Committee

2pm, Wednesday, 18 December 2013

Service Plan Progress

Item number	5.5
Report number	
Wards	All

Links

Coalition pledges	
Council outcomes	CO26
Single Outcome Agreement	

Alastair Maclean

Director of Corporate Governance

Contact: Susan Handyside, Customer Service and Compliance Officer

E-mail: Susan.Handyside@edinburgh.gov.uk | Tel: 0131 469 3865

EDINBVRGH
THE CITY OF EDINBURGH COUNCIL

Executive summary

Service Plan Update

Summary

The purpose of this report is to provide an update on the 2013 – 2016 Service Plan, performance indicators and the key actions to enable the Fund to meet its three key objectives:

- To continue to be a top performing pension fund;
- To provide excellent customer care;
- To support and develop staff.

Progress against indicators and key actions agreed in the 2013-2016 Service Plan is set out in the appendix. The following areas are of particular note:

Reform of the LGPS Scotland

The draft Heads of Agreement with principles for changing the Local Government Pension Scheme (LGPS) in Scotland have been announced. The key scheme changes are:

- Change to Career Average Revaluation of Earnings (CARE).
- CARE revaluation linked to Consumer Price Index.
- Change in the accrual rate (rate a member's pension builds up) from 1/60th to 1/49th.
- 50:50 Option – allowing members to pay 50% contributions to build up 50% of full benefits for a period.
- Introduction of an Employers' cost cap mechanism to ensure the future affordability and sustainability of the scheme.
- Protection for benefits built up before 1 April 2015 which will continue to be based on final salary at retirement.

COSLA and the Trade Unions have agreed the new design of the Local Government Pension Scheme (LGPS) in Scotland following the recent trade unions ballot on the proposals.

A national seminar for the Councillors of Scotland has been arranged for 17 December to engage in debate on scheme benefits, discuss key issues and the impact of the fund.

Investment Strategy

Progress is being made on the implementation of the 2012-17 investment strategies. A reorganisation of Lothian Pension Fund’s equity portfolios was undertaken in November. This has reduced the expected volatility of Fund returns. A similar reorganisation of the Lothian Buses Pension Fund designed to lower expected volatility is expected by year end. The changes for both Funds involve increasing the amount of assets managed by the internal team. For Scottish Homes Pension Fund, increases in the funding level have resulted in reductions in the Fund’s equity allocation. An external consultant has been commissioned to assess internal operational risks, including the risks of managing more assets internally.

Pensioner Survey

The results of the Fund’s annual survey of pensioners found that 90% agreed that the overall service was excellent. Satisfaction across all customers is currently in line with the target of 86%.

Social Media

A review of potential use of social media by the Fund has concluded. Research showed varying successes of other pension funds in the use of social media. A survey of members of the Fund showed that only half used social media and of those who do, 63% would ‘follow’ the Fund if it started using social media. These results were higher for younger members. Members indicated that they would be interested messages on pensions clinics, links to videos, Q&A sessions and particularly on scheme changes. The Fund is now planning to pilot a Twitter account.

Pension Administration for the Fire Service

The Fund has received notification that the administration of the uniformed officers of the Scottish Fire & Rescue Service is to be transferred to the Scottish Public Pensions Agency (SPPA, part of Scottish Government) with effect from 1 April 2015. Work will soon commence with the Fire Service and the SPPA to ensure a smooth handover. The administration is undertaken by a number of staff who spend most of their time on administration for the Lothian Pension Fund so there are not expected to be any implications for staff. As this is a relatively small amount of work for the division (less than 1 full time equivalent staff member) and given the current underspend relative to budget on pensions administration salaries, resource will be absorbed internally.

Shared Services – Falkirk Pension Fund

The Fund has continued to work with officers from Falkirk Pension Fund, assisting with monitoring investments and report writing. The initial 18 month agreement expired in September 2013 and has been extended while options for further joint working are explored.

Performance indicators

Show performance is broadly on track to achieve their respective targets. Two indicators are highlighted as 'amber' and one indicated as 'red'.

Less than half of staff have completed 1 days training (half of the target for the year) and efforts are being made to accelerate training to achieve the target by the end of the year. Managers are speaking with all members of staff who have a low number of training hours to ensure they are offered training opportunities and record their training.

The latest 5 year performance for the Lothian Pension Fund largely reflects the previous investment strategy. Over time, as the 2012-2017 strategy is implemented performance information will become increasingly meaningful to measure Fund and benchmark volatility compared to the target. Over the 5 years to 30 September 2013, the Fund has delivered a return of 9.4% per annum.

The percentage of employer contributions paid within 19 days of month end fell to 87% against the target of 97%. This was due to an error by one of the Fund's largest employers. The error has been resolved and the contributions were paid within two days after the deadline. As this error was one of the fund's largest employers it had a significant impact.

In summary, the Fund is progressing well against the service plan objectives and the Fund is expected to achieve the outcomes by the end of the year.

Relocation of the Fund's office

Preparations within the office are being made for the Fund's office move which includes clearing out days and the trials of flexible working.

Recommendations

It is recommended that the Pensions Committee note the progress of the Fund against its 2013 – 2016 Service Plan.

Measures of success

Performance indicators in the Service Plan are used to measure the attainment of the Fund's objectives.

Financial impact

A summary of the projected financial outturn compared to the approved budget for 2013/14 is shown in the table below:

	Budget	Projected Outturn						Variance
		Invest Mgmt	Invest Acc	Head of Service	Pension Admin	Comms	Total	
Category	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Employees	**2,161**	539	264	187	842	209	**2,041**	**(120)**
Transport	**27**	16	2	2	2	4	**26**	**(1)**
Supplies & Services	**843**	326	148	7	269	83	**833**	**(10)**
Investment Managers	**10,093**	9,580	0	0	0	0	**9,580**	**(513)**
Other Third Party Payments	**612**	82	420	20	90	0	**612**	**0**
Depreciation	**74**	0	10	0	56	8	**74**	**0**
Direct Expenditure	**13,810**	**10,543**	**844**	**216**	**1,259**	**304**	**13,166**	**(644)**
Allocated Central Support	**552**	**184**	**73**	**0**	**295**	**0**	**552**	**0**
Income	**(870)**	(37)	(700)	0	(43)	0	**(780)**	**90**
Total Costs to the Fund	**13,492**	**10,690**	**217**	**216**	**1,511**	**304**	**12,938**	**(554)**

The projection shows an underspend of approximately £554K. The key variances against budget are:

- Employees - £120k underspend. This is mainly due to unfilled posts across the division and decrease in working hours for some staff, partly offset by temporary agency costs and anticipated change in payroll (1% pay increase and staff salaries increasing from October 2013 as a result of the modernising pay agreement);
- Investment management fees – £513k underspend. This is partly due to the reduction in investments managed externally and partly due to the reduction in the property exposure in the Fund.
- Income – £90K less than expected. Stock lending commission income has been decreased by £100K to show more realistic outcome based on the experience so far this year.

Relocation of the Fund's office

The provisional costs of the office move are estimated as

Net capital outlay	£195k
Net revenue cost per annum	£187k
Current accommodation budget	£160k
Accommodation costs to be contained	£27k

As previously advised the office move is expected to be contained within the anticipated equivalent net revenue costs per annum of Waverley Court.

