

# Notice of meeting and agenda

## Pensions Committee

**2.30pm, Monday 24 March 2014**

Dunedin Room, City Chambers, High Street, Edinburgh

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

### Contact

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Committee Manager

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## **1. Order of business**

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- 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**

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- 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**

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- 3.1 None

## **4. Minute of Pensions Committee of 18 December 2013**

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- 4.1 Previous Minute 18 December 2013 – Submitted for approval as a correct record (circulated)

## **5. Reports**

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- 5.1 Agenda Planning – report by the Director of Corporate Governance (circulated)
- 5.2 External Audit – Annual Audit Plan - report by the Director of Corporate Governance (circulated)
- 5.3 Lothian Pension Fund – Internal Audit Monitoring 2014/15- report by the Director of Corporate Governance (circulated)
- 5.4 Investment Controls and Compliance- report by the Director of Corporate Governance (circulated)
- 5.5 Lothian Pension Fund Service Plan 2014-2017 - report by the Director of Corporate Governance (circulated)
- 5.6 Customer and Partner Engagement- report by the Director of Corporate Governance (circulated)
- 5.7 Training Activity of Committee and Consultative Panel - report by the Director of Corporate Governance (circulated)
- 5.8 Update on Employers Participating in Lothian Pension Fund - report by the Director of Corporate Governance (circulated)
- 5.9 Service Plan Progress - report by the Director of Corporate Governance (circulated)
- 5.10 Risk Management - report by the Director of Corporate Governance (circulated)

## **6. Motions**

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6.1 If any

### **Carol Campbell**

Head of Legal, Risk and Compliance

### **Committee Members**

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

### **Information about the Pensions Committee**

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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**

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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](mailto: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](http://www.edinburgh.gov.uk/cpol).

## Pensions Committee

02.00 pm, Wednesday, 18 December 2013

### Present

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

### Consultative Panel Members Present:

Eric Adair, Helen Carter, Alison Cosgrove, Eric MacLennan and John Rodgers

## 1. Minutes

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### Decision

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

## 2. Consultative Panel and Pensions Committee Membership

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Details were provided of new appointments to the Pensions Committee and Consultative Panel.

### Decision

- 1) To note the appointments of Darren May and John Anzani as members of the Pensions Committee.
- 2) To welcome the new members of the Consultative Panel, John Anzani, Sharon Dalli and Helen Carter.
- 3) To thank Allison Cosgrove for her work and commitment whilst she has been a member of the Panel and Committee.

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

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

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Details were provided of the Auditor's Annual Report on the 2012/13 Audit of the Lothian Pension Funds.

A representative from Audit Scotland was present for this item.

### Decision

- 1) To note the Annual Report on the 2012/13 Audit of the Lothian Pension Funds.

- 2) To note the Action Plan at Appendix B of the report by the Director of Corporate Governance.
- 3) To agree that the plans for internal and external audit were developed in consultation with the Convener of the Pensions Audit Sub-Committee prior to consideration by the Pensions Committee in March 2014.

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

#### **4. Contribution Stability Mechanism 2013**

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An update was provided on the work undertaken to progress a Contribution Stability Mechanism for the main Lothian Pension Fund. Consultation on the proposed contribution stability mechanism had taken place and approval was sought for the proposal until March 2021.

##### **Decision**

- 1) To approve the Contribution Stability Mechanism until March 2021.
- 2) To take a proactive approach to updating employer admission agreements.

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

#### **5. Investment Strategy Update**

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The Lothian Pension Fund's investment strategy had been agreed in October 2012 and an update was provided on the progress on implementation.

##### **Decision**

To note the progress made in implementing the Investment Strategy 2012-17, in particular the transition to lower risk equities.

(Reference – Pensions and Trusts Committee 3 October 2012 (item 4); report by the Director of Corporate Governance, submitted.)

#### **6. Service Plan Progress**

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An update was provided on the 2013-2016 Service Plan, performance indicators and key actions.

Two consultations had recently been received which required a reply prior to the next meeting of the Pensions Committee.

##### **Decision**

- 1) To note the progress of the Fund against its 2013 – 2016 Service Plan.
- 2) To authorise the Director of Corporate Governance to respond to the Pensions Regulator and Scottish Government Governance Consultations in consultation with members of the Pensions Committee and Consultative Panel.

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

## 7. Class Actions

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A class action is when an investor agrees to act as a lead plaintiff in a case against a company. An update was provided on class actions involving the Lothian Pension Fund.

### Decision

To note the content of the report.

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

## 8. Environmental Social and Governance Activity

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An annual update was provided on the Lothian Pension Fund, Lothian Buses Pension Fund and Scottish Homes Pension Fund's activity on environmental, social and governance issues.

### Decision

- 1) To note the contents of the report.
- 2) To endorse Councillor Cameron Rose's nomination to stand for re-election to the Local Authority Pension Fund Forum Executive and for the position of Vice Chair.

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

## 9. EU Tax Claims

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A summary of recent activity on EU tax claims made on behalf of the Lothian Pension Fund was provided.

### Decision

To note the progress made in reclaiming EU taxes suffered on dividends.

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

## 10. Risk Management

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The Quarterly Risk Overview at 15 November 2013 was provided which highlighted the material risks facing the pension funds and identified any new risks or concerns.

### Decision

- 1) To note the Quarterly Risk Overview.
- 2) To request that the Director of Corporate Governance investigates reflecting the changes in the level of risk in the period in future scatter diagrams.

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

## 11. Agenda Planning

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An indication was provided of potential reports for future Pensions Committee and Pensions Audit Sub-Committee meetings in 2014.

The Pensions Audit Sub-Committee on 16 December 2013 had requested a fuller review of risk management at the June 2014 sub-committee and requested that the reports on EU tax claims and Investment Income Review – Cross Border Withholding Tax were considered together at the December Sub-Committee.

**Decision**

- 1) To note the agenda planning schedule.
- 2) To consider rescheduling reports assigned for the June 2014 committee to the March 2014 committee.

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

# Pensions Committee

2.30 p.m., Monday, 24 March, 2014

## Agenda Planning

Item number	5.1
Report number	
Wards	All

### Links

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Coalition pledges	
Council outcomes	<a href="#">CO26</a>
Single Outcome Agreement	

### Alastair Maclean

Director of Corporate Governance

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# Executive summary

## Agenda Planning

### Summary

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This document is to give Committee an indication of the agendas for forthcoming Pensions Committee and Audit Sub Committee meetings. It also provides a more general overview of the current cycle of papers for Committee (see appendix).

At their meeting in December 2013, Committee requested a fuller review of risk management at the June 2014 sub-committee and requested that the reports on EU tax claims and Investment Income Review – Cross Border Withholding Tax were considered together at the December Sub-Committee. These changes have been included.

In addition, the report on Training Activity has been brought forward from June and will be considered at the March meeting. Committee is requested to consider whether the Service Plan Update is required at the June meeting.

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.

### June 2014 agenda

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#### Pensions Committee Agenda

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

#### Pensions Audit Sub Committee

- LPF Annual Report (& Accounts)  
Unaudited
- Risk management (in-depth review)

## September 2014 agenda

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### 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
- Risk management summary

### Pensions Audit Sub Committee

- LPF Annual Report (& Accounts)  
Audited
- ISA 260 Audit Report
- Annual Performance Report
- Pensions Data Quality
- Fraud Prevention
- Risk management summary
- Delegated authorities - Write offs

## December 2014 agenda

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### 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
- Investment Income Review- Cross  
Border Withholding Tax
- Class actions
- Service Plan Update
- Investment Controls (custody,  
currency, taxation, S Lending) TBA
- Risk management summary

## Additional Papers

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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.

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
	Training Activity	N/A	March
	No	Audit Plan	
	LPF Annual Report (& Accounts) <b>Unaudited</b>	LPF Annual Report (& Accounts) <b>Unaudited</b>	June
	Statement of Investment Principles	N/A	June
	Investment Strategy Panel Activity	N/A	June
	Annual Investment monitoring – LPF/LBPF/SHPF	N/A	June
	LPF Annual Report & Accounts <b>Audited</b>	LPF Annual Report & Accounts <b>Audited</b>	September
	ISA 260 Audit Report	ISA 260 Audit Report	September
	N/A	Pensions Data Quality	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
	N/A	Investment Income Review-Cross-Border withholding tax	December
	Class Actions	Class Actions	December
	Environmental Social and Governance Activity	N/A	December
	N/A	Investment Controls & Compliance	December
	Policies/Strategies e.g. Training, Communications	N/A	March

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

# Pensions Committee

2.30pm, Monday, 24 March 2014

## External Audit – Annual Audit Plan 2013-14

Item number	5.2
Report number	
Wards	All

### Links

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Coalition pledges	
Council outcomes	<a href="#">CO26</a>
Single Outcome Agreement	

### Alastair Maclean

Director of Corporate Governance

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# Executive summary

## External Audit – Annual Audit Plan 2013-14

### Summary

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Audit Scotland, the external auditor to the Lothian Pension Fund, the Lothian Buses Pension Fund and the Scottish Homes Pension Fund, has detailed its planned programme of work to support the statutory audit 2013/14. This is shown at Appendix 1 - “Audit Scotland Annual Audit Plan 2013-14”.

Stephen O’Hagan, Senior Audit Manager, Audit Scotland, will present the Annual Audit Plan 2013-14 to committee.

Progress against the Annual Audit Plan 2013-14 will be reported to future meetings of the Pensions Audit Sub-Committee and thereafter the Pensions Committee.

The proposed audit fee for 2013/14 has been maintained at the previous year’s total of £47,190. This sum can be met from within the approved budget.

### Recommendations

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Pensions Committee is requested to:

1. Note the Annual Audit Plan 2013-14, as submitted by Audit Scotland;
2. Note the formal reliance placed on the work of Internal Audit;
3. Note that suitable provision has been made in the approved budget 2013/14 for the audit fee; and
4. Note that progress against the Annual Audit Plan 2013-14 will be reported to future meetings of the Pensions Audit Sub-Committee and the Pensions Committee.

### Measures of success

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Progress against the Annual Audit Plan 2013-14 will be reported to future meetings of the Pensions Audit Sub-Committee and thereafter the Pensions Committee. The prime objective of the Council, as administering authority of the Lothian Pension Fund, Lothian Buses Pension Fund and Scottish Homes Pension Fund, is to ensure an unqualified audit opinion of the Annual Report 2013-14. This will be determined in due course.

### Financial impact

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The proposed audit fee for 2013/14 of £47,190 is the same as the previous year, 2012/13. Suitable provision has been made in the budget for 2013/14, against which the audit fee will be charged.

## Equalities impact

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There are no adverse equalities impacts arising from this report.

## Sustainability impact

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There are no adverse sustainability impacts arising from this report.

## Consultation and engagement

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The Consultative Panel for the Lothian Pension Funds, comprising employer and member representatives, is integral to governance. Consideration of future progress reports against this Annual Audit Plan 2013-14 by the Pensions Audit Sub-Committee should provide financial and risk management assurance.

## Background reading / external references

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The responsibilities of Audit Scotland, as independent auditor, are established by the Local Government (Scotland) Act 1973 and the Code of Audit Practice, as approved by the Auditor General for Scotland and the Accounts Commission. Appropriate cognisance is also taken of ethical guidance of the auditing profession.

## Links

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### 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 - Audit Scotland Annual Audit Plan 2013-14



# Lothian Pension Funds

## Annual Audit Plan

2013/14



Prepared for members of the Pensions Committee  
March 2014

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. We help the Auditor General for Scotland and the Accounts Commission check that organisations spending public money use it properly, efficiently and effectively.

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# Summary

## Introduction

Our audit is focused on the identification and assessment of the risk of material misstatement in Lothian Pension Fund, the Lothian Buses Pension Fund and the Scottish Homes Pension Fund (collectively referred to as The Funds) financial statements. This report summarises our assessment of the key challenges and risks facing the Funds and sets out the audit work that we propose to undertake in 2013/14. Our plan reflects:

- the risks and priorities facing the Funds
- current national risks relevant to local circumstances
- the impact of changing international auditing and accounting standards
- our responsibilities under the Code of Audit Practice as approved by the Auditor General for Scotland
- issues brought forward from previous audit reports.

## Summary of planned audit activity

Our planned work in 2013/14 includes:

- an audit of the financial statements and provision of an opinion on whether:
  - they give a true and fair view in accordance with applicable law and the 2013/14 Code of practice on local authority accounting in the United Kingdom (the Code), of the financial transactions of the Funds during the year ended 31 March 2014, and of the amounts and dispositions at that date of their assets and liabilities
  - they have been properly prepared in accordance with the Local Government (Scotland) Act 1973 and the Code
- provision of the annual report on the audit addressed to elected members (i.e. members of the Council's Pensions Committee and more widely the members of the City of Edinburgh Council as the administering authority for the Funds) and the Controller of Audit
- a review and assessment of the Funds' governance and performance arrangements in a number of key areas to support the governance compliance statement and information in the annual report.

# Responsibilities

1. The audit of the financial statements does not relieve management or the Pensions Committee as the body charged with governance, of their responsibilities.

## Responsibility of the appointed auditor

2. Our responsibilities, as independent auditor, are established by the Local Government (Scotland) Act 1973 and the Code of Audit Practice, and guided by the auditing profession's ethical guidance.
3. Auditors in the public sector give an independent opinion on the financial statements. We also review and report on the arrangements set in place by the audited body to ensure the proper conduct of its financial affairs and to manage its performance and use of resources. In doing this, we aim to support improvement and accountability.

## Responsibility of the Pensions and Accounting Manager

4. It is the responsibility of the Pensions and Accounting Manager, as the appointed "proper officer", to prepare the financial statements in accordance with relevant legislation and the Code of Practice on Local Authority Accounting in the United Kingdom (the Code). This means:
  - acting within the law and ensuring the regularity of transactions by putting in place appropriate systems of internal control
  - maintaining proper accounting records
  - preparing financial statements timeously which give a true and fair view of the transactions of the Funds during the year ended 31 March 2014 and of the amounts and dispositions at that date of their assets and liabilities.

## Format of the accounts

5. The financial statements should be prepared in accordance with the Code which constitutes proper accounting practice.

# Audit Approach

## Our approach

6. Our audit approach is based on an understanding of the characteristics, responsibilities, principal activities, risks and governance arrangements of the Funds. We also consider the key audit risks and challenges in the local government sector generally. This approach includes:
  - understanding the business of the Funds and the risk exposure which could impact on the financial statements
  - assessing the key systems of internal control, and considering how risks in these systems could impact on the financial statements
  - identifying major transaction streams, balances and areas of estimation and understanding how the Funds will include these in the financial statements
  - assessing and addressing the risk of material misstatement in the financial statements
  - determining the nature, timing and extent of the audit procedures necessary to provide us with sufficient audit evidence as to whether the financial statements give a true and fair view.
7. We have also considered and documented the sources of assurance which will make best use of our resources and allow us to focus audit testing on higher risk areas during the audit of the financial statements. The main areas of assurance for the audit come from planned management action and reliance on systems of internal control. Management action being relied on for 2013/14 includes:
  - comprehensive closedown procedures for the financial statements accompanied by a timetable issued to all relevant staff
  - clear responsibilities for preparation of financial statements and the provision of supporting working papers
  - delivery of unaudited financial statements to agreed timescales with a comprehensive working papers package
  - completion of the internal audit programme for 2013/14.
8. Auditing standards require internal and external auditors to work closely together to make best use of available audit resources. We seek to rely on the work of internal audit wherever possible and as part of our planning process we carry out an early assessment of the internal audit function. Internal audit is provided on a co-sourced basis between PricewaterhouseCoopers (PwC) and the council. Overall, we concluded that the internal audit service operates in accordance with Public Sector Internal Audit Standards (PSIAS) and has sound documentation standards and reporting procedures in place.
9. We plan to place formal reliance on aspects of the work of internal audit in the following areas, to support our audit opinion on the financial statements:

- Pension payroll
  - HR / Payroll
  - Accounts payable
  - Accounts receivable
  - ICT data security
  - Annual governance statement
10. In respect of our wider governance and performance audit work we also plan to review the findings and consider other areas of internal audit work including:
- ICT procurement
  - National Fraud Initiative

## Materiality

11. International Standard on Auditing 320 provides guidance on the concept of materiality. We consider materiality and its relationship to audit risk when planning the nature, timing and extent of our audit and conducting our audit procedures. Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.
12. When considering, in the context of a possible qualification, whether the misstatement of an item, or a number of items taken together, is material in terms of its monetary value, we use professional judgement and experience and internal guidelines from peers. An item may be judged material for reasons other than its monetary value. An inaccuracy, which would not normally be regarded as material, may be important for other reasons. When such an item affects a critical point in the accounts, its materiality has to be viewed in a narrower context (for example the failure to achieve a statutory requirement, or an item contrary to law). Such matters would normally fall to be covered in an explanatory paragraph in the independent auditor's report.

## Reporting arrangements

13. The Local Government (Scotland) Act 1973 requires that unaudited financial statements are presented to the council and Controller of Audit within three months of the end of the financial year. The Controller of Audit requires audit completion and issue of an independent auditor's report (opinion) by 30 September each year. A high level timetable is included at Appendix A of this plan, which takes account of submission requirements and planned Pensions Committee and Pensions Audit Sub-Committee dates. A more detailed timetable will be agreed with the Pensions and Accounting Manager in due course.
14. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft management reports will be issued to the responsible head of service and relevant officers to confirm factual accuracy. Responses to draft reports are expected within two weeks of submission. A copy of all final agreed reports will be sent to the Director of

Corporate Governance, Investment and Pensions Services Manager, Pensions and Accounting Manager (as Proper Officer), Internal Audit and Audit Scotland's Best Value & Scrutiny Improvement Group. In addition key findings will be submitted to the Pensions Audit Sub-Committee and Pensions Committee for their consideration.

15. We will provide an independent auditor's report to elected members, in their role as quasi trustees of the Funds, and the Accounts Commission that the audit of the financial statements has been completed in accordance with applicable statutory requirements. After completion of the audit we will provide Members and the Controller of Audit with an annual report on the audit containing observations and recommendations on significant matters which have arisen during the course of the audit. All annual reports produced are published on Audit Scotland's website: ([www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk)).
16. Planned outputs for 2013/14 are summarised at Exhibit 1.

### Exhibit 1: Planned outputs

Planned outputs	Final report issued by
<b>Governance</b>	
Annual Audit Plan (including the review of adequacy of internal audit)	31 March 2014
<b>Financial statements</b>	
Report to Pensions Audit Sub-Committee and the Pensions Committee in terms of ISA 260 (Communication of audit matters to those charged with governance)	September (exact dates to be confirmed)
Independent auditor's report on the financial statements	30 September 2014
Annual report to Members and the Controller of Audit	31 October 2014

### Quality control

17. International Standard on Quality Control (UK and Ireland) 1 (ISQC1) requires that a system of quality control is established, as part of financial audit procedures, to provide reasonable assurance that professional standards and regulatory and legal requirements are being complied with and that the independent auditor's report or opinion is appropriate in the circumstances. The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the Code of Audit Practice issued by Audit Scotland and approved by the Accounts Commission. To ensure that we achieve the required quality standards Audit Scotland conducts peer review, internal quality reviews and has engaged the Institute of Chartered Accountants of Scotland (ICAS) to conduct a programme of external review.



18. As part of our commitment to quality and continuous improvement, Audit Scotland will periodically seek your views on the quality of our service provision. We do, however, welcome feedback at any time and this may be directed to the engagement lead, David McConnell.

## Independence and objectivity

19. Auditors appointed by Audit Scotland must comply with the Code of Audit Practice. When auditing the financial statements, auditors must also comply with professional standards issued by the Auditing Practices Board (APB) and those of the professional accountancy bodies. These standards impose stringent rules to ensure the independence and objectivity of auditors. Audit Scotland has in place robust arrangements to ensure compliance with these standards including an annual “fit and proper” declaration for all members of staff. The arrangements are overseen by the Assistant Auditor General, who serves as Audit Scotland’s Ethics Partner.
20. Auditing and ethical standards require the appointed auditor to communicate any relationships that may affect the independence and objectivity of audit staff. Audit Scotland is an admitted body within Lothian Pension Fund, and represents around 1% of fund membership. Staff involved in the audit are members of the fund. While this merits disclosure, it is not considered to represent a conflict of interest for the organisation or individuals involved. We are not aware of any relationships pertaining to the audit of the Funds.

# Audit issues and risks

## Audit issues and risks

21. Based on our discussions with staff, attendance at committee meetings and a review of supporting information, we have identified the following main financial statements risk areas for your organisation.
22. **Investment Management Expenses:** As set out in the example accounts prepared by CIPFA, it is good practice to disclose investment management expenses separately from other administrative expenses. However, investment management expenses disclosed in the Pension Funds' accounts and supporting notes do not currently reflect the full amount of investment management fees charged. This matter does not relate solely to Lothian Pension Funds but also applies to other pension funds in Scotland.
23. While some management expenses are separately identified and invoiced, private equity fund management expenses are typically incorporated in bid and sell prices and are therefore included within the change in market value line in the fund accounts. 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. CIPFA guidance suggests that where investment management expenses are presented in a separate line, in the interests of transparency and consistency they should include a reasonable estimate of all fees, including private equity fund fees. If a reliable estimate cannot be made of these fees, a note should be disclosed explaining why that is the case.
24. We note that 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 Funds' investment managers and custodian. We will review the investment management expenses disclosed in the accounts as part of our audit work to obtain evidence that investment management expenses are free from material misstatement.
25. **Pension payroll system:** In prior years, differences were identified between the council's Trent payroll and the Altair pension administration systems. Reconciliation controls were implemented to identify and resolve the variances. The risk was to be mitigated by the procurement of an integrated pension payroll and pension administration system. The business case to migrate to an integrated pension payroll system was approved and the procurement of this service was completed during 2012 with Altair winning the tender. The new Altair payroll system went live in September 2013 with data being input to payroll over the transition until the merger of systems was completed in December 2013. The integrated system should reduce the scope for previous issues re-occurring. Internal Audit has conducted a pre and post implementation review of the new system and its controls. Where appropriate, we will place reliance on their work. We will document the key controls within the new system as part of our work for 2013/14. We will also undertake work, or place reliance

on internal audit work, on the previous key controls in place (between Trent and Altair) prior to the new pension payroll system being introduced.

## Wider issues and risks

26. **Fund Sustainability:** As a result of widespread severance schemes, recruitment freezes and low salary growth across participating employer bodies, it is likely that the membership profile of the Lothian Pension Fund will increasingly have a higher proportion of pensioner members compared to active members. Auto enrolment may lessen the impact on the profile of the Fund although Fund officers noted in their Pension Committee update in December 2013 that 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'*.
27. The Lothian Pension Fund has recently introduced a contribution stability mechanism, designed to provide certainty of pension contributions by certain Fund employers for future years, whilst still maintaining appropriate funding levels to the Fund. The modelling work undertaken as part of the contribution stability mechanism provided updated cash flow projections based on Fund membership at 31 March 2013. This work confirms that the Fund is expected to move to a negative cash flow position in the near future. The Fund will use investment income to pay pensions when this occurs, rather than reinvesting. Financial planning for the Fund continues to be reviewed regularly and appropriate cognisance is taken of actual and anticipated changes in membership profile. The Fund will continue to monitor and manage cash flows. We note the actions in place by the pensions administration team and will continue to monitor the membership profile over the long term.

# Fees and resources

## Audit fee

28. In determining the audit fee we have taken account of the risk exposure of the Funds, the management assurances in place and the level of reliance we plan to take from the work of internal audit. We have assumed receipt of a complete set of unaudited financial statements and comprehensive working papers package by 30 June 2014.
29. The agreed audit fee for the 2013/14 audit of the Funds is £47,190 as summarised in Exhibit 2. Our fee covers:
- all of the work and outputs described in this plan
  - a contribution towards the costs of national performance studies and statutory reports by the Controller of Audit and the work of the Accounts Commission
  - attendance at Pensions Committee and Pensions Audit Sub-Committee meetings as appropriate
  - access to advice and information on relevant audit issues.

### Exhibit 2: Audit fee

Description	Audit fee 2010/11	Audit fee 2011/12	Audit fee 2012/13	Audit fee 2013/14
Total audit fee	£57,740	£49,080	£47,190	£47,190
% cash reduction on prior year	-	15.0	3.9	0.0

30. Where our audit cannot proceed as planned through, for example, late receipt of the unaudited financial statements or being unable to take planned reliance from the work of internal audit, a supplementary fee may be levied. An additional fee may also be required in relation to any work or other significant exercises outwith our planned audit activity.

## Audit team

31. David McConnell, Assistant Director of Audit, Audit Services is your appointed auditor. The local audit team will be led by Stephen O'Hagan who will be responsible for the day to day management of the audit and who will be your primary contact. Details of the experience and skills of our team are provided at Appendix B. The core audit team will call on other specialist and support staff, as necessary.

# Appendix A - Financial statements audit timetable

Key stage	Date (by)
Meetings with officers to clarify expectations of detailed working papers and financial system reports	31 March 2014
Planned Pensions Committee approval of unaudited financial statements	27 June 2014
Submission of unaudited council financial statements with working papers package	30 June 2014
Testing and review of internal control systems and transactions	30 June 2014
Progress meetings with lead officers on emerging issues	Ongoing through the audit
Latest date for final clearance meeting with Pensions and Accounting Manager	25 August 2014
Agreement of unsigned financial statements for Pensions Audit sub-Committee and Pensions Committee agendas, and issue of report to the Pensions Audit Sub-Committee and Pensions Committee on the audit of financial statements (ISA 260)	29 August 2014
Pensions Audit Sub-Committee and Pensions Committee Dates	September 2014 (exact dates to be confirmed)
Independent auditors report signed	30 September 2014
Annual report to Members and the Controller of Audit	31 October 2014

# Appendix B - Audit team

A summarised curriculum vitae for each core team member is set out below:

**David McConnell, CPFA**  
**Assistant Director of Audit**

David has worked in public sector audit since 1981, firstly with the National Audit Office and, since 1985, with the Accounts Commission/Audit Scotland. He therefore has extensive experience of audit in Central Government, Local Government and the NHS. David is currently Audit Scotland's lead on financial management issues.

**Stephen O'Hagan, CPFA**  
**Senior Audit Manager**

Stephen has over 17 years experience of public sector audit with Audit Scotland, covering local government, central government, health and the education sector. Prior to joining Audit Scotland, Stephen worked in local government finance for 5 years.

**Brian Battison, CA**  
**Senior Auditor**

Brian has worked with Audit Scotland for over 13 years. He has audited a variety of organisations across central government and associated agencies, local government (including pension funds) and the NHS. Previously Brian worked in the National Audit Office and the private sector on a wide range of public sector audits.

**Ross McDonald**  
**Auditor**

Ross joined Audit Scotland's Health and Local Government Team in October 2011 and will be embarking on his final year of the ICAS training programme in 2014.

# Pensions Committee

**2.30pm, Monday, 24 March 2014**

Dunedin Room, City Chambers, High Street, Edinburgh

## **Lothian Pension Fund - Internal Audit Monitoring 2014/15**

**Item number**

**Report number**

**Wards**

### **Links**

---

**Coalition pledges**

**Council outcomes**

**Single Outcome Agreement**

### **Alastair Maclean**

Director of Corporate Governance

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# Executive summary

## Lothian Pension Funds – Internal Audit Monitoring 2014/15

### Summary

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As part of the improvement and alignment of internal audit with the Council's overall governance programme, the internal audit year will be aligned with the financial year of the Council from 2014. As a consequence of this adjustment, there is a one-off, six month reporting period to 31 March 2014.