Equalities impact

There is no equalities impact relating to this report.

Sustainability impact

There is no sustainability impact relating to this report.

Consultation and engagement

The Consultative Panel for the Lothian Pension Funds, comprising employer and member representatives, is integral to the governance of the Funds.

Background reading / external references

None.

Links

Coalition pledges	
Council outcomes	CO26 – The Council engages with stakeholders and works in partnerships to improve services and deliver agreed objectives.
Single Outcome Agreement	
Appendices	Service Plan Update 2013 - 2016

18 December 2013
Service Plan Update 2013 - 2016

Lothian Pension Fund
The City of Edinburgh Council
Level 3.3, Waverley Court
EDINBURGH
EH8 8BG

pensions@lpf.org.uk
0131 529 4638

Service Plan Performance Indicators

Performance Indicators and targets	1st quarter April-June	2nd quarter July - Sept	Target	Status
Performance of Lothian Pension Fund over rolling 5 year periods. When markets are falling, the Fund should perform better than the return of the strategy, when markets are rising, the Fund may lag the return of the strategy	Implementation of new strategy is progressing. Over the 5 years to 30 September 2013, the Fund delivered 9.4% per annum while the strategy delivered 8.2% per annum.		Meet the benchmark return with lower volatility	
Audit of annual report	Unqualified opinion achieved			
Proportion of critical pensions administration work completed within standards	93.38%	91.28%	Greater than 90%	
Percentage of employer contributions paid within 19 days of month end	96.71%	87.66%	97%	
Data quality – compliance with best practice as defined by the Pensions Regulator	Outcome of this measure will be available in April 2014			
Customer Indicators and targets				
Maintain Customer Service Excellence Standard	Annual assessment 3rd February 2013 for Customer Service Excellence			
Overall satisfaction of employers, active members and pensioners measured by surveys	86%	86%	86%	
Proportion of active members receiving a benefit statement and time of year when statement is issued	96% by September		Over 95% by September	
Staff				
Level of sickness absence	1.63%	2.35%	4%	
Annual staff survey question to determine satisfaction with present job	June 2013 Annual Staff Survey 63%		60%	
Minimum number of days training per year for each member of staff	50%	49%	2 days	

Our Performance - *To be a top performing pension fund*

Project	Status	Overall Progress	Project Summary
Ensure effective Governance of the Fund.		- On 12th November two consultative panel members were elected on to the Pensions Committee. Darren May and John Anzani were unanimously voted onto the Pension Committee. - Self assessment for Committee and Panel has been issued so far 9 members have responded. - There have been a number of training opportunities over the last quarter for the Pensions Committee and Panel, for example; - Baillie Gifford Local Authority Training and Investment Seminar - The Actuary, Funding and Employers. - Consultative Panel Induction training	- Embed the Fund's new governance arrangements including the new pensions audit sub-committee and independent observer. - Reinforce the separations of the Fund from the City of Edinburgh Council. - Continue to improve the Fund's approach to 'trustee' training.
Successful implementation of the Scheme changes.		- Fund officers have been involved in the debate on scheme changed. - The draft Heads of Agreement with principles for changing the Local Government Pension Scheme (LGPS) in Scotland have been announced and initial communications have been issued to employers and members registered to receive email alerts. - A national seminar for the Councillors of Scotland has been arranged for 17 December to engage in debate on scheme benefits, discuss key issues and the impact of the fund.	- Engage in debate on scheme benefits - Communicate with stakeholders - Review internal processes and procedures - Provide training for staff on new arrangements.
Monitor financial and economic pressures and scheme maturity.		- Progress is being made on the implementation of the 2012-17 investment strategies. A reorganisation of Lothian Pension Fund's equity portfolios resulted in a large transition in November. This has reduced expected volatility of Fund returns. A similar reorganisation of the Lothian Buses Pension Fund designed to lower expected volatility is expected by year end. The changes for both Funds involve increasing the amount of assets managed by the internal team. - An external consultant has been commissioned to assess internal operational risks, including the risks of managing more assets internally. - For Scottish Homes Pension Fund, the funding level is being monitored closely – an improved funding level could trigger another reduction in equities while alternative strategies focused on income and income growth are being investigated. Officers are in dialogue with the Scottish Government about the options. - The Funds Actuary has undertaken financial modelling of a potential contribution stability mechanism. Fund employers have been consulted and a proposal has been made. - A survey has been issued to the employers in the Fund to gather financial and organisation information.	- Implement new investment strategies - Prepare for the Fund's 2014 actuarial valuation. - Improve membership and cash flow monitoring and forecasting. - Monitor the risk profile of the participating employers. - Manage the pension implications of organisational and staffing changes of employers.

Our Performance - *To be a top performing pension fund continued*

Project	Status	Overall Progress	Project Summary
Provide an efficient accurate and effective service.	✔	- The payroll project continues to progress well. The team are currently working through operational issues. The pension administration and payroll systems will merge on 6th December. In preparation for this the team are looking at mismatches and differences that may cause problems before the merge takes place.	- Implement the transfer of the pensions payroll service from the Council payroll system to the pensions administration system
Risk is managed effectively	✔	- The compliance checklists and procedures have been updated and continue to be in the process of being refined as part of a review carried out by the Legal, Risk and Development Manager. A report on our compliance procedures is being produced for the Pensions Committee meeting in December 2013 - A general review and update of the risk register and risk reporting procedures have been concluded. The risk register continues to be updated on a quarterly basis and a summary of the key points is reported to each Pensions Committee and Audit Sub-Committee meeting. - We have separately carried out, and submitted, a wider council Risk Assurance report (covering all the operations of our division within the wider Council) and expect to be able to report back any feedback from this shortly.	- Review and strengthen internal controls and documentation. - Ensure up-to-date procedure manuals for all key responsibilities are maintained.
Shared services /governance	✔	- Service provision to Falkirk continues. Both Funds are discussing the potential for sharing specific services, but no decision has been made yet. - The Fund is accessing investment consultancy services via a national framework put in place by Norfolk Pension Fund and is contributing to the search for legal services. Other opportunities will be sought when required.	- Provide excellent service to Falkirk Pension Fund - Participate in relevant joint procurement initiatives.