The purpose of this report is to outline the proposed Draft annual internal audit plan for 1 April 2014 to 31 March 2015.

This plan is based on the proposed allocation of internal audit resource across the Council's services, which is due to be considered by the Council's Governance and Best Value Committee on 2 April. If the allocation of resource to pension fund audit work is amended, alternative resources will be put in place.

A summary of the audit activity during the six month period covering 1 October 2013 to 31 March 2014 is also included.

### Recommendations

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To recommend that the Pensions Committee should:-

1. Note the summary of audit activity covering the six month period to 31 March 2014;
2. Note the planned internal audit activity for the year 2014/15.

### Measures of success

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Alignment of the Internal Audit Plan to the key risks faced by Lothian Pension Fund to ensure that governance is improved, managers take responsibility for corrective action and confidence in the management of risk is increased.

### Financial impact

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There are no direct financial implications.

### Equalities impact

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There are no adverse equalities impacts arising from this report.



## **Sustainability impact**

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There are no adverse sustainability impacts arising from this report.

## **Consultation and engagement**

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Internal audit management team consulted with LPF senior management in preparing the annual audit plan.

## **Background reading / external references**

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Internal audit reports issued in the six months to 31 March 2014.

## Audit Activity – 6 months to 31 March 2014

### 1. Internal Audit Activity

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1.1 During the period October 2013 and March 2014, Internal Audit issued one final report and one internal controls advisory paper:

- Review of controls around the new payroll system – Part 2
- Payroll controls (guidance note)

### 2. Summary of Recommendations

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2.1 Summary of Recommendations

Audit Area	Critical	High	Medium	Low	Advisory	Comment
New Payroll System – P2	-	-	2	1	-	Follow-up work to be undertaken as part of planned 2 <sup>nd</sup> quarter work on immediate payments (live data) – July 2014

2.2 An element of the remit for ‘New Payroll System Audit – Part 2’ was deferred until July ’14. The assessment of reconciliation controls between the payroll and pensions systems was considered to be more effective once the new system was fully implemented.

**Alastair Maclean**

Director of Corporate Governance

### 3. Links

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**Coalition pledges**

**Council outcomes**

**Single Outcome**

**Agreement**

## Summary of planned Internal Audit Activity 2014/15

### 1. Background

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- 1.1 The internal audit plan needs to be risk based, focused on governance, risk and controls in order to allow the Chief Internal Auditor to provide an opinion on Lothian Pension Fund's internal control environment, based on the work undertaken during the year.

### 2. Main report

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- 2.1 This plan is based on the proposed allocation of internal audit resource across the Council's services, which is due to be considered by the Council's Governance and Best Value Committee on 2 April. If the allocation of resource to pension fund audit work is amended, alternative resources will be put in place.
- 2.2 Internal audit planning optimises the use of audit time and matches the internal audit team's skill sets to individual internal audit reviews. In addition planning determines the requisite level of audit resource required and ensures that the maximum benefit is obtained by LPF.
- 2.3 The reporting of internal audit findings now categorises findings as Critical Risk, High Risk, Medium Risk, Low Risk and Advisory to ensure findings are risk based.

## Draft Internal Audit Plan 2014/15

2.4 The Audit Plan for the year to 31 March 2015 will focus on the following themes below:

Qtr	Audit Remit	Planned Days
Q1	No audit this quarter.	N/A
Q2	Audit the immediate payment (live) system from Payments Units. Also assess reconciliation controls between payroll and pension systems. Perform pension payroll follow up work from 2013/14 audit.	30 days
Q3	Review the Scheme of Delegation. Ensure that core internal controls around both payments and investment comply with the Scheme of Delegation.	20 days
Q4	Audit of Pensions Administration including a review of data quality and impact on payments (electronic transfers). Assess employer's quality control systems through liaising with their auditors. Obtain assurance over the accuracy of pay information received.	25 days

2.4 Planned days are indicative at this stage as the nature, timing and extent of the audit work is not confirmed in detail until the planning meeting with LPF management prior to the start of the audit fieldwork. In addition, circumstances can change over the audit year resulting in minor adjustment to the specific audit remit to reflect changes in risk.

2.5 In agreement with LPF management, areas considered for 2014/15, but deferred until annual audit year 2015/16 are set out below:-

2.5.1 Review high level control improvements in preparation for accreditation with the Financial Conduct Authority (FCA). Assess how the section has progressed with the issues identified through the Investment Operating Review (Mercer Report).

2.5.2 Review assurance mapping to assist with identifying areas of risk including ICT.

### 3. Recommendations

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3.1 To recommend the Committee notes the 2014/15 Draft Internal Audit plan.

#### **Alastair Maclean**

Director of Corporate Governance

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### 4. Links

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**Coalition pledges**

**Council outcomes**

**Single Outcome  
Agreement**

# Pensions Committee

2.30pm, Monday, 24 March 2014

## Investment Controls and Compliance

Item number	5.4
Report number	
Wards	All

### Links

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Coalition pledges

Council outcomes [CO26](#)

Single Outcome Agreement

### Alastair Maclean

Director of Corporate Governance

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# Executive summary

## Investment Controls and Compliance Policy

### Summary

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The Lothian Pension Fund's internal investment team currently manages approximately £2.8 billion of the collective investments of the pension funds administered by the City of Edinburgh Council. We have therefore looked to review and develop the operational procedures of the investment team in order to ensure that it continues to act in compliance with any applicable law or regulation and, where such law or regulation is not necessarily applicable to us, complies with industry best practice for equivalent fund management operations in the private sector.

This report:

1. Highlights the existing compliance policies and procedures.
2. Provides details of a review of the operations of the in-house investment team carried out by an external consultant.
3. Proposes that the investment team seek authorisation from the Financial Conduct Authority (FCA) in order to further strengthen controls.

### Existing Compliance Procedures

The Fund has a compliance policy which documents key controls. The policy covers all operations of the Fund including governance, internal and external investment management arrangements, accounting and pension administration. Each quarter, managers review the implementation of controls, sign-off compliance/report any breaches and highlight new risks.

The policy has evolved over time and a comprehensive review has been undertaken following the appointment of the Legal & Risk Manager in March 2013. Additional controls and checks have been incorporated particularly in relation to our wider legal and regulatory obligations (Freedom of Information, Financial Services and EU regulation etc.). This review has been carried out in tandem with the regular updates of the risk register

The Fund's compliance procedures and controls are subject to regular review by internal audit. They were also reviewed recently as part of a risk assurance project carried out across the City of Edinburgh Council. The Fund's controls were deemed to provide good levels of assurance.

The Fund has also been engaging with its investment managers and custodian in relation to compliance with the European Market Infrastructure Regulation (EMIR), which now regulates the foreign exchange contracts and other derivative investments (e.g. futures, foreign exchange forward contracts). To facilitate our compliance with these new regulations, we are now registered with the FCA for the purposes of notifying it of certain EMIR events and have appropriate systems and procedures in place to ensure such notifications are made.

### **Investment Team Operational Review**

An external consultant (Mercer) recently reviewed the investment operations of the Fund particularly relating to the internally managed investments. The review considered our governance and organisational structure, team size and adequacy, compliance processes and controls and investment systems (including transaction execution, valuation and administration) by comparison to industry best practice in the private sector, but also in the context of the structure of a local government pension fund.

The review concluded that our existing systems and controls are generally sufficient for the Fund's current investment activity. The key recommendations of the report were as follows:

- **Dedicated front office systems:** a dedicated front office portfolio management system (in relation to reviewing, managing and confirming portfolio/stock details, trades etc.) would be required in the event of increased investment activity.
- **Operational due diligence on custodian and external investment managers:** we currently carry out regular reviews of our underlying investments and periodic reviews of our custodian and external managers. The consultant recommended more detailed and regular operational review of our providers' systems and their alignment with our own/our requirements.
- **Staff remuneration and retention:** the review identified that we do not externally benchmark salaries and that the notice period provisions in our staff contracts were not in line with market practice for the relevant roles. The consultant also noted that the Fund adheres to wider Council Human Resource (HR) policies and procedures but ideally special arrangements should be made for key staff to mitigate this risk.

The review provided guidance on other improvements which could be made to controls, including those which should be considered if the Fund increase its activity, for example either increased volumes of trading and/or to achieve the operational best practice or if any regulated investment activities were undertaken.

The recommended improvements are being considered by the Fund. We are also liaising with the Council's HR team to consider the possible options to address the HR risks identified by the consultant.

The Fund is considering how to take forward the recommendations and it is anticipated that all will be implemented unless considered to be resource-intensive and/or add little value to the Fund's controls. Some of the recommendations have already been implemented.



A copy of the full report has been circulated to the Convener of the Pensions Committee, the Convener of the Pensions Audit Sub-Committee, the Independent Professional Observer and the Investment Strategy Panel.

### **FCA Authorisation**

We have carried out detailed analysis in relation to the Fund applying for authorisation by the FCA.

Authorisation by the FCA would facilitate improved governance of the investments of the Fund as well as enable more effective sharing of services with other local authority pension funds which would allow us to potentially generate meaningful cost efficiencies. It might also mitigate the risk of staff retention within the investment team, in facilitating a positive long term strategy which makes best use of in-house resource and provides further opportunity to develop this function. Structuring the investment function of the Fund in a manner that would support FCA authorisation has also been identified as an appropriate development for us during the course of the recent review of our investment operations by the external consultant.

FCA authorisation does bring with it financial, legal, resource, compliance and other implications on an ongoing basis. These should be justified in the context of the development of the Fund and the savings in external investment fees which have been generated as a result. However, the Fund has an experienced investment and legal team and so is already relatively well placed to implement and maintain FCA authorisation. Additional resource of £50K per annum has been included in the draft budget for 2014-17 for which Committee's approval is sought (this is covered elsewhere on the agenda). This includes a non-refundable application fee for FCA authorisation in the region of £5,000, with an annual levy of less than £5,000. Other indirect compliance and administrative costs have been allowed for, including adding one member to the internal compliance team.

FCA authorisation would also require the City of Edinburgh Council to establish a separate corporate vehicle for the purpose of operating the investment functions of the Fund. This vehicle would apply for FCA authorisation and take all necessary action to ensure ongoing compliance with the applicable FCA Rules and associated regulation.

An application to the FCA which would need to include, among other things, a realistic and achievable business plan that anticipates an arrangement that would require us to become FCA authorised. The development of our arrangements with other local authorities, currently being structured through a shared services approach and restricted due to our inability to provide investment advice to third parties, would constitute the basis for our business plan.

The process of FCA authorisation itself should not be unduly onerous but would involve preparatory work by the Fund. The FCA would then have to consider the application, which could take between 6-12 months. Updates will be provided to Committee as work progresses to gain authorisation.

A copy of our detailed analysis on the process and implications of FCA authorisation has been circulated to the Convener of the Pensions Committee, the Convener of the Pensions Audit Sub-Committee and the Independent Professional Observer.

## Recommendations

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The Committee are recommended to:

- note the ongoing review and update of our Compliance Procedures;
- note the headline recommendations of the investment operations review and actions being taken to address the risks; and
- approve the proposal to proceed with FCA authorisation and to note that progress will be provided to Committee.

## Measures of success

That the Fund continues to develop efficiencies for the benefit of its members, employer bodies and the taxpayer, while mitigating any risks associated with the necessary arrangements, and seeks to continue to improve its service provision and adapt the operation of the division to the wider structural changes facing public sector pension funds.

## Financial impact

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There is no direct financial impact associated with the update of our Compliance Procedures. The cost of the review of investment operational was contained within the 2013/14 finances. Costs associated with authorisation by the FCA (estimated £50K per annum) have been included in the provisional budget for 2014-17 covered elsewhere on the Committee's agenda.

## Equalities impact

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None.

## Sustainability impact

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None.

## Consultation and engagement

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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

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None.

## Links

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### 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

2.30 p.m. Wednesday, 24 March 2014

## Lothian Pension Fund Service Plan 2014 - 2017

Item number	5.5
Report number	
Wards	All

### Links

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Coalition pledges	
Council outcomes	<a href="#">CO26</a>
Single Outcome Agreement	

### Alastair Maclean

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# Executive summary

## Lothian Pension Fund Service Plan 2014 - 2017

### Summary

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The Lothian Pension Fund's Service Plan is reviewed on an annual basis to ensure its key performance indicators and objectives are up-to-date, clear, challenging and achievable.

The draft Service Plan for 2014 – 2017 is provided as Appendix 1. The Fund's three objectives remain unchanged:

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

The Service Plan provides details of the pension fund's key challenges over the coming years including changes to the local government pension scheme and governance.

The following changes to the performance indicators are of particular note:

- A new performance indicator monitoring the monthly pensions payroll has been introduced.
- Some of the key performance indicator targets have been improved. The target for the overall customer satisfaction will increase to 87% in 2015/16 and 88% in 2016/17. The target timescale for issuing benefit statements to active members is brought forward to August from of September. The staff satisfaction target will rise to 65% in 2014/15.

### Recommendations

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The Pensions Committee is recommended to:

- Approve the Service Plan 2014-17 and the budget for 2014-15; and
- Note the indicative budgets for years 2015-16 and 2016-17.

### Measures of success

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The funds key measures of success are:

- Meeting key performance indicators; and
- Achieving key actions set out in the Service Plan.

## Financial impact

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The proposed budget for 2014-2015 of £12.87million and indicative figures for 2015-2016 and 2016-2017 are provided in the service plan. The following areas account for the reduction in the budget from 2013-14 to 2014-15 of £618K:

- Investment management -£600K, largely as a result of a reduction in external investment management fees, partly offset by increase in costs relating to strengthening internal controls.
- Income +£100K. A reduction in income largely due to more limited opportunities for the custodian to stock lend on the Fund's behalf.
- Actuarial Valuation and Funding +£50K for the external costs for the 2014 actuarial valuations.
- Central Support Costs are provisional, pending receipt of final calculations. Allowance has been made for reduced central support costs and direct expenditure as a result of the transfer of payroll and the office move.

Committee are reminded that the investment management fees included in the budget are for mandates managed on a segregated basis (i.e. where the Fund assets are not comingled with those of other investors). Audit Scotland highlighted to Committee in December 2013 that investment management expenses disclosed in the Pension Fund Account and supporting notes do not fully reflect the fees charged. The Fund is participating in a CIPFA working group which is reviewing the guidance for local government pension funds on the disclosure of investment fees. Guidance is expected to be issued soon.

## Equalities impact

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There are no adverse equalities impacts arising from this report.

## Sustainability impact

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There are no adverse sustainability impacts arising from this report.

## Consultation and engagement

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Consultation and engagement via a number of sources has informed the service plan including:

- Customer insight including surveys and meetings;
- Feedback from the Fund's Customer Service Excellence assessment;
- Staff survey and staff meetings.

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

## Background reading / external references

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Not applicable.

### **Alastair Maclean**

Director of Corporate Governance

## Links

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### **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 – Lothian Pension Fund Proposed Service Plan 2014-2017





# Service Plan 2014 - 2017



# Service Plan 2014 - 2017

## Introduction

The City of Edinburgh Council is the administering authority for the Local Government Pension Scheme in the Lothian area. As such, the Investment and Pensions Division of the Council administers the benefits and invests the assets of three Local Government Pension Scheme (LGPS) funds, Lothian Pension Fund, Lothian Buses Pension Fund and Scottish Homes Pension Fund.

Lothian Pension Fund is the second largest Local Government Pension Fund in Scotland with assets of approximately £4.2 billion, 196 employers (102 of those with active members) and over 69,657 members.

The Lothian Buses Pension Fund holds assets of £0.34 billion and 3,924 members, while Scottish Homes Pension Fund investments amount to £0.13 billion with 1,854 members.

The Division also provides pension administration services for the Fire-fighters' Pension Schemes for some employees of the Scottish Fire and Rescue Service.

## How the Fund is run

All pension matters are delegated to the Pensions Committee of the Council and its members act as 'quasi trustees'. The day to day running of the Fund is delegated to the Investment and Pensions Division under the supervision of the Director of Corporate Governance.

A Consultative Panel, made up of employers and members, meets with the Pensions Committee and it considers the views of the Panel when making decisions.

Investment strategy guidance to the Committee is provided by the Investment Strategy Panel, which includes senior officers and specialist investment advisers.

The Fund has its own internal investment management staff and also appoints external managers to invest in specific investment markets. Additionally, internal staff provide the pension administration, accounting and ICT functions. The fund maintains a comprehensive website for easy access to all relevant pension information and this is found at [www.lpf.org.uk](http://www.lpf.org.uk). This includes the Annual Report & Accounts of the three pension funds.

## Policies

The policies of the Fund, including the Statement of Investment Principles, Funding Strategy Statement, Pensions Administration Strategy and Pensions Discretions Policy are published on the Fund's website.



## Our Service

The Fund is committed to continuously developing to provide the best possible service to our customers.

To ensure we meet this aim we have set the following three objectives for our service to:

**continue to be a  
top performing  
pension fund**

**provide  
excellent  
customer care**

**support and  
develop staff**

To enable us to achieve these objectives we must:

- meet our statutory **responsibilities**
- develop **our performance, our customer service** and **our people** beyond our statutory responsibilities taking into account internal and external influences. This will ensure that the Fund continuously evolves, develops and improves its service to deal with the potential demands of the future.

## Our Responsibilities

The Fund is responsible for all aspects of the pension funds, including investment, administration and accounting. The principal responsibilities are:

- Carrying out the funding strategy aimed at ensuring the assets of the Fund are sufficient to meet pension liabilities.
- Investing fund assets, implementing investment strategy and investing responsibly.
- Administering pension services including calculating and paying benefits.
- Safe keeping and accounting of fund assets and preparing the Fund's annual report and accounts.
- Providing an excellent service to key stakeholders, including, members of the Fund and employers.
- Ensuring the Fund has committed, knowledgeable and customer-focused staff.

To ensure we meet our responsibilities, we use a range of indicators covering different aspects of the service. We set challenging targets for the performance indicators and monitor performance against the targets on a regular basis.

## Key Performance Indicators\*

Performance Indicators	Target & (Actual)*				
	2012/ 2013	2013/ 2014	2014/ 2015	2015/ 2016	2016/ 2017
<b>Performance</b>					
Performance and Risk of Lothian Pension Fund	n/a	Meet benchmark over rolling 5 year periods with lower risk with risk/return measures including performance in rising and falling markets			
Audit of annual report	Unqualified opinion (Yes)	Unqualified opinion			
Proportion of critical pensions administration work completed within standards (see table below)	Greater than 90% (94%)	Greater than 90% (91%)*	Greater than 90%	Greater than 90%	Greater than 90%
Percentage of employer contributions paid within 19 days of month end	97% (97.5%)	98% (94.3%)*	98%	98%	98%
Data quality - compliance with best practice as defined by The Pensions Regulator	Fully compliant (Yes)	Fully compliant (TBC)	Fully compliant		
Pension Payroll complete on due dates	n/a	Yes	Yes	Yes	Yes
<b>Customers</b>					
Maintain Customer Service Excellence Standard (CSE)	Maintain CSE (Yes)	Maintain CSE (Yes)	Maintain CSE	Maintain CSE	Maintain CSE
Overall satisfaction of employers, active members and pensioners measured by surveys	85% (86%)	86% (88%)*	86%	87%	88%
Proportion of active members receiving a benefit statement and time of year when statement is issued	Over 95% by Sept (97%)	Over 95% by Sept (96%)	Over 95% by Aug	Over 95% by Aug	Over 95% by Aug
<b>Staff</b>					
Level of sickness absence	4.0% (3.87%)	4.0% (2.01%)*	4.0%	4.0%	4.0%
Annual staff survey question to determine satisfaction with present job	60% (53%)	60% (63%)	65%	66%	67%
Percentage of staff that have completed two days training per year.	n/a	2 days (On track)*	100%	100%	100%

\* Performance at financial year to date at the time of writing is shown in brackets against previous targets

### Customer Care Standards:

New starts information sent out (within 20 days of receiving the information)  
 Letter notifying dependants benefits  
 Acknowledgement of death  
 Payment of retirement benefits (when provided with all necessary information).  
 Provision of retirement quote  
 Early leaver payment of refund (from when declaration form and bank details are received).  
 Early leaver - transfer out quote  
 Letter with transfer in quote

### Target is 90% within time limit below

20 days  
 5 days  
 5 days  
 5 days  
 10 days  
 10 days  
 30 days  
 15 days

# Continuous improvement

We are committed to continuously improving our service and we take a number of factors into account when developing the service including:

<p><b>Political &amp; Regulatory</b></p>	<p>The Local Government Pension Scheme in Scotland will change from April 2015 as a result of the Public Service Pensions Act 2014. The current final salary scheme will change to a career average scheme. Changes to governance are also expected for the Fund as well as the Scheme at a national level. A review of the structure of the LGPS in Scotland will be undertaken. In addition, the Pensions Regulator will take on the role of regulatory oversight of public sector pension schemes.</p>
<p><b>Economic</b></p>	<p>Continuing budgetary constraints across the public sector have led to reductions in employee numbers with further cutbacks anticipated. There is also a risk that members decide to opt-out of the Fund on grounds of affordability or lack of appreciation of the value of pension benefits. In addition, employers are faced with a new requirement to enroll employees into a pension arrangement on a regular basis. These are impacting on the Fund's membership and liabilities, and will continue to do so over the coming years.</p> <p>Economic growth has increased over recent years. However yields on government bonds remain stubbornly low impacting on the cost of pensions. This, together with the abolishment of contracting out of the State Earnings Related Pension Scheme, could mean significant increases in costs for employers. Therefore there continues to be a need to improve efficiency and reduce costs. New ways of working such as sharing services and joint procurement initiatives with other public sector pension funds continue to be explored.</p>
<p><b>Customer Insight</b></p>	<p>The Fund has a wide range of internal and external customers. We use a variety of engagement techniques to develop our understanding of different customer groups and our staff (for example face to face meetings, surveys and customer journey mapping techniques). Their needs, experiences of our service and their perception of the Fund help us to continually improve and become more efficient and effective.</p>
<p><b>Technology</b></p>	<p>Advances in information technology facilitating on-line self-services and data transfer for both scheme members and employers.</p>
<p><b>Environmental</b></p>	<p>The Fund continues to strive to be an active shareholder to enhance the long-term value of our investments, including engagement on environmental, social and governance issues.</p>
<p><b>Scrutiny</b></p>	<p>The Fund uses feedback from scrutiny of services to help. Such scrutiny includes internal and external audit, the Customer Service Excellence award and Investors in People award. In 2013 the Fund undertook a review of its investment operations.</p>
<p><b>Risk Management</b></p>	<p>The Fund is committed to a strong control environment to ensure that risks are identified, understood, managed and monitored appropriately. The risks faced by the Fund change over time and ongoing management of risk is crucial.</p>

## Our Performance

Changes to the Local Government Pension Scheme in Scotland will bring significant challenges for the Fund. There will be significant communication challenges to explain the new career average pension scheme to both members and employers. It will be more complex to administer and there will also be greater scrutiny of the Fund's service.

By striving to continually improve our performance, the Fund will be position to meet these challenges.

Objective: [continue to be a top performing pension fund](#)

Action	Description
<b>Successful implementation of Scheme benefit changes</b>	<ul style="list-style-type: none"> <li>– Communicate changes to scheme benefits to employers and members</li> <li>– Review internal processes and procedures</li> <li>– Provide training for staff on new arrangements</li> </ul>
Ensure effective Governance	<ul style="list-style-type: none"> <li>– Engage in debate on governance changes for the Fund</li> <li>– Participate in the review of the structure of the LGPS in Scotland</li> <li>– Reinforce the separation of the Fund from the City of Edinburgh Council and review dependencies on its services</li> <li>– Continue to improve the Fund's approach to 'trustee' training</li> </ul>
<b>Monitor financial and economic pressures and scheme maturity</b>	<ul style="list-style-type: none"> <li>– Continue to implement new investment strategies</li> <li>– Undertake the Fund's 2014 actuarial valuation</li> <li>– Review Funding Strategy Statement</li> <li>– Improve membership and cash flow monitoring and forecasting</li> <li>– Review the risk profile of the participating employers and manage the pension implications of organisational and staffing changes</li> <li>– Explore potential options for unitisation of the Fund</li> </ul>
Provide an efficient, accurate and effective service	<ul style="list-style-type: none"> <li>– Explore ways to improve transparency of investment costs.</li> <li>– Improve use of systems and data analysis skills.</li> <li>– Complete full implementation of payroll</li> </ul>
<b>Risk is managed effectively</b>	<ul style="list-style-type: none"> <li>– Investigate gaining of authorisation from Financial Conduct Authority to improve investment controls.</li> <li>– Ensure up-to-date and stream-lined procedure manuals for all key responsibilities are maintained</li> </ul>
Shared services	<ul style="list-style-type: none"> <li>– Developed shared-services with Falkirk Pension Fund</li> <li>– Transfer administration of the Fire Fighters pensions schemes to the Scottish Public Pensions Agency</li> </ul>

## Our Customers

We aim to provide our customers with the very best service. Our Customer Service Excellence award demonstrates that we consistently strive to meet our customers' needs.

We also need to continue to strive improve our partnership working with our employers to deliver the service our customers expect.

The general lack of awareness of our customers of the value of their pension benefits, and the contributions made by their employer, is a concern. The changes to the pension scheme in 2015 give an ideal opportunity to ensure the scheme is appreciated as a valuable part of an employee's remuneration.

Developments in technology mean we have are able to give customers greater access to information regarding their pension.

### Objective: provide excellent customer care

Action	Description
Develop and improve customer insight	<ul style="list-style-type: none"> <li>– Continue to regularly engage with all customer groups using a variety of techniques including mystery shopping and transactional surveys.</li> <li>– Improve analysis of consultations to ensure it remains integral to our service.</li> </ul>
Develop and improve customer awareness	<ul style="list-style-type: none"> <li>– Develop members' awareness of the value of the pension benefits and the contributions their employers make towards their pension.</li> <li>– Improve external communications and understanding of investment strategy.</li> </ul>
Improve timeliness and quality of customer service	<ul style="list-style-type: none"> <li>– Extend usage of "employer on-line" system.</li> <li>– Partnership accountability – monitor and publish performance against service standards to ensure we have an effective and accountable partnership with employers.</li> <li>– Review the way we deal with members' first point of contact with the Fund.</li> <li>– Attempt to trace members who we've lost touch with.</li> <li>– Focus efforts on non-urgent member cases.</li> <li>– Re-assess our service standards and targets for members.</li> </ul>
Develop and improve our information and access	<ul style="list-style-type: none"> <li>– Promote, and improve usability of, member on-line system.</li> <li>– Improve Frequently Asked Questions on website</li> <li>– Undertake trial of social media for communicating with stakeholders.</li> <li>– Provide more on-line training facilities for employers and members.</li> <li>– Develop way to monitor the ways customers contact us.</li> </ul>

## Our Staff

Our people are at the very heart of our business and key to delivering our responsibilities and objectives. We work hard to equip our staff with the right skills and support to drive the service forward. Staff receive support in studying for professional qualifications related to the service.