Our Customers - *To provide excellent customer care*

Project	Status	Overall Progress	Project Summary
Develop and improve customer insight.		- The results of the annual pensioner survey have now been gathered. 500 surveys were issued and the fund received 131 responses. Overall, 90% of pensioners who responded agreed/strongly agreed that overall the service the Lothian Pension Fund provided was excellent, an increase from 84% in 2012. - The majority of comments from our pensioners suggest that they are very happy with the service the Fund provides. - A number of 'pension clinics' have taken place over the last few weeks providing an opportunity for scheme members to meet and speak with our Pension Administrators at different locations. The feedback from the sessions have been positive however the Fund aims to review of how effective the pension clinics are at meeting its customers' needs on a wider scale.	- Regularly engage with all customer groups and use the insight to improve our service using a variety of techniques including mystery shopping and transactional surveys. - Continue to deliver best practice standards for Customer Journey Mapping and develop greater use of customer insights. - Develop members' awareness of the value of the pension benefits and the contributions their employers make towards their pension. - Seek additional insight to assist the implementation and development of the pension payroll service.
Improve timeliness and quality of customer service.		- The majority of employers are now using the Employer on-line system for the transfer of member data. The contribution data is currently being transferred onto employer on-line. - Face to face meetings have been held with the Fund's larger employers to discuss performance against the pension administration strategy. - Pensions Administration Strategy has been reviewed and updated. Pension administration task management system service standards continue to be reviewed.	- Implement 'employer on-line' access, thereby facilitating up to date records through electronic transfer of information in standardised formats. - Partnership accountability – review and monitor service standards to ensure we have an effective and accountable partnership with employers. - Re-assess our service standards and targets for members.
Develop and improve our information and access.		- Annual Finance Briefing has been held for employers and the Annual Seminar is planned for December. Monthly email bulletins for employers continue. - A project has commenced to evaluate and review how our members interact with the Fund via e-mail. The project will include mapping the process and the customer journey. - The social media project is complete and a pilot of a Twitter account is being planned.	- Ensure we communicate regularly with employers including newsletters, events and meetings. - Assess our approach to delivering services to members on a face-to-face basis including pension clinics and presentations. - Continue to review and update the Fund's communications based on customer and staff insight. - Assess potential uses of social media for communicating with stakeholders. - Develop channel usage monitoring.

Our Staff - *To support and develop staff*

Project	Status	Overall Progress	Project Summary
Develop trust between line managers and staff and promote an open culture.		- Regular 1-1 meetings with staff take place regularly. - Recent staff survey has highlighted a further improvement to make team meetings more engaging. This will be explored.	- Ensure line managers have regular 1-1 meetings with all staff to discuss progress and achievements - Ensure effective delegation of tasks.
Communicate effectively, especially around change.		- Senior management team continues to communicate in a regular monthly update, face to face and via e-mail. In addition to this senior managers meet with small groups of staff. - 6 monthly PRD reviews have taken place for staff to ensure objectives are progressing well. - Separate communications about the office move have been introduced.	- Communicate regularly via face-to-face briefings and via email on issues affecting the division. - Provide clear objectives at annual appraisal meetings and review progress on a regular basis.
Ensure development and training for all staff.		- Training and development continues to be encouraged via 1:1 and staff meetings. The achievement of training and development is being assessed regularly. - Regular briefing sessions are held internally to inform staff about current issues and developments.	- Provide learning opportunities at all levels to suit the needs of the service including ICT skills. - Provide staff with career and personal development opportunities to make the most of their talents. - Review training and development evaluation process.
Support staff well-being		- Staff forum continues to provide feedback from staff as do the regular 1-1s. - The project exploring flexible working options is progressing and testing of home-working has commenced.	- Encourage suggestions and empower staff to make changes to the way they work to improve the service. - Provide clear feedback in response to staff suggestions. - Explore flexible working options - Help staff develop to their full potential.

Pensions Committee

2pm, Wednesday, 18 December 2013

Class Actions

Item number	5.6
Report number	
Wards	All

Links

Coalition pledges	
Council outcomes	CO26
Single Outcome Agreement	

Alastair Maclean

Director of Corporate Governance

Contact: Marlyn McConaghie, Investment Analyst

E-mail: marlyn.mcconaghie@edinburgh.gov.uk | Tel: 0131 469 3518

EDINBVRGH
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Executive summary

Class Actions

Summary

This report summarises activity on class actions.

A class action is when an investor agrees to act as a lead plaintiff in a case against a company. Typically, these actions happen in the US when a group of shareholders get together and sue a company to recover a loss in share value, or to exert influence on the company. A law firm fights the case on behalf of the class with the lead plaintiffs being treated as the representatives of the class. The cases can take several years to be heard by the courts and can be settled out of court. They are typically taken on a no win, no fee basis.

If a class action case is won, the compensation fund, net of legal fees approved by the court, is distributed to eligible shareholders who make a claim within the relevant time limit. Any shareholder that held shares during the class period is entitled to make a claim. The shareholders who lodge a claim share the compensation in proportion to the loss suffered. As shareholder, the Lothian Pension Fund claims for compensation on all relevant class action settlements.

In addition, the Lothian Pension Fund acts as lead plaintiff on a number of class actions, holding company management to account and aiming to deter future fraud and/or loss of shareholder value. This is consistent with its approach to environment, social and governance issues. Also, by acting as a lead plaintiff, the Fund may be in a position to influence the terms of the settlement. Summaries of the class actions where Lothian Pension Fund is acting as lead plaintiff are provided in the Appendix 1.

A court ruling in the case of Morrison vs. National Australia Bank (NAB) in 2010 has narrowed the ability of investors to seek redress under the laws of the US, particularly where shares are purchased on non – US stock exchanges.

Compensation received by the Fund from class actions is shown in the table below.

Financial Year	**US$ (000's)**
Prior to 31/03/10	1,614
2010/11	209
2011/12	317
2012/13	483
2013/14 **[1]**	207
TOTAL [1]	**2,830**

[1]To 31 October 2013

The last Committee report in December 2012 contained figures for the first half of the 2012/13 financial year. In the second half of that year a further $462k was received. This sum included large settlements from Countrywide and MF Global.

There have been 10 settlements so far this financial year, with a total value of $207k. Included in these figures is a large payout from a class action against National City Corp. The smaller payments included sums from class actions against Washington Mutual and Wellcare Health Plans.

The Morrison vs. NAB ruling continues to impacts on the Fund's ability to claim for compensation in the US. As a result of the ruling investors are increasingly looking to obtain compensation through other jurisdictions where the legal process may require investors to "opt-in" to the case prior to the trial if they wish to participate. Officers have reviewed a small number of such cases and Lothian Pension Fund will consider the potential benefits and risks on a case by case basis.

Recommendations

It is recommended that the Pensions Committee note the content of this report.

Measures of success

Success will be measured by the number of actions successfully pursued and the compensation received.

Financial impact

US class actions are conducted on a no win no fee basis. In the event of a case being won, the courts approve the legal costs which are deducted from the compensation fund. The Fund has recovered $2.8m in compensation from class actions.

Equalities impact

There are no adverse equalities impacts arising from this report.

Sustainability impact

Class action activity is undertaken as part of the Environmental Social and Governance (ESG) activity of the Fund which is expected to contribute to the sustainability of the Fund's investments.

Consultation and engagement

The Consultative Panel for the Lothian Pension Funds, comprising employer and member representatives, is integral to the governance of the Funds.

Regular updates on class actions have been provided to stakeholders.

Background reading / external references

Not applicable.

Links

Coalition pledges	
Council outcomes	CO26 – The Council engages with stakeholders and works in partnerships to improve services and deliver agreed objectives.
Single Outcome Agreement	
Appendices	Appendix 1 – Class Actions

APPENDIX 1 – CLASS ACTIONS

Summaries of the cases where Lothian Pension Fund is, or has been a lead plaintiff are outlined below:

- A case against Lehman Brothers is being progressed in relation to false financial statements and mismanagement at the company prior to the collapse of the bank. The case consists of separate claims against the directors, underwriters and auditors. The case was filed in 2008 and the estimated loss to the Fund is $4.7m. Shares were purchased in the US. In August 2011, the case against the company directors agreed a settlement of $90m. In May 2012 courts gave final approval to settlement of $90m with Lehman directors and officers and $426m with the underwriters. Litigation is ongoing with Lehman's accountants, Ernst & Young (E&Y). Although Lothian is lead plaintiff in the overall case it was not named as a class representative for the E&Y case. It was anticipated that settlement would be reached with Ernst &Young in the first half of 2013. Whilst the settlements achieved are sizeable in monetary terms, they are a relatively small proportion of the overall shareholders' losses. This, together with the fact that the Fund's trading in the stock meant that it qualifies for recovery in only one claim, means that the recovery for the Fund is expected to be in the order of $5,000.