The Fund is committed to supporting a culture of openness, honesty and transparency. Staff are expected to comply with the Employee Code of Conduct Policy which includes the seven principles of public life (Selflessness, Integrity, Objectivity, Accountability, Openness, Honesty and Leadership). By adopting an open culture, the Fund encourages staff to contribute to the continuous improvement of the service. This includes learning from mistakes by reporting and investigating them in a positive, open and structured way.

As a relatively small team of 50, there are risks associated if the Fund were to experience high staff turnover, particularly in key positions requiring specialist knowledge. The Fund aims to reduce such risks by ensuring staff experience a fulfilling role, including ensuring they have development opportunities and attractive remuneration. Up-to-date procedures for all processes and job shadowing also ensure that the Fund can continue to provide services.

### Objective : Support and develop staff

Action	Description
<b>Develop trust between line managers and staff and promote an open culture</b>	<ul style="list-style-type: none"> <li>– Continue to have regular and engaging team meetings and 1-to-1s with all staff, to discuss progress, achievements and changes.</li> </ul>
Communicate effectively, especially around change	<ul style="list-style-type: none"> <li>– Continue to communicate regularly via face-to-face briefings and via email on issues affecting the division.</li> <li>– Review the success of major changes and learn lessons in how we manage change.</li> </ul>
<b>Ensure development and training for all staff</b>	<ul style="list-style-type: none"> <li>– Continue to promote learning and development opportunities for all staff, including those who have already achieved qualifications</li> <li>– Develop ICT and project management skills.</li> </ul>
Support staff well-being	<ul style="list-style-type: none"> <li>– Empower staff to make changes to the way they work to improve the service and efficiency, particularly around work-flow management.</li> <li>– Implementation of flexible working options.</li> </ul>
<b>Ensure team is robust and sustainable</b>	<ul style="list-style-type: none"> <li>– Explore options and review plans for a sustainable team</li> </ul>

## Our Budget

The budget for 2014-2015 and indicative figures for 2015-2016 and 2016-2017 are as follows:

	Budget 2013/14 £	Movements £	Budget 2014/15 £	Movements £	Budget 2015/16 £	Movements £	Budget 2016/17 £
Employees	2,161,494	91,506	2,253,000	57,242	2,310,242	50,141	2,360,383
Property Costs	0	77,103	77,103	1,419	78,522	1,448	79,970
Plant and Transport	26,735	0	26,735	0	26,735	0	26,735
Supplies and Services	843,160	109,046	952,206	-14,691	937,515	315	937,830
Third Party Payments	591,700	-70,100	521,600	-43,100	478,500	0	478,500
Investment Managers Fees	10,113,158	-659,881	9,453,277	754,662	10,207,939	815,035	11,022,974
Transfer Payments	0	0	0	0	0	0	0
Support Costs	551,683	-270,620	281,063	0	281,063	0	281,063
Capital Funding	74,200	6,162	80,362	1,156	81,518	0	81,518
<b>Gross Expenditure</b>	<b>14,362,130</b>	<b>-716,784</b>	<b>13,645,346</b>	<b>756,688</b>	<b>14,402,034</b>	<b>866,939</b>	<b>15,268,973</b>
Specific Government Grants	0	0	0	0	0	0	0
Other Grants and Contributions	0	0	0	0	0	0	0
Customer and Client Receipts	-70,000	18,000	-52,000	0	-52,000	0	-52,000
Interest	0	0	0	0	0	0	0
Income - Fire	0	-20,000	-20,000	0	-20,000	0	-20,000
Income - Other	-800,000	100,000	-700,000	0	-700,000	0	-700,000
<b>Total Income</b>	<b>-870,000</b>	<b>98,000</b>	<b>-772,000</b>	<b>0</b>	<b>-772,000</b>	<b>0</b>	<b>-772,000</b>
<b>Net Expenditure</b>	<b>13,492,130</b>	<b>-618,784</b>	<b>12,873,346</b>	<b>756,688</b>	<b>13,630,034</b>	<b>866,939</b>	<b>14,496,973</b>
<b>Capital Budget</b>	260,000	-226,125	33,875	-33,875	0		0

# Pensions Committee

2.30 p.m., Monday, 24 March 2014

## Customer and partner engagement

Item number	5.6
Report number	
Wards	All

### Links

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Coalition pledges	
Council outcomes	<a href="#">CO26</a>
Single Outcome Agreement	

### Alastair Maclean

Director of Corporate Governance

Susan Handyside, Customer Service and Compliance Officer

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# Executive summary

## Customer and partner engagement

### Summary

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The purpose of this report is to update the Committee on the pension fund's engagement with customers and partners. The following summary aims to provide more detail to the Committee regarding the key performance indicators relating to customers, which are, overall satisfaction, customer service evaluation and complaints.

#### Overall customer satisfaction

The fund regularly engages with its key stakeholders to assess satisfaction with the service provided and to assess stakeholders' perception of our timeliness, delivery, accessibility, information and quality of customer service.

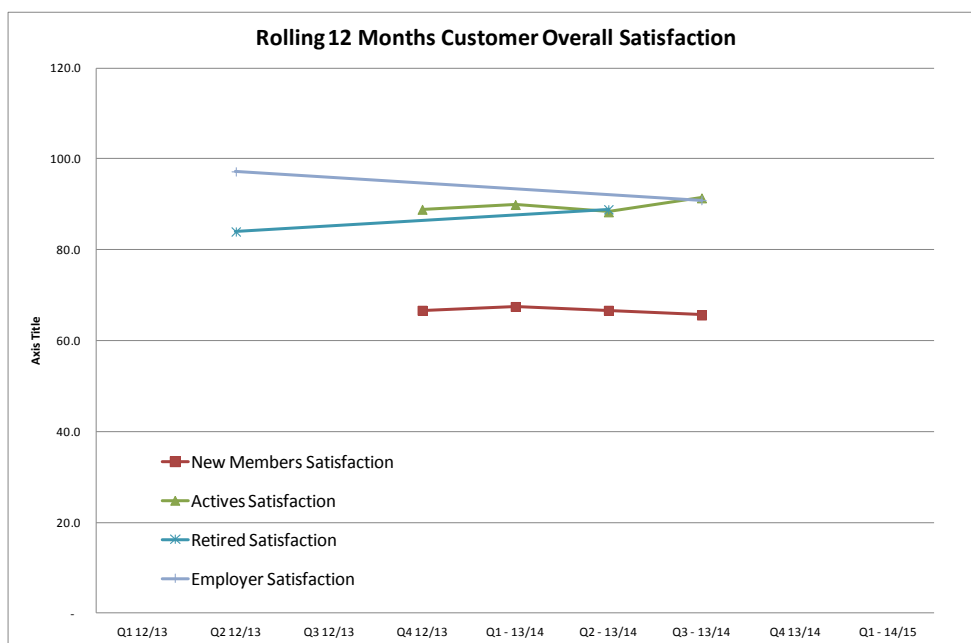
We engage with pensioners and employers via annual surveys. The employer survey is issued to all employer contacts. The pensioner survey is advertised in a pensioner newsletter and is issued to 500 randomly selected pensioners. The results from these annual surveys are very good. For example, a total of 122 pensioners responded to our 2013 survey and the fund received 67 responses to the 2013 employer survey. 98% of employers who responded were satisfied with staff attitude and professionalism and 89% of pensioners who responded thought staff are polite and courteous. 85% of pensioners who responded agree that the information they are provided with is clear and accurate and 96% of employers who responded are satisfied with the quality of information we provide. The comments received from employers and pensioners are very positive.

The current active and new scheme members are consulted via transactional surveys as responses to our previous annual surveys had been very poor. Changing to transactional surveys has meant that the fund is provided with regular feedback from members who have recently contacted the fund.

In the 9 months to 31 December 2013, a total of 76 active scheme members and 90 new scheme members responded to our transactional survey. 95% of active scheme members agreed that information they were provided with was clear and understandable and 98% who responded agreed that staff were polite and courteous. When new scheme members were asked if the time taken to process their request to join the fund by their employer was satisfactory, 57% thought it was. When new scheme members were asked if they were satisfied with the time taken for the fund to send out their welcome letter only 61% were satisfied.

In addition to our main engagement techniques the fund carries out smaller surveys on particular processes, for example, recently the fund have surveyed a small group of pensioners regarding their satisfaction with the retirement process. A survey is currently being conducted to gain better insight into the perception of our responses to e-mails.

The fund continues to meet overall customer satisfaction target of 86%. The graph below shows customer satisfaction over the last year. It is easier to see from the graph that new members' satisfaction is lagging far behind that of our other stakeholders.



The fund expects the reviewed pensions administration strategy and implementation of the new employer on-line system will help to improve the satisfaction of new members are experiencing by improving our partnership with employers.

## Complaints

The fund records all informal and formal complaints as well as the action taken as a result of the complaint. Staff are trained to capture informal complaints made. If a complaint is upheld the fund takes the opportunity to contact the customer and ask them if they were satisfied with the complaints process and if we can improve upon our service. The fund have received very positive comments from those who have been contacted to ask for their feedback and two scheme members who had complaints offered to speak to the CSE assessor to express their satisfaction.

A total of 30 formal complaints and 40 informal complaints (of which 5 were escalated to formal complaints) were received from 1<sup>st</sup> April to the time of writing. In general these complaints were regarding how regulations have been applied or delays in service.

A total of 60 compliments were received from 1<sup>st</sup> April to the time of writing. The majority of these related to staff attitude and speed of service.

Complaints and compliments are tabled at team meetings where teams discuss them and learn from the feedback provided.

### **Customer Service Excellence Award (CSE)**

The Lothian Pension Fund has held the CSE award and its predecessor Chartermark since 2005. In order to retain the award the Fund are required to meet five different criteria, customer insight, culture of the organisation, information and access, delivery and timeliness and quality of customer service. Each year an assessment is carried out to ensure that the Fund still meets the requirements and is addressing any areas that have been graded a 'Partial Compliance'.

The annual CSE assessment took place on 3<sup>rd</sup> February 2014. The fund was successful in retaining the award. The fund will retain the 'Partial Compliance' for our work with our partners, reflecting the issues we have with data transfer from our employers. However, the assessor recognised the good work the Fund is doing to try to address this but it will take time to produce real results for our members. The fund retained a 'Compliance Plus' for the approach to consulting with customers and achieved a new Compliance Plus for commitment to putting the customer at the heart of service delivery.

Over the years CSE has enabled the fund to embed good practice, for example setting service standards, developing good quality surveys, providing guidance on the best way to analyse survey results and act on the feedback. It has also encouraged the fund to constantly review communications and try new customer insight techniques for example customer journey mapping. The award has been a tool and key driver to help improve customer service. However as the fund constantly improves and receives fewer partial compliances, we will look for new challenges to ensure ongoing improvements.

### **Recommendations**

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The Committee is recommended to note that the fund continues to meet its overall customer satisfaction target, the retention of the Customer Service Excellence award and the Fund's continued efforts to improve customer service.

### **Measures of success**

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Measure of success are retaining the Customer Service Excellence Award and customer satisfaction targets.

## Financial impact

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There is no financial impact as a result of this report.

## Equalities impact

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There is no equalities impact as a result of this report. Equalities questions are included in customer surveys.

## Sustainability impact

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There is no sustainability impact as a result of this report.

## Consultation and engagement

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

Consultation and engagement with stakeholders is key to achieving the Customer Service Excellence Award.

## Background reading / external references

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None

## Links

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### 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

2.30 p.m., Monday, 24 March 2014

## Training Activity of Committee and Consultative Panel

Item number	5.7
Report number	
Wards	All

### Links

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Coalition pledges	
Council outcomes	<a href="#">CO26</a>
Single Outcome Agreement	

### Alastair Maclean

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# Executive summary

## Training Activity of Committee and Consultative Panel

### Summary

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This report sets out a brief overview of any points of note in relation to the membership of the Pensions Committee and the Consultative Panel and the position regarding the training of the relevant representatives.

- **Consultative Panel**

Since the departure of Allison Cosgrove there is currently one member vacancy on the Consultative Panel. Discussions are still on going to recruit a new union member who will sit on the Panel. Since the last training update in June 2013, we have welcomed three new consultative panel members. The new members are Helen Carter, The Scottish Government, John Anzani, Midlothian Council and Sharon Dalli, Police Scotland. All new members have received their induction training and have already proved to be active members providing a valuable contribution by attending further training and Pension Committees meetings. In December, John Anzani was voted on to the Pensions Committee by the other members of the Consultative Panel.

- **Training Update**

Lothian Pension Fund's training policy sets out a framework of knowledge expected by members of the Pensions Committee and Consultative Panel to ensure that they have the appropriate level of knowledge to carry out their duties. The policy includes a minimum target for Committee members of attending at least three days training per year.

Appendix 1 shows the breakdown of training attended from 1 April 2013 to date. The total training hours for the Committee is 214 hours and Consultative Panel training total 103.25 hours.

Not all Committee members have met the minimum required 3 days training (21 hours) during the reporting period. However, it should be noted that the period ends on 1<sup>st</sup> April and with the consideration of training events scheduled in March it is assumed all Committee members will fulfil the requirements and meet the standard. This outcome is an improvement on last year's performance where three members of the Pensions Committee did not meet the required three days training.

Members of the Consultative Panel are required to fulfil at least one training day (7 hours) per year. Aside from the members of the Consultative Panel who sit on

the Committee, six of the nine Panel members have met the required training. This outcome is an improvement on last year's performance where four out of the seven Consultative Panel members in 2012/13 did not meet the required one days training.

- **Committee and Panel Self-Assessment**

In October 2013, the Fund issued a self-assessment survey to members of the Committee and Panel. A total of ten Committee and Consultative Panel members responded and the results have been issued to members of the Committee and Panel. One aspect the fund was keen to learn more about was perception of training and the key findings are as follows:

- Six out of the ten respondents agreed that they set aside enough time to prepare for pension committee meetings.
- Nine out of the ten respondents agreed that they were able to meet the required amount of training per year and agreed that they received a good standard of training.
- Eight out of the ten respondents felt that the training was sufficient and that external training was relevant to their role within the Committee/Panel.
- When asked how much time on average Committee members spent on pension matters the response ranged from 1-4 hours per week which included meeting times and formal training. In addition, nine of the respondents agreed that they kept abreast of topical pension issues outside of meetings and formal training events.

The survey result will be used by officers and the professional observer to continue to enhance governance of the pension funds.

- **Future Training**

Internal training events for the coming year will be focussed on the current issues facing the fund including actuarial valuation, pension scheme reform, structure of the local government pension scheme and investment strategy. Details of relevant external events will continue to be circulated and Committee and Panel members are encouraged to attend.

## **Recommendations**

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The Pensions Committee should note the improvement of the training record in the context of the minimum amount of training for Committee and Consultative Panel members.

## **Measures of success**

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Success will be measured against the CIPFA Knowledge and Skills framework which outlines the appropriate knowledge members of the Committee and Consultative Panel require to be able to discharge their duties. In addition success will be measured by the fulfilment of the number of hours training and the attendance of Committee meetings which will enable the members to utilise the training received.

## Financial impact

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The cost of training is included in the approved budget for 2013/14 and we do not anticipate any additional financial implications in this regard.

There are no other direct financial implications, except that Committee training is an integral part of the pension fund's governance and so there is an indirect financial benefit to be gained through improved training/attendance and strengthening the risk management of the fund.

## Equalities impact

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None

## Sustainability impact

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None

## Consultation and engagement

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The Consultative Panel for the Lothian Pension Funds, comprising employer and member representatives, is integral to the governance of the Funds consultation and engagement. In addition the 2013 Committee self-assessment survey and event feedback surveys enables the fund to monitor satisfaction with training and identify any issues with quality, the clarity of information provided and timeliness of training sessions.

## Background reading / external references

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None

## Links

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### 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 – Pensions Committee and Consultative Panel training



**Committee and Consultative Panel Members' Training Record**  
**From 1 April 2013 to 31 March 2014**

Event:	Risk & Governance Training	NAPF Local Authority conference	Investment really matters' session	Audit Sub Committee preparation time	Committee pre meeting preparation	Consultative panel induction training	Audit Sub Committee pre meeting preparation	Pensions Committee preparation time	Baillie Gifford Investment Seminar	Funding and employer training	Audit Sub Committee preparation time	Pensions Committee preparation time	Scottish LGPS Seminar	Hermes Presentation	Consultation on proposed new governance arrangements	LAPFF Conference	Westminster Seminar	NAPFF Conference	Any additional training /reading /meetings	Total (Hours)
Date	22/04/2013	1/5/13	17/6/14	17/6/13	17/8/13	19/09/13 24/09/13 3/12/13	20/9/13	24/9/13	2-3 /10/13	12/11/13	16/12/13	18/12/13	17/12/13	18/12/13	27/1/14	4-6 /12/14	19/2/14	5-7 /03/14		
<i>Please note 1/2 preparation is given to all those that attend the audit sub committee.  1 hour is given to those who attend the Pensions Committee.</i>																				
<b>Pensions Committee</b>																				
Maureen Child	3.5		3.5	n/a			n/a	1		2	n/a	1	5	0	1			11.5		28.50
Bill Cook	3.5			0.5			0.5	1	14	3.5	0.5	1	5	0.25			7	2.5		39.25
Jim Orr	3.5			0.5	1		x	1	14		0.5	1	5	0	1			8		35.50
Alasdair Rankin (Convener)	0			n/a			n/a	1		3.5	n/a	1	5	0	1		7	booked		18.50
Cameron Rose	3.5			0.5			0.5	1		3.5	0.5	1	5	2	2	14		booked	12	45.50
John Anzani (joined September 2013 and voted member representative to Pensions Committee)	n/a	n/a	n/a	n/a	n/a	3.25	n/a	1	7	3.5	n/a	1	5	2	2			13.92		38.67
Darren May (voted employer representative to Pensions Committee)	3.5		3.5	n/a			n/a	1		3.5	n/a	1	5	0	0				16	30.00
Allison Cosgrove (voted member)	0	12		n/a			n/a	1			n/a	1	n/a	n/a	n/a	n/a	n/a	n/a		14.00
<b>Lothian Pension Funds' Consultative Employer Representatives</b>																				
Eric Adair	3.5		3.5	0.5			0.5			3.5	x	1		2	2					13.00
Guy Hughes	0		3.5	n/a			n/a	1			n/a	0		0	0				3.5	8.00
Alan Williamson	0			n/a			n/a				n/a	0		0	1					1.00
Helen Carter, (joined October 2013)	n/a	n/a	n/a	n/a	n/a	3	n/a	n/a	n/a	n/a	n/a	1	5	2	2					13.00
Sharon Dalli (joined September 2013)	n/a	n/a	n/a	n/a	n/a	3.25	n/a	1		3.5	n/a	0	5	0	2					14.75
<b>Member Representatives</b>																				
Charlie Boyd	3.5			n/a			n/a	x			n/a	0	5	0	0					5.00
John Rodgers	0			n/a			n/a			3.5	n/a	1	5	0	0					9.50
Eric MacLennan	3.5		3.5	0.5			0.5	1	14	3.5	0.5	1	5	2	2					33.50
Owen Murdoch	0			n/a			n/a			3.5	n/a	0	0	0	2					5.5
																				<b>353.17</b>
John McBryde (for Guy Hughes)	3.5																			

**Separate sessions/training**

Alan Williamson - Credited with 1 hour after reading consultation on governance paper and feeding back views to Struan Fairbairn via telephone.

Guy Hughes - Credited with 2 hours for annual update on 20 June 2013 and 1.5 hours on 28 January for funding briefing.

Cameron Rose - Addition of 12 hours added to training for role as Vice Chair of LAPFF

Darren May - Additional credit given for reading and consultation undertaken during the year.

# Pensions Committee

2.30pm, Monday, 24 March 2014

## Update on Employers participating in Lothian Pension Fund

Item number	5.8
Report number	
Wards	All

### Links

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Coalition pledges	
Council outcomes	CO26
Single Outcome Agreement	

### Alastair Maclean

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# Executive summary

## Update on Employers participating in Lothian Pension Fund

### Summary

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This report provides updates on:

- employers who are currently looking to join the Fund;
- employers leaving the Fund; and
- other current matters including an update on the review the covenant of individual employers.

### Recommendations

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To recommend that the Pensions Committee:

1. note the changes to the employers participating in Lothian Pension Fund; and
2. note the work carried out to review employers' covenants.

### Measures of success

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Employers continue to take decisions in full knowledge of Local Government Pension Scheme (LGPS) regulations and with awareness of policies put in place by the Fund to protect the Fund as a whole.

### Financial impact

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There is no financial impact arising directly from this report. However proactive monitoring of employers participating in the Fund and appropriate admission agreements for employers helps to protect the financial position of the Fund and the other employers in the Fund.

### Equalities impact

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There is no equalities impact as a result of this report.

### Sustainability impact

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There is no sustainability impact arising from this report.

## Consultation and engagement

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

The Fund engages with employers on a regular basis as follows:

- monthly bulletins are issued to employers highlighting relevant issues;
- employer events are held throughout the year; and
- dedicated resource in the Fund in the form of an Employer Relations Officer.

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

The Fund has written to employers with less than five active members to remind them of the provisions which will apply if/when their last member leaves the Fund. In these circumstances, as required by the Scheme regulations and the Fund's Funding Strategy Statement, a cessation valuation will be carried out to establish the value of any surplus or deficit.

We continue to remind employers at events and via the employer bulletin of the importance of this keeping the Fund informed of any changes that could have an impact on their pension arrangements.

## Background reading / external references

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None.

## Update on Employers participating in Lothian Pension Fund

### 1. Background

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- 1.1 Responsibilities of both the Council, as administering authority of Lothian Pension Fund ('the Fund') and the participating employers are set out in the Funding Strategy Statement and the Pensions Administration Strategy. Both these documents have been previously approved by Committee.
- 1.2 The Funding Strategy Statement includes the 'Admission Policy' (for employers joining the Fund), the 'Policy on Employers leaving the Fund' (cessation policy) and the 'Charging Policy' outlining when charges will be levied by the Fund.
- 1.3 The 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.

### 2. Main report

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#### Employers joining the Fund

- 2.1 Previous reports to Committee noted that BaxterStorey had applied for admission to the Fund under Regulation 5 of the Local Government Pension Scheme (Administration) (Scotland) Regulations 2008 following the transfer of nine staff from Queen Margaret University. Since the last report to Committee in September 2013, an acceptable form of guarantee has been agreed with Queen Margaret University. Arrangements are now being made with BaxterStorey to update membership records and for outstanding contributions to be paid.

#### Employers leaving the Fund

- 2.2 The only member employed by Mitie (PFI) under their contract with West Lothian Council has left employment. The admission agreement was set up as a 'closed' admission agreement and therefore no further members will join. With no active members, the admission in the Fund will therefore terminate. The Fund's Actuary is currently preparing a cessation valuation to establish the funding position and any deficit payment due to the Fund. An update will be provided at a future Committee meeting.

## **Forth Estuary Transport Authority (FETA)**

- 2.3 Fund officers recently met with Transport Scotland to discuss the ongoing situation with regard to the dissolution of FETA from June 2015. The Scottish Government have previously agreed to act as guarantor for legacy pension liabilities and a draft agreement is with solicitors acting for Transport Scotland for review.
- 2.4 A new contractor will be appointed to operate both the Forth Bridge and the new Forth crossing. Current employees of FETA will transfer to this organisation under TUPE and the contractor is expected to apply for admission on a 'closed' basis (that is, no other employees working on the contract will be permitted to join the Fund). Again, the Scottish Ministers have indicated that they will act as guarantor for the new contractor.

## **Canongate Youth Project YTS**

- 2.5 As noted in a previous report to Committee, Canongate Youth Project YTS (an admitted body to the Fund) has been wound up, with all employees, assets and liabilities being transferred to Canongate Youth Project – also an admitted body. Canongate Youth Project's admission agreement has now been updated to reflect this change.

## **Citadel Youth Centre**

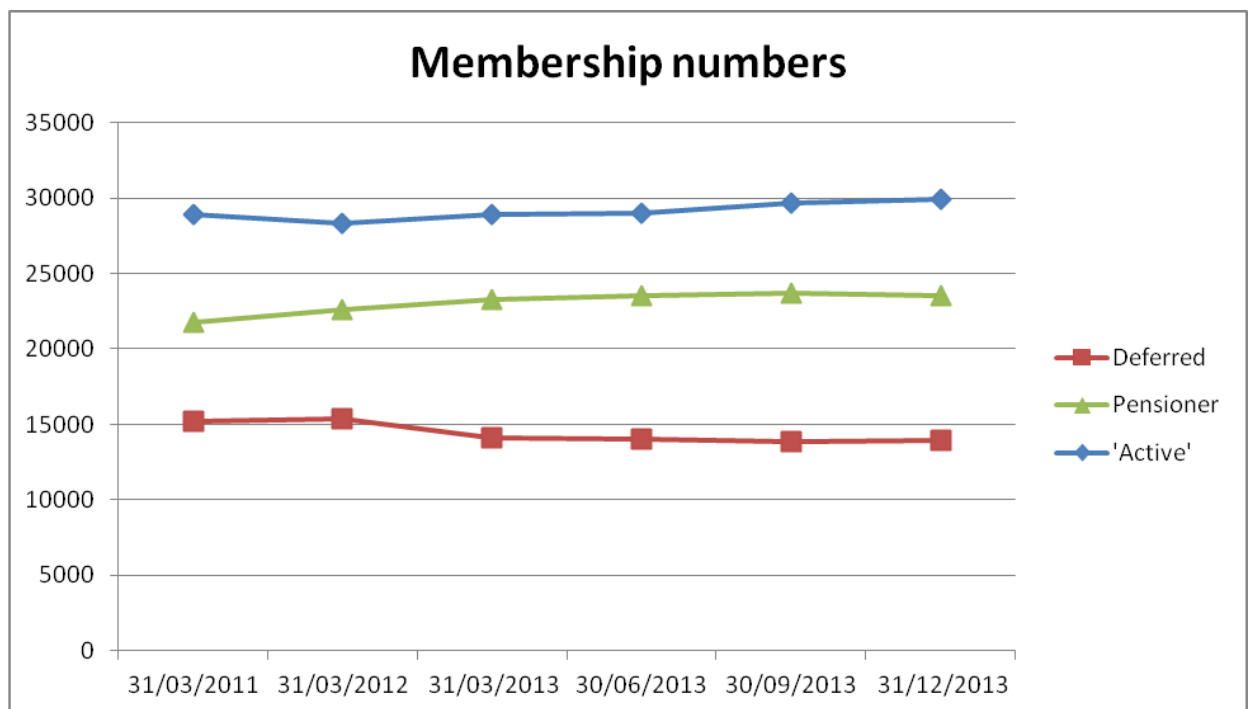
- 2.6 Discussions continue with Citadel Youth Centre over a revision to their admission agreement to take into account their imminent change from an unincorporated body to a Scottish Charitable Incorporated Organisation (SCIO).

## **Review of Employer Covenant**

- 2.7 In preparation for the actuarial valuation and as part of ongoing risk management, the Fund will be carrying out a review of the covenant for employers who are part of the Fund.
- 2.8 A survey was issued to all employers in September 2013 requesting information about their status, sources of funding, and any plans to make changes to their pension provision. In addition, annual report and accounts have been requested with key details recorded for use in future analysis. 26 employers have yet to respond and the Fund is currently following up with these employers.