- The case against the pharmaceutical company Sanofi-Aventis was filed in 2007 and relates to misleading statements made by the company in relation to trials of a new drug, i.e. that the drug tests were successful when in fact the Company was receiving definitive information to the contrary. The Fund was initially serving as co-Lead Plaintiff alongside a pension fund from the United States and the Fund's loss was estimated to be $1.5m. However after the Morrison ruling Lothian Pension Fund was removed as Lead plaintiff because it had made a gain on the shares purchased in the US, the Fund's approx £1m loss was made on shares purchased in France. The US case settled for $40m but Lothian was not eligible to receive any of the US settlement fund. There is no known way to recover the non US loss and the French Statute of Limitation would likely preclude a claim. Lothian has now agreed to take no further action in this case.

- The Fund had an estimated loss of $2.0m due to holdings in the company Wyeth. The case is premised on Wyeth's (now Pfizer, as a result of a merger) misrepresentations of clinical trial results for the investigational Alzheimer's drug, bapineuzumab. The Fund was appointed co-lead plaintiff (along with Italian investment fund, Arca) in September 2010. In the summer of 2011, defendants moved to dismiss the case and were successful. An amended complaint was lodged but this was dismissed. An appeal brief was then lodged with the US Court of Appeals in Boston, and argument took place on September 9, 2013. A decision will not be issued for several months.

- The case against Genzyme was filed in 2009 and the Fund’s losses are estimated to be $3.1m. The case relates to its failure to disclose serious issues at one of its manufacturing facilities that caused the company to halt production of two of its top selling drugs due to contamination. The case was dismissed. However an appeal was lodged, as new information became available. The result of the appeal is pending.

Pensions Committee

2pm, Wednesday, 18 December 2013

Environmental Social and Governance Activity Update

Item number	5.7
Report number	
Wards	All

Links

Coalition pledges	
Council outcomes	CO26
Single Outcome Agreement	

Alastair Maclean

Director of Corporate Governance

Contact: Marlyn McConaghie, Investment Analyst

E-mail: Marlyn.McConaghie@edinburgh.gov.uk | Tel: 0131 469 3518

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Executive summary

Environmental Social and Governance Activity Update

Summary

Background

This report provides the annual update on Lothian Pension Fund, Lothian Buses Pension Fund and Scottish Homes Pension Fund's, (the Funds), activity on environmental, social and governance (ESG) issues. The Funds pursue a policy of constructive engagement on issues, which is consistent with fiduciary duties.

Voting and Engagement

The voting and engagement arrangements on the Funds' equity holdings are shown in the tables below.

Mandate	Voting and Engagement Arrangement
Baillie Gifford (for Lothian Pension Fund's Pacific equities & Lothian Buses' global equities)	Baillie Gifford
UBS (Emerging markets)	UBS
State Street Pooled Funds (for Scottish Homes Pension Fund)	State Street
All other listed equities	Hermes Equity Ownership Services (EOS)

The busiest voting season is the quarter ending 30 June (Q2). In Q2 2013 Hermes EOS voted on the Funds' behalf at 502 meetings (6,812 resolutions). At 235 of those meetings, Hermes EOS opposed one or more resolutions. They voted with management by exception at six meetings and abstained at one meeting. They supported management on all resolutions at the remaining 260 meetings.

Hermes EOS' recent activity includes engagement with companies on the environment, human rights, ethics, corporate governance, strategy and risk. It has also progressed engagements with a number of companies in relation to significant employee relations issues and allegedly inappropriate labour practices. On supply chain issues, Hermes EOS has engaged with a number of companies in relation to the tragedies in Bangladesh. It has also continued to pursue engagements with banks on the issues of risk management, culture and remuneration.

Local Authority Pension Fund Forum (LAPFF)

Lothian Pension Fund was a founding member of the LAPFF when it was established in 1990. It promotes the long-term investment interests of local authority pension funds and aims to maximise their influence as shareholders to promote corporate social responsibility and high standards of corporate governance amongst the companies in which they invest, commensurate with statutory regulations. Its membership has increased over recent years (currently 56 of the 110 local government pension schemes). It is increasingly able, because of its size and reputation, to access company boards.

It has also met with a number of companies to review how they are responding to the increased scrutiny on safety in overseas factories following the RANA Plaza factory collapse in Bangladesh. Other recent activity includes corporate governance, climate change and executive pay. Since the financial crisis, LAPFF has also undertaken significant amount of work on accounting standards for the banking industry.

Councillor Cameron Rose is currently Vice Chair of the Executive Committee of the LAPFF. Committee is asked to endorse Councillor Rose's nomination to stand for re-election to the Executive and for the position of Vice Chair at the AGM in January 2014. If successful, Council's endorsement of the appointment will be sought. Councillor Rose will provide a verbal update to Committee on his role on the Executive.

United Nations Principles for Responsible Investment (UN PRI)

Lothian Pension Fund signed the UN PRI in 2008. The UN PRI is a leading global network for investors to publicly demonstrate their commitment to responsible investment, to collaborate and learn with their peers about the financial and investment implications of ESG issues, and to incorporate these factors into their investment decision making and ownership practices. Through membership of UN PRI we have been able to join various working groups on specific responsible investment issues. We also participate in an informal group of UK UN PRI signatories which has been very useful.

Signatories complete a self assessment each year to measure progress against the UN PRI principles and also to allow comparison with peers. We have found that the self assessment process is time consuming and complex. For officers, the value of the resulting report is questionable, with a time lag in receiving the report. For example, the next report, based on the 2012/13 financial year will not be received until late 2014.

The UN PRI reviews the assessment and reporting process from time to time. Last year, after consultation with signatories, changes were again made to the reporting framework. Signatories were asked to complete a pilot assessment on a voluntary (non-public) basis. This assessment was based on the 2011 calendar year. Lothian Pension Fund participated in the pilot and submitted feedback to UN PRI on the new framework. UN PRI has taken signatories' views on board.

The report on the Funds' pilot assessment shows a small selection of our responses and they are not scored or independently audited. As a result of the difficulties encountered with the pilot process our responses are, in some cases, not a 100% accurate reflection of the Funds' activity. For example, the description of how our voting is done and how it is disclosed is not accurate. However in the interest of transparency we have decided to make the report available on the Funds' website.

The assessment process will hopefully be improved. However there is such diversity in type and size of signatories, it will only be known if the new process is better when the assessment of the 2012/13 year is completed. This assessment is currently in progress.

Unison request on TUC guidelines

City of Edinburgh Council UNISON has asked if the policy guidelines adopted by the TUC for union pension funds, could be included in discussion at Pensions Committee. The guidelines are outlined in http://www.tuc.org.uk/economy/tuc-22042-f0.cfm?utm_source=dlvr.it&utm_medium=twitter#

With the assistance of Hermes EOS we have compared the TUC's guidelines with Hermes EOS Responsible Ownership Principles, which have been adopted as the Funds' guidelines. We have noted that similar to the EOS approach, the TUC's guidelines are based on the UK Corporate Governance Code. However, there are two areas where EOS and TUC take a different approach:

- The comprehensive approach versus organisational priorities; and
- Remuneration.

Hermes EOS, on behalf of the Funds, applies a comprehensive approach when analysing companies, to identify those which are failing to perform in terms of immediate financial returns, risk management, or those who are potentially destroying long term value. The Funds' approach is to encourage change in line with the interests of all long-term shareholders, with a focus on wider issues as well as corporate governance concerns. The TUC's voting guidelines have an emphasis on the TUC priorities, including worker representatives on boards.

The TUC guidelines focus substantially on the details of remuneration, and in particular the differences in pay and pensions received by company executives compared to average employees. This focus is based on the TUC belief that large pay differentials have far-reaching economic and social consequences. The Funds' approach is that executive remuneration and incentive structures should drive performance and support behaviours that are aligned with the interests of all shareowners and company performance over the long-term.

The differences highlighted above illustrate different approaches to corporate governance. As fiduciary duty is paramount, the Funds' primary approach is to judge whether ESG issues pose risks to the value of the Funds' investments. However, corporate governance is a very subjective area and it is inevitable that the Fund will exercise its voting rights in different ways to the TUC.

Corporate Policy and Strategy Committee

At its meeting on 24 October 2013, the City of Edinburgh Council called for a report to Corporate Policy and Strategy Committee providing 'more detail of the engagement activities relating to social and environmental responsible investment of the pension funds and criteria used to judge the social and environmental impacts of the funds' investments, with a view to including a key performance indicator on how the fund performs in these areas'.

A report was submitted to Corporate Policy and Strategy Committee on 3 December 2013. The report provided detail of the Funds' ESG activity, explained how the funds are governed and the role of the Pensions Committee. The Committee agreed with the recommendation that the inclusion of a key performance indicator for ESG activity is inappropriate given its qualitative nature.

Recommendations

Committee is recommended to:

- Note the contents of this report;
- Endorse Councillor Cameron Rose's nomination to stand for re-election to the LAPFF Executive and for the position of Vice Chair.

Measures of success

Success of engagement with companies is very difficult to measure.

However, the strategy is essentially qualitative and is wide ranging. The impact is very difficult to quantify, especially in the short term.

The Funds are signatories to UN PRI and complete the annual self assessment process.

Financial impact

The costs of the Funds' ESG activity are included in the pension funds' budget.

Equalities impact

There are no adverse equalities impacts arising from this report.

Sustainability impact

Engagement activity is expected to contribute to the sustainability of the Funds' investments.

Consultation and engagement

The Lothian Pension Funds' Consultative Panel, including employer and member representatives, plays an integral part to the pension fund governance. They participate in the meetings of the Pensions Committee. The Funds' policy on ESG issues is included in Statement of Investment Principles which was agreed after consultation with stakeholders. Stakeholders are kept informed of engagement activity via the pension funds' website.

Background reading / external references

None

Links

Lothian Pension Fund:

General information: http://www.lpf.org.uk/ ,

Responsible Investment http://www.lpf.org.uk/info/68/responsible_investment

http://www.lpf.org.uk/lpf1/info/76/unpri

Hermes Equity Ownership Services http://www.hermes.co.uk/eos/en-gb/home.aspx

United Nations Principles for Responsible Investment http://www.unpri.org/

Local Authority Pension Fund Forum http://www.lapfforum.org/

Coalition pledges	
Council outcomes	CO26 – The Council engages with stakeholders and works in partnerships to improve services and deliver agreed objectives.
Single Outcome Agreement	
Appendices	None

Pensions Committee

2pm, Wednesday, 18 December 2013

EU Tax Claims

Item number	5.8
Report number	
Wards	All

Links

Coalition pledges	
Council outcomes	CO26
Single Outcome Agreement	

Alastair Maclean

Director of Corporate Governance

Contact: Esmond Hamilton, Financial Controller

E-mail: Esmond.Hamilton@edinburgh.gov.uk | Tel: 0131 469 3521

Executive summary

EU Tax Claims

Summary

This report summarises activity on EU tax claims made on behalf of the Lothian Pension Fund.

Recommendations

Committee is asked to note the progress made in reclaiming EU taxes suffered on dividends.

Measures of success

Success is measured by the amount of tax recovered exceeding the cost of pursuing the claims.

Financial impact

EU tax claims totalling in excess of £10m have now been lodged with the relevant tax authorities. Professional fees amounting to £493.3k have been incurred to date. As previously agreed by Pensions Committee, it is likely that further legal costs will be incurred in pursuing the claims. However, any legal costs are shared across a pool of fellow claimants and Lothian Pension Fund has the right to cease participation without incurring further costs.

Currently, claims paid to date exceed the costs incurred by £561.6k. The financial position can be summarised as follows:

	Total Claims £'000	**Claims Settled £'000**	**Claims Outstanding £'000**	**Costs to Date £'000**
Claim Type				
Manninen	2,626.7	Nil	2,626.7	49.5
Fokus Bank	3,535.7	1,054.9	2,480.8	351.8
Manufactured Dividends	3,928.6	Nil	3,928.6	92.0
	10,091.0	**1,054.9**	**9,036.1**	**493.3**

Equalities impact

There are no equalities impacts arising from this report.

Sustainability impact

There are no sustainability impacts arising from this report.

Consultation and engagement

The Consultative Panel for the Lothian Pension Funds, comprising employer and member representatives, is integral to governance

Background reading / external references

Detailed information can be found in the version of this report prepared for the meeting of the Pension Audit Sub-Committee on 16 December 2013.

Links

Coalition pledges	
Council outcomes	CO26 – The Council engages with stakeholders and works in partnerships to improve services and deliver agreed objectives.
Single Outcome Agreement	
Appendices	None

Pensions Committee

2pm, Wednesday, 18 December 2013

Risk Management

Item number	5.9
Report number	
Wards	All

Links

Coalition pledges	
Council outcomes	CO26
Single Outcome Agreement	

Alastair Maclean

Director of Corporate Governance

Contact: Struan Fairbairn, Legal, Risk and Development Manager

E-mail: Struan.Fairbairn@edinburgh.gov.uk | Tel: 0131 529 4689

EDINBVRGH

THE CITY OF EDINBURGH COUNCIL

Executive summary

Risk Management

Summary

Our risk management procedures require us to:

(i) maintain a detailed operational risk register which sets out all the risks identified and assessed by the officers on an ongoing basis, the degree of risk associated in each case and our action to mitigate these risks (the "**Operational Risk Register**"); and

(ii) produce a summary report of the risk register for the Pensions Committee and the Pensions Audit Sub-Committee which highlights the material risks facing the pension funds and identifies any new risks/concerns and the progress being made over time by the officers in mitigating the relevant risks (the "**Quarterly Risk Overview**").

The Operational Risk Register has been issued to the conveners of the Pensions Committee and the Pensions Audit-Sub-Committee.