## Membership of the Fund

- 2.9 Membership monitoring is an important part of the Fund's risk management process. Membership numbers for the 2013 calendar year are shown below, together with numbers at 31 March 2011 and 31 March 2012.
- 2.10 It should be noted that these numbers show number of member records, rather than number of individuals. Some members have more than one employment/membership in the Fund and each is held as a separate record for pension purposes. Also, the reliability of the Fund's membership at any point in time is dependent on the speed at which employers provide details of changes. Information at the financial year would be expected to be more reliable given the additional checks undertaken at that time.



- 2.11 The graph shows the impact of voluntary early release exercises carried out by the larger employers in recent years with the number of pensioners increasing and the number of active members decreasing between 2011 and 2012.
- 2.12 Between March 2012 and March 2013 changes to Scheme regulations relating to pensions auto-enrolment allowed employees with contracts of employment of less than three month's duration can elect to join the Scheme. The number of active members increased over the year and has continued to rise over the financial year 2013/14. The number of pensioners at 31 December 2013 has only marginally increased since 31 March 2013.

- 2.13 The number of deferred members has marginally decreased over recent years. This is partly due to a change in the regulations which introduced a time-limit on the option for members to combine previous periods of Local Government Pension Scheme membership.

### 3. Recommendations

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To recommend that that the Pensions Committee note

- 3.1 the changes to the employers participating in the Fund, and;
- 3.2 the work being carried out to review the covenant of employers.

#### **Alastair Maclean**

Director of Corporate Governance

#### **Links**

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##### **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**



# Pensions Committee

2.30pm, Monday, 24 March 2014

## Service Plan Progress

Item number	5.9
Report number	
Wards	All

### Links

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Coalition pledges	
Council outcomes	<a href="#">CO26</a>
Single Outcome Agreement	

### Alastair Maclean

Director of Corporate Governance

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# Executive summary

## Service Plan Update

### Summary

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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**

Now that the proposed changes to the pension scheme have been announced a period of consultation with key stakeholders has commenced.

- A draft version of the Local Government Pension Scheme (Scotland) Regulations 2014 has been issued by the Scottish Public Pensions Agency. Lothian Pension Fund officers worked practitioners from the other Scottish Local Government Pension Funds to provide a joint response to the consultation. The consultation closed on 14 February 2014. The proposed amendments to the existing Regulations are scheduled to be laid before Parliament in April 2014.
- The Pension Fund collated the views of the Committee and Consultative Panel in regards to the proposed changes to the governance arrangements and submitted these to the Scottish Government. A response to these comments is expected in the near future.

#### **Investment & Funding Strategy**

Progress continues with the implementation of the 2012-17 investment strategies. The reorganisation of the Lothian Buses Pension Fund is now completed and results in a Fund with lower expected volatility, slightly lower expected return potential, but improved income generation. Investment Strategy Panel has reviewed the details of the reorganisation.

There have been no significant changes to the Lothian Pension Fund investment strategy over the last quarter but the increase in the Alternatives allocation is progressing at a steady rate. The Investment Strategy Panel is in the process of reviewing the bond portfolio and a verbal update will be provided to Committee on the conclusions.

Discussions have been held with Scottish Government regarding the funding position of the Scottish Homes Pension Fund ahead of the 2014 actuarial valuation. The current funding arrangements and employer contributions from the Scottish Government are determined in accordance with the 'Operation of the Scottish Executive (Government) Guarantee'. The Actuary to the Fund assesses the value of the assets and liabilities at each triennial valuation and contributions are determined by comparing the funding level with targets set out in the Guarantee. Essentially, the assets and liabilities are 'marked to market' every three years. Scottish Government has indicated their willingness to review the funding strategy. The priority is to ensure a satisfactory funding position and explore options to potentially reduce the impact of short term market movements on contributions and reduce the likelihood (and size) of further contributions being required from Scottish Government. The review will focus on the liability cashflow and will involve the Fund's Actuary and investment consultants. Updates on the review and its recommendations will be provided to Committee over the course of 2014.

An external consultant has been commissioned to assess internal operational risks, including the risks of managing more assets internally. The conclusions are covered elsewhere on the agenda.

### **Employer Issues - Survey & On-line System**

The annual survey of employers was undertaken in the final quarter of 2014. The results showed that 90% agreed that the overall service was excellent. Satisfaction across all customers is currently in line with the target of 86%.

During 2013, the pensionsWEB employer on-line system was rolled out to all employers, with all data transferred from employers electronically via the secure portal. The portal has also been used to send data to employers, in particular as part of data cleansing exercises. The online monthly contribution return element of the employer on-line has been introduced, and so far around a quarter of employers of varying sizes are using this facility. This allows any missing records or other discrepancies to be identified and resolved at an early stage rather than at year-end. This will mean a less onerous year-end process for these employers. Further training and employer visits in March 2014 will be used to introduce the monthly contribution return process to more employers.

## **Customer Service Excellence (CSE)**

The annual CSE assessment took place on 3<sup>rd</sup> February and an external assessor visited the Fund and met with staff, customers and partners. The fund was successful in retaining the award. The fund will retain the 'Partial Compliance' for our work with our partners, reflecting the issues we have with data transfer from our employers. However, the assessor recognised the good work the Fund is doing to address this but it will take time to produce real results for members. The fund retained a 'Compliance Plus' for the approach to consulting with customers and achieved a new Compliance Plus for "commitment to putting the customer at the heart of service delivery".

## **Performance indicators**

Performance is broadly on track to achieve respective targets. Three indicators are highlighted as 'amber' and the remaining are 'green'.

**Investment Performance:** The investment objectives of the Lothian Pension Fund agreed by the Pensions Committee in 2012 are to achieve the same return as the benchmark over the long term economic cycle (typically five years or more). Over shorter periods, the Fund should perform better than the benchmark if markets fall significantly.

The 5 year performance largely reflects the previous investment strategy. Over time, as the new strategy is implemented performance information will become increasingly meaningful to measure Fund and benchmark volatility compared to the target. Hence the performance traffic light is highlighted 'amber'.

Over the 5 years to 31 December 2013, the Fund has delivered a return of 10.3% per annum compared with the benchmark return of 10.9% per annum. The period in late 2008/early 2009 was characterised by extremely volatile markets at the time of the global financial crisis. The Fund performed very strongly relative to the benchmark during the financial crisis and very weakly relative to the benchmark as markets rebounded in 2009. The strong relative performance is now falling out of the 5 year figures and the Fund's 5 year performance is expected to continue to lag the benchmark for some time. (Over the 10 years to December 2013, the Fund's performance is ahead of its benchmark).

The new investment strategy targets benchmark returns with outperformance likely in falling markets and underperformance likely in rising markets. It puts far less emphasis on short term relative benchmark performance and puts more emphasis on mitigating downside risk to achieve required long term returns. A more detailed update on the implementation of the investment strategy and investment performance will be provided to Committee in June 2014.

**Employer Contributions:** For the period of 1 October to 31 December 98.77% of employers paid their contributions within 19 days meeting the target of 98%. However the indicator remains at amber because the year to date figure is currently 94.35% as two employers have paid the contributions late, albeit only 1 day late.

**Staff Training:** As at 31<sup>st</sup> December, 87% of staff had completed 2 days training (15 hours). The efforts made in the previous quarter to accelerate training efforts have had a positive impact. Managers are speaking with all members of staff who still have a low number of training hours to ensure they are offered training opportunities and recording their training properly.

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**

The Fund has settled into temporary accommodation within the City Chambers. The staff are located on two different floors. The legal paperwork for the new offices is near completion and the office has been fitted out. The move is now dependent on the installation of information technology links.

### **Recommendations**

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

### **Measures of success**

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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	523	248	186	828	204	1,989	(172)
Transport	27	17	2	1	2	2	24	(3)
Supplies & Services	843	253	152	16	307	78	806	(37)
Investment Managers	10,093	9,380	0	0	0	0	9,380	(713)
Other Third Party Payments	612	82	448	40	90	0	660	48
Depreciation	74	0	10	0	56	8	74	0
<b>Direct Expenditure</b>	<b>13,810</b>	<b>10,255</b>	<b>860</b>	<b>244</b>	<b>1,283</b>	<b>292</b>	<b>12,933</b>	<b>(877)</b>
<b>Allocated Central Support</b>	<b>552</b>	<b>184</b>	<b>73</b>	<b>0</b>	<b>295</b>	<b>0</b>	<b>552</b>	<b>0</b>
Income	(870)	(37)	(700)	0	(45)	0	(782)	88
<b>Total Costs to the Fund</b>	<b>13,492</b>	<b>10,402</b>	<b>233</b>	<b>244</b>	<b>1,533</b>	<b>292</b>	<b>12,703</b>	<b>(789)</b>

The projection shows an underspend of £789K. The key variances against budget are:

- Employees - £172k underspend. This is mainly due to unfilled posts across the division, partly offset by temporary agency costs, the implications of the modernising pay agreement and pay award of 1%.
- Investment management fees – £713k underspend. This is partly due to the reduction in external investment mandates and partly due to the reduction in the property exposure of the Fund.
- Other Third Party Payments reflect additional costs, £48K, of the review of investment operations and custody services costs of transition. These are largely offset by general savings in Supplies and Services and Transport of £37K.
- Income – £88K less than expected. Stock lending commission income has been decreased by £100K to reflect reduction in market demand.

Given the present uncertainty of the timing of the office move, no allowance has been made in the 2013/14 projection. Allocated Central Support costs remains in line with budget as the projection has not yet been revised by the Council's Finance team.

## Equalities impact

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There is no equalities impact relating to this report.

## Sustainability impact

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There is no sustainability impact relating to this report.

## Consultation and engagement

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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

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None.

## Links

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### 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













**24 March 2014**  
**Service Plan Update 2013 - 2016**




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## Service Plan Performance Indicators

Performance Indicators and targets	1 <sup>st</sup> quarter April-June	2 <sup>nd</sup> quarter July - Sept	3 <sup>rd</sup> quarter Oct-Dec	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 31 December 2013 (a period of strongly rising markets), the Fund delivered 10.3% per annum while the strategy delivered 10.9% 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%	90.77%	Greater than 90%	
Percentage of employer contributions paid within 19 days of month end	96.71%	87.66%	98.77%	98%	
Data quality – compliance with best practice as defined by the Pensions Regulator	Outcome of this measure will be available in April 2014				
<b>Customer Indicators and targets</b>					
Maintain Customer Service Excellence Standard	Annual assessment 3 <sup>rd</sup> February 2013 for Customer Service Excellence  Award attained - 				
Overall satisfaction of employers, active members and pensioners measured by surveys	86%	86%	88%	86%	
Proportion of active members receiving a benefit statement and time of year when statement is issued	96% by September			Over 95% by September	
<b>Staff</b>					
Level of sickness absence	1.63%	2.35%	1.56%	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	67%	68%	87%	2 days	




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

Project	Status	Overall Progress	Project Summary
<b>Ensure effective Governance of the Fund.</b>		<ul style="list-style-type: none"> <li>- Alison Cosgrove, a member of the Pensions Committee and Consultative Panel stepped down from her role in December. Another union representative is being sought.</li> <li>- New members have been welcomed onto the Consultative Panel.</li> <li>- The Committee and Panel sat for a special session regarding the Scottish Governments consultation on the proposed changes to the governance arrangements of Local Government Pension Schemes in Scotland.</li> <li>- Various training events have been organised recently including reform of Local Government Pension Scheme seminar and presentation from Hermes.</li> <li>- The Fund has settled into their temporary accommodation within the City Chambers. We await time scales from BT open reach so we may confirm our move date to Morrison Street.</li> </ul>	<ul style="list-style-type: none"> <li>- Embed the Fund's new governance arrangements including the new pensions audit sub-committee and independent observer.</li> <li>- Reinforce the separations of the Fund from the City of Edinburgh Council.</li> <li>- Continue to improve the Fund's approach to 'trustee' training.</li> </ul>
<b>Successful implementation of the Scheme changes.</b>		<ul style="list-style-type: none"> <li>- Now that the proposed changes to the pension scheme have been announced a period of consultation with key stakeholders has commenced.</li> <li>- The draft regulations have been circulated and a joint response on the technical details with other pension fund practitioners has been submitted.</li> <li>- The Pension Fund collated the views of the Committee and Consultative Panel in regards to the proposed changes to the governance arrangements and submitted these to the Scottish Government.</li> </ul>	<ul style="list-style-type: none"> <li>- Engage in debate on scheme benefits</li> <li>- Communicate with stakeholders</li> <li>- Review internal processes and procedures</li> <li>- Provide training for staff on new arrangements.</li> </ul>
<b>Monitor financial and economic pressures and scheme maturity.</b>		<ul style="list-style-type: none"> <li>- Progress continues with the implementation of the 2012-17 investment strategies. The reorganisation of the Lothian Buses Pension Fund is now completed.</li> <li>- A contribution stability mechanism for Lothian Pension Fund was agreed by Committee in December 2013. Timetables for the 2014 valuation are being put in place and the Actuary is currently undertaking a pre-valuation data cleanse. A review of the Scottish Homes Pension Fund funding strategy is underway.</li> <li>- Paper 5.8 provides an update on participating employers within the Lothian Pension Fund.</li> </ul>	<ul style="list-style-type: none"> <li>- Implement new investment strategies</li> <li>- Prepare for the Fund's 2014 actuarial valuation.</li> <li>- Improve membership and cash flow monitoring and forecasting.</li> <li>- Monitor the risk profile of the participating employers.</li> <li>- Manage the pension implications of organisational and staffing changes of employers.</li> </ul>