The Quarterly Risk Overview as at 15 November 2013 is set out in the appendix to this report.

Recommendations

We recommend the Committee notes the Quarterly Risk Overview.

Measures of success

Improved visibility of the risks facing the pension funds and progress in analysing/mitigating these risks. Regular, focused and relevant risk updates to the Pensions Committee and Pensions Audit Sub-Committee should increase general awareness and allow productive analysis/feedback by the Pensions Committee/Audit Sub-Committee members on these fundamental issues.

Ultimately, risk management should lead to less third party exposure, an improved financial position and have a positive impact on the reputation of the pension funds.

Financial impact

There are no direct financial implications as a result of this report.

Equalities impact

None.

Sustainability impact

None.

Consultation and engagement

The Consultative Panel for the Lothian Pension Funds, comprising employer and member representatives, is integral to the governance of the Funds.

Background reading / external references

None.

Links

Coalition pledges	
Council outcomes	CO26 – The Council engages with stakeholders and works in partnerships to improve services and deliver agreed objectives.
Single Outcome Agreement	
Appendices	Appendix - Committee Risk Summary as at 15 November 2013

Lothian PENSION FUND

QUARTERLY RISK OVERVIEW

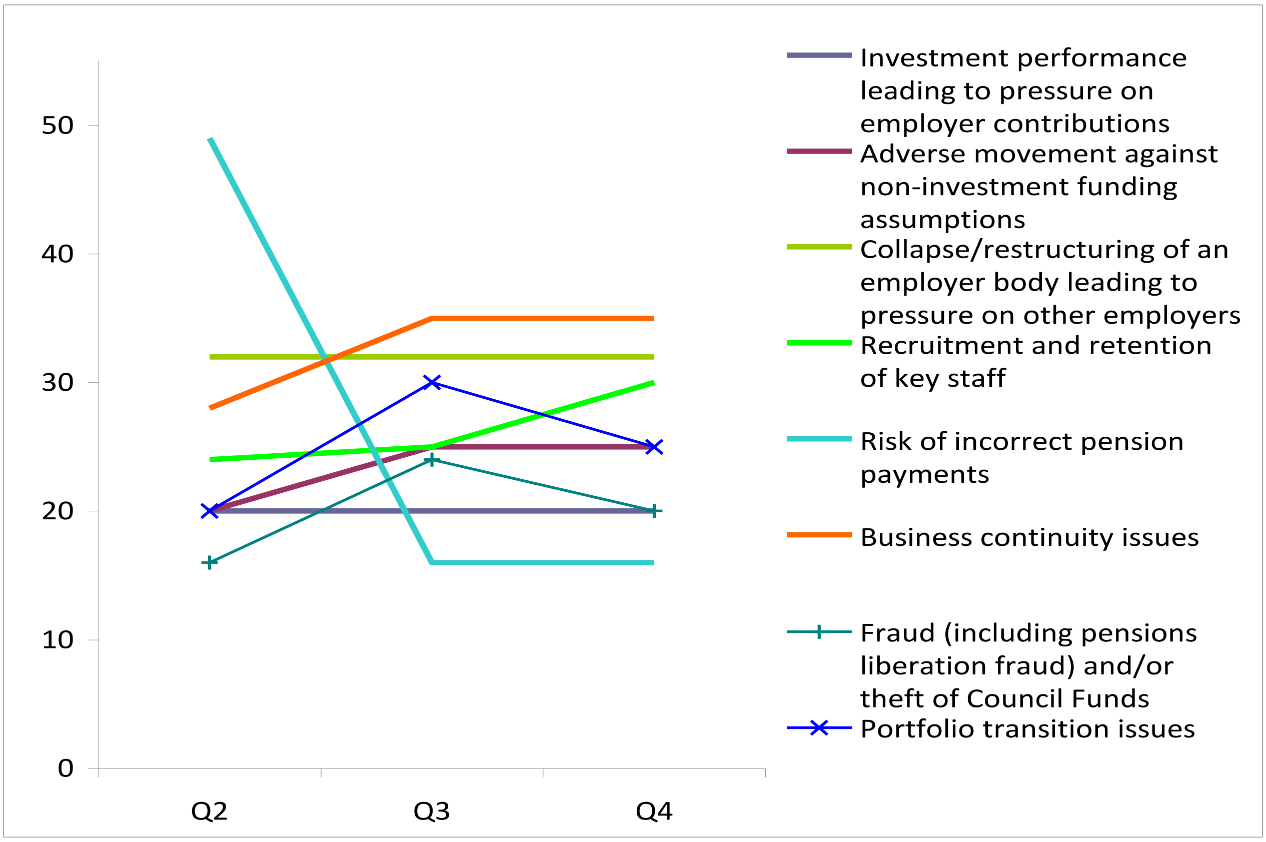
15 November 2013

UPDATE ON MOST NOTABLE RISKS

Risk	Update
Investment performance leading to pressure on employer contribution	The new lower volitility investment strategy continues to be implemented.
Adverse movement against non-investment funding assumptions leading to pressure on employer contributions	Meetings have been held with the Funds' Actuary to schedule analysis on employer contributions and funding assumptions ahead of the 2014 actuarial valuation and a contribution stability mechanism has now been proposed to Committee. We are in the process of liaising with employer bodies on this mechanism.
Collapse/restructuring of an employer body leading to pressure on other employers	Engagement with employers and guarantors is underway as part of the preparation for the 2014 actuarial valuation. This will result in work-streams to implement payment plans and other arrangements to mitigate the impact on other employers in the Fund. We await final responses to the employer survey and will shortly be analysing this data to asses employer covenant and feed into the process of our engagement with employers on both contribution stability and legal terms for admission/guarantees.
Recruitment and retention of key staff	The likelihood of this risk occurring has been slightly increased to reflect the passage of time which has elapsed since this risk was first identified and the possibility of an improving economic climate in the UK in 2014 which may lead to a more buoyant HR market in the fund management sector. A consultant has now been appointed to carry out a review of our internal investment function and a verbal update will be provided to Committee.
Risk of incorrect pension payments	The project to integrate the pensions payroll into the pensions administration IT system is on target to complete by the end of 2013. Full reconcilliation of payments has reduced the risk. The new controls and processes have been subject to an internal audit and the results were reported to the Audit Sub-Committee.

Business continuity issues (accommodation, staff etc.)	This risk continues to remain higher than we would normally expect due to the pending office move in January 2014. Detailed contingency planning/project management is being implemented (in relation to the 'Fit-Out', IT and Systems, legal terms, contractual/operational/other notifications and communications etc.) to ensure that the risk of any disruption to service provision is minimised.
Portfolio Transition Issues	This risk continues to remain higher than we would normally expect due to the pending in-house Portfolio Transition due to take place in the last quarter of 2013. An external transision manager has now been appointed to assist us with this and mitigate any potential risk given the scale of the transition. We anticipate that this transition will have completed by the time of the Pensions Committee meeting in December 2013.
Regulatory Breach	The likelihood of regulatory breach has been slightly increased to reflect the fact that we are currently in the process of addressing our obligations under the recent EMIR legislation, brought in to regulate the use of 'over the counter' derivatives and mitigate against possible counterparty credit risk (one of the contributory factors to the 2008 global financial crisis). We are in the process of addressing our obligations and updating our contractual agreements with managers/custodian to ensure that we (through our agents) act in compliance with these new laws. We would anticipate this risk will be reduced once the process has been concluded by January/February 2014.
Fraud (including pensions liberation fraud) and/or theft of pension fund monies	We have decreased the risk around Fraud to reflect the reduced number of new pensions liberation cases we are seeing, the impact of our specific processes/procedures to address this and the progress being made by the FCA, HMRC and The Pensions Regulator in raising awareness and combating this form of fraud. We note the need for continued vigilance in this area.
Breach of contract	We are currently in the process of liaising with the Council's Information Compliance team and reviewing our contracts in the context of the Council's current approach to disclosing Freedom of Information requests and responses.

NOTABLE RISKS: PROGRESSION OF CURRENT RISK (ACCOUNTING FOR CONTROLS) IN LAST THREE QUARTERS



OTHER KEY POINTS

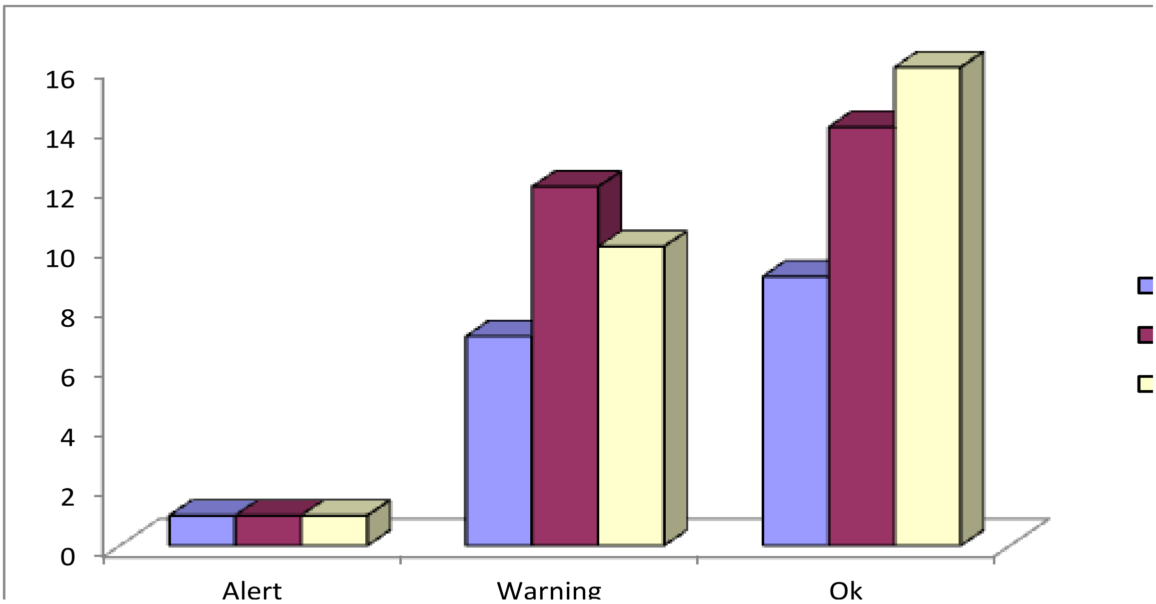
	Comments
New significant risks	None
Other new risks	A new risk of "Late Payment of Pensions" (as distinct from incorrect pension payments) has been included to more properly distinguish the change in risks associated with the payment of pensions to members following the transfer of pension payroll to the pensions administration system.
New controls	Controls have been introduced to avoid any late payment of pensions, including (i) Staff responsibilities for the pensioner payroll function have been designed to ensure there is appropriate coverage at all times, and (ii) contingency measures are in place which will ensure payment is made should Altair or BACS fail.
Eliminated risks	None
Notable initiatives / actions	Risk analysis of the internal investment function by consultants. Contingency planning for the office move. Employer survey/engagement and contribution stability mechanism as part of the preparations for the 2014 actuarial

valuation.

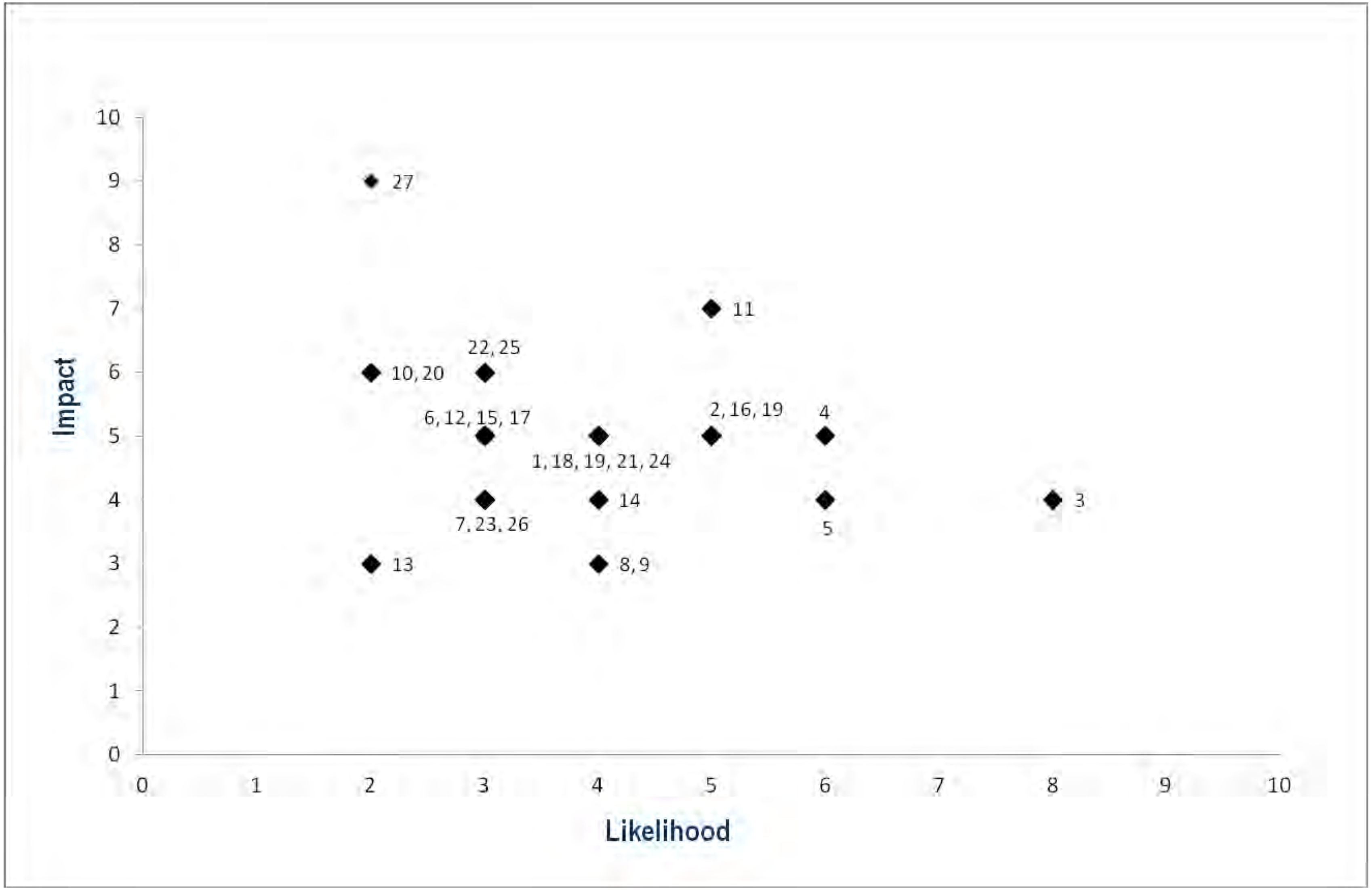
Engaging in the City of Edinburgh Council's assurance mapping project, effectively being a risk audit of our entire business function/division. Initial feedback from our responses has been positive.

Material Litigation	None

All Risks: Status Overview



All Risks: Impact and Likelihood Overview



Key: Risks by Number

1	Investment Performance pressure on employer contributions	15	Market abuse by investment team
2	Adverse Movement - pressure on employer contributions	16	Portfolio transition issues
3	Collapse of an employer	17	Disclosure of confidential information
4	Retention of key staff	18	Material breach of contract
5	Fraud or theft of Council/Pension Fund assets	19	Regulatory breach
6	Staff negligence	20	FOI process in accordance with law
7	Failure of IT systems	21	Incorrect communication with members
8	Employers HR decisions without consideration of fund	22	Acting in accordance with proper authority/delegations
9	Elected members take decisions against sound advice	23	Inappropriate use of pension fund monies
10	Failure to complete annual accounts	24	Procurement/framework breach
11	Business continuity issues	25	Non-compliance with the new LGPS
12	Members' confidential data is breached	26	Claim or liability arising from shared services
13	Loss due to stock lending default	27	Late Payment of Pensions
14	Risk of incorrect pension payments		

Pensions Committee

2 pm, Wednesday, 18 December, 2013

Agenda Planning

Item number	6.1
Report number	
Wards	All

Links

Coalition pledges	
Council outcomes	CO26
Single Outcome Agreement	

Alastair Maclean

Director of Corporate Governance

Contact: Susan Handyside, Customer Service and Compliance Officer

E-mail: susan.handyside@edinburgh.gov.uk | Tel: 0131 529 4638

Executive summary

Agenda Planning

Summary

This document is to give Committee an initial indication of the agenda for the next Pensions Committee and Audit Sub Committee meetings in March 2014 and throughout the rest of 2014. It also provides a more general overview of the current cycle of papers for Committee (see appendix).

Based on this cycle, the papers for the 2014 meetings are set out below.

There will, of-course, be specific matters and papers which need to be brought to the attention of the Pension Committee and the Audit Sub-Committee in addition to those set out herein.

Pensions Committee Agenda - March 2014

The following papers are currently scheduled for the March Pensions Committee meeting:

- 2013 Service Plan update
- 2014 Service Plan and Budget
- Investment Controls and Compliance
- Update on Employer Admissions in LPF
- Risk management summary

Pensions Audit Sub Committee Agenda - March 2014

It is proposed that the Pensions Audit Sub-Committee does not meet in March 2014. This is subject to discussion on the preparation of audit plans under item 5.2 of the agenda.

June 2014 agenda

Pensions Committee Agenda

- LPF Annual Report (& Accounts) Unaudited
- Statement of Investment Principles
- Investment Strategy Panel activity
- Annual Investment Update
- Training Activity (Committee and Panel)
- Service Plan Update
- Risk management summary

Pensions Audit Sub Committee

- LPF Annual Report (& Accounts) Unaudited
- Risk management summary

September 2014 agenda

Pensions Committee Agenda

- Discretions
- LPF Annual Report (& Accounts) Audited
- ISA 260 Audit Report
- Update on Employer Admissions in LPF
- Annual Performance Report and Benchmarking
- Service Plan Update
- Training Activity
- Risk management summary

Pensions Audit Sub Committee

- LPF Annual Report (& Accounts) Audited
- ISA 260 Audit Report
- Investment Income Review- Cross Border Withholding Tax
- Annual Performance Report
- Pensions Data Quality
- Fraud Prevention
- Risk management summary
- Delegated authorities - Write offs

December 2014 agenda

Pensions Committee Agenda

- Consultative Panel Membership
- Annual Report by External Auditor
- Actuarial Valuations (if complete)
- Funding Strategy Statement (if complete)
- EU Tax Claims
- Class actions
- Environmental Social and Governance Activity Update
- Service Plan Update
- Risk management summary

Pensions Audit Sub Committee

- Annual Report by External Auditor
- EU Tax Claims
- Class actions
- Service Plan Update
- Investment Controls (custody, currency, taxation, S Lending) TBA
- Risk management summary

Additional Papers

The following papers are examples of the types of papers that may be added to the agenda:

- Referrals and recommendations from the Pensions Audit Sub Committee
- Reports on completed audits
- Delegated authorities – Appointment of Providers
- Investment Strategy Reviews
- Regulatory update, particularly on scheme reform
- Funding Level Update
- Papers to address and update the Pensions Committee on specific initiatives being carried within LPF

Frequency	Pensions Committee	Audit Sub Committee	Month
Annually	N/A	Audit plans and reports (internal and external)	March (TBC)
	Service Plan and Budget	N/A	March
	LPF Annual Report (& Accounts) **Unaudited**	LPF Annual Report (& Accounts) **Unaudited**	June
	Statement of Investment Principles	N/A	June
	Investment Strategy Panel Activity	N/A	June
	Annual Investment monitoring – LPF/LBPF/SHPF	N/A	June
	Training Activity	N/A	June
	No	Audit Plan	
	LPF Annual Report & Accounts **Audited**	LPF Annual Report & Accounts **Audited**	September
	ISA 260 Audit Report	ISA 260 Audit Report	September
	N/A	Pensions Data Quality	September
	N/A	Investment Income Review-Cross-Border withholding tax	September
	N/A	Delegated authorities: Write offs -	September
	N/A	Fraud Prevention	September
	Annual Performance Benchmarking	N/A	September
	Consultative Panel Membership	N/A	December
	Annual Report by External Auditor	Annual Report by External Auditor	December
	EU Tax Claims & Income Recovery	EU Tax Claims & Income Recovery	December
	Class Actions	Class Actions	December
	Environmental Social and Governance Activity	N/A	December
	No	Investment Controls & Compliance	December

Frequency	Pensions Committee	Audit Sub Committee	Month
Semi Annually	Update on Employer Admissions in LPF	N/A	March & September
Quarterly	Risk management summary	Risk management summary	
		N/A	
	Service Plan Update	N/A	
Every 2 years	Policies/Strategies e.g. Training, Communications	N/A	March
Every 3 years	Actuarial Valuation: LPF/LBPF/SHPF	N/A	Dec/March
	Funding Strategy Statement	N/A	Dec/March
As required	Delegated authorities (provider appointments)	N/A	
	N/A	Audit reports	
	Referrals / recommendations from Pensions Audit-Sub Committee	N/A	
	N/A	Internal Audit Reports	
	Regulatory Update	N/A	
	Funding Level Update		
	Investment Strategy Reviews (at least every 3 years)	N/A	