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

Project	Status	Overall Progress	Project Summary
<b>Provide an efficient accurate and effective service.</b>		<ul style="list-style-type: none"> <li>- The pension administration and payroll systems are now merged and payroll is now integrated into the pension fund service with staff now trained on new procedures. Work will continue to further automate the process.</li> </ul>	<ul style="list-style-type: none"> <li>- Implement the transfer of the pensions payroll service from the Council payroll system to the pensions administration system</li> </ul>
<b>Risk is managed effectively</b>		<ul style="list-style-type: none"> <li>- The compliance checklists and procedures have been updated and continue to refined.</li> <li>- 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.</li> <li>- A review of investment operations has been undertaken by an external consultant.</li> <li>- We have separately carried out a Risk Assurance exercise (covering all the operations of our division within the wider Council).</li> </ul>	<ul style="list-style-type: none"> <li>- Review and strengthen internal controls and documentation.</li> <li>- Ensure up-to-date procedure manuals for all key responsibilities are maintained.</li> </ul>
<b>Shared services /governance</b>			<ul style="list-style-type: none"> <li>- Provide excellent service to Falkirk Pension Fund</li> <li>- Participate in relevant joint procurement initiatives.</li> </ul>

## Our Customers - To provide excellent customer care

Project	Status	Overall Progress	Project Summary
<b>Develop and improve customer insight.</b>		<ul style="list-style-type: none"> <li>- The survey of employers was conducted in November 2013. The fund received a total of 67 responses and the survey showed that overall satisfaction remained high with 90% of employers who responded agreeing that they were very/quite satisfied with the overall service. The fund also scored highly in regards to quality of information 94% and staff attitude 98% of employers who responded rated these aspects of our service very/quite satisfied. 85% of employers who responded were aware of Pensions Web and 57% of employers were very/quite satisfied with the Pensions Web system.</li> <li>- A number of 'pension clinics' have taken place 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 'pension clinics' are resource intensive and only reach a small number of scheme members. It has been agreed that to ensure we maximise the use of 'pension clinics' we should only use this type of contact when a major change affecting a number of people for example, bulk early retirement exercises.</li> </ul>	<ul style="list-style-type: none"> <li>- 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.</li> <li>- Continue to deliver best practice standards for Customer Journey Mapping and develop greater use of customer insights.</li> <li>- Develop members' awareness of the value of the pension benefits and the contributions their employers make towards their pension.</li> <li>- Seek additional insight to assist the implementation and development of the pension payroll service.</li> </ul>
<b>Improve timeliness and quality of customer service.</b>		<ul style="list-style-type: none"> <li>- Pensions Administration Strategy has been reviewed and updated. Pension administration task management system service standards continue to be reviewed.</li> <li>- During 2013, the pensionsWEB employer on-line system was rolled out to all employers, with all data transferred from employers electronically via the secure portal. The portal has also been used to send data to employers, in particular as part of data cleansing exercises. The online monthly contribution return element of the employer on-line has been introduced, and so far around a quarter of employers of varying sizes are using this facility. This allows any missing records or other discrepancies to be identified and resolved at an early stage rather than at year-end. This will mean a less onerous year-end process for these employers. Further training and employer visits in March 2014 will be used to introduce the monthly contribution return process to more employers.</li> </ul>	<ul style="list-style-type: none"> <li>- Implement 'employer on-line' access, thereby facilitating up to date records through electronic transfer of information in standardised formats.</li> <li>- Partnership accountability – review and monitor service standards to ensure we have an effective and accountable partnership with employers.</li> <li>- Re-assess our service standards and targets for members.</li> </ul>
<b>Develop and improve our information and access.</b>		<ul style="list-style-type: none"> <li>- The annual customer service excellence (CSE) assessment took place on 3<sup>rd</sup> February. The fund was successful in retaining the award. The fund will retain the 'Partial Compliance' for our work with our partners, reflecting the issues we have with data transfer from our employers. However, the assessor recognised the good work the Fund is doing to address this but it will take time to produce real results for our members. The fund retained a 'Compliance Plus' for the approach to consulting with customers and achieved a new Compliance Plus for 'commitment to putting the customer at the heart of service delivery'.</li> </ul>	<ul style="list-style-type: none"> <li>- Ensure we communicate regularly with employers including newsletters, events and meetings.</li> <li>- Assess our approach to delivering services to members on a face-to-face basis including pension clinics and presentations.</li> <li>- Continue to review and update the Fund's communications based on customer and staff insight.</li> <li>- Assess potential uses of social media for communicating with stakeholders.</li> <li>- Develop channel usage monitoring.</li> </ul>

## Our Staff - To support and develop staff

Project	Status	Overall Progress	Project Summary
<b>Develop trust between line managers and staff and promote an open culture.</b>		<ul style="list-style-type: none"> <li>- Regular 1-1 meetings with staff take place regularly.</li> <li>- Recent staff survey has highlighted a further improvement to make team meetings more engaging. This will be explored.</li> <li>- Service plan sessions have taken place throughout January to encourage staff to discuss our progress and achievements and to look to the future and plan key actions for next year.</li> </ul>	<ul style="list-style-type: none"> <li>- Ensure line managers have regular 1-1 meetings with all staff to discuss progress and achievements</li> <li>- Ensure effective delegation of tasks.</li> </ul>
<b>Communicate effectively, especially around change.</b>		<ul style="list-style-type: none"> <li>- 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.</li> <li>- Separate communications about the office move have been introduced.</li> </ul>	<ul style="list-style-type: none"> <li>- Communicate regularly via face-to-face briefings and via email on issues affecting the division.</li> <li>- Provide clear objectives at annual appraisal meetings and review progress on a regular basis.</li> </ul>
<b>Ensure development and training for all staff.</b>		<ul style="list-style-type: none"> <li>- Training and development continues to be encouraged via 1:1 and staff meetings. The achievement of training and development is being assessed regularly.</li> <li>- Regular briefing sessions are held internally to inform staff about current issues and developments.</li> </ul>	<ul style="list-style-type: none"> <li>- Provide learning opportunities at all levels to suit the needs of the service including ICT skills.</li> <li>- Provide staff with career and personal development opportunities to make the most of their talents.</li> <li>- Review training and development evaluation process.</li> </ul>
<b>Support staff well-being</b>		<ul style="list-style-type: none"> <li>- Staff forum continues to provide feedback from staff as do the regular 1-1s.</li> <li>- The project exploring flexible working options is progressing and testing of home-working is going well.</li> </ul>	<ul style="list-style-type: none"> <li>- Encourage suggestions and empower staff to make changes to the way they work to improve the service.</li> <li>- Provide clear feedback in response to staff suggestions.</li> <li>- Explore flexible working options</li> <li>- Help staff develop to their full potential.</li> </ul>

# Pensions Committee

2.30pm, Monday, 24 March 2014

## Risk Management

Item number	5.10
Report number	
Wards	All

### Links

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Coalition pledges	
Council outcomes	<a href="#">CO26</a>
Single Outcome Agreement	

### Alastair Maclean

Director of Corporate Governance

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# Executive summary

## Risk Management

### Summary

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Our risk management procedures require us to:

- (i) maintain a detailed operational risk register<sup>1</sup> 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 25 February 2014 is set out in the appendix to this report.

### Recommendations

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We recommend the Committee notes the Quarterly Risk Overview.

### Measures of success

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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.

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<sup>1</sup> Please note that the operational risk register may require to be updated, following a review of the wider Council risk registers/approach by the corporate risk team in conjunction with PwC.

## Financial impact

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

## Equalities impact

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None.

## Sustainability impact

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None.

## Consultation and engagement

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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

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None.

## Links

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### 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 25 February 2014



## QUARTERLY RISK OVERVIEW

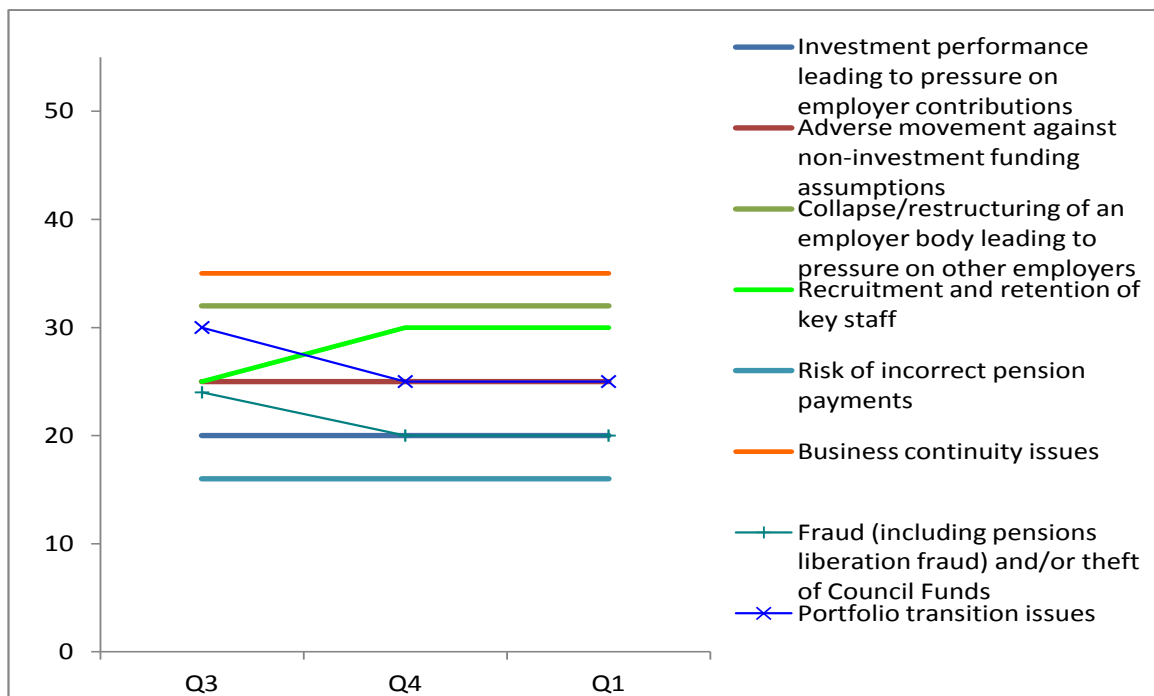
25 February 2014

### UPDATE ON MOST NOTABLE RISKS

Risk	Update
<p><b>Investment performance leading to pressure on employer contribution</b></p>	<p>The new lower volatility investment strategy continues to be implemented to mitigate this risk.</p>
<p><b>Adverse movement against non-investment funding assumptions leading to pressure on employer contributions</b></p>	<p>Meetings have been held with the Funds' Actuary to schedule analysis on employer contributions and funding assumptions ahead of the 2014 actuarial valuation.</p>
<p><b>Collapse/restructuring of an employer body leading to pressure on other employers</b></p>	<p>Engagement with employers and guarantors is underway as part of the preparation for the 2014 actuarial valuation. This will feed into the 2014 actuarial valuation and lead to other arrangements to mitigate the impact on other employers in the Fund. We are in the process of analysing the results from the responses to the employer survey and chasing for final responses.</p>
<p><b>Recruitment and retention of key staff</b></p>	<p>This risk remains as for last quarter due to the activities of other banks/fund managers in Edinburgh, which may have led to an increase in available resource in the local market, temporarily off-setting the inherent nature of this risk to increase over time until addressed.</p> <p>The review of investment operations has also recommended benchmarking the salaries of our staff in order that we better understand this risk. We are in the process of liaising with the HR team on this as well as, more generally, putting in place internal systems to assist workforce planning and with the development of our staff.</p> <p>There is also a need to recruit additional resource to our accounting and investment back-office team due to the loss of payroll staff and pending departure of our Finance Manager.</p>

<b>Risk of incorrect pension payments</b>	This risk continues to be low, now that the payroll system has largely been integrated. There is however a need to achieve full integration/automation and complete the final testing of the annual pension increase on the new system. Once this is achieved we would anticipate this risk being further reduced to the extent that it would not be worthwhile highlighting to the Committee.
<b>Business continuity issues (accommodation, staff etc.)</b>	This risk continues to remain higher than we would normally expect due to the delay to our relocation to Atria One and our temporary move to the City Chambers. Detailed contingency planning/project management is being implemented (in relation to the 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. This also includes appropriate temporary systems and procedures during our time in the City Chambers offices.
<b>Portfolio Transition Issues</b>	This risk has been significantly reduced following the successful completion of a series of transitions during December 2013 and February 2014. We would not anticipate the need to highlight this risk to the Committee until such time as another transition is required or anticipated or if any unforeseen transition issue is uncovered or reported to us.
<b>Regulatory Breach</b>	<p>The likelihood of a regulatory breach has been reduced due to our completing an in-house review of our regulatory obligations under the recently introduced European Market Infrastructure Regulation (EMIR) legislation (regulating the use of 'over the counter' derivative contracts, such as foreign exchange hedging contracts) and working with existing managers and the Northern Trust Company to agree and implement appropriate procedures for our compliance.</p> <p>We are now registered with the FCA for the purposes of notifying certain EMIR events (which cannot be delegated) and have appropriate systems and procedures in place to ensure such notifications are made.</p>
<b>Fraud (including pensions liberation fraud) and/or theft of pension fund monies</b>	The risk around Fraud remains the same but recent Pensions Liberation cases, involving suspect schemes using reputable law firms to add an air of legitimacy to their proceeding, have highlighted the need for continued vigilance in this area. We have reported these cases to the FCA, HMRC and the Pensions Regulator and liaised with the relevant law firm to highlight our concerns. We also continue to update our processes to take account of the ever more sophisticated scams that we are seeing.
<b>Breach of contract</b>	<p>We are in the process of carrying out a full review of all our contracts and creating a comprehensive contract data-base, which will link up with the CEC procurement team.</p> <p>We anticipate that this risk should be significantly reduced once this review has been completed and any material issues addressed.</p>

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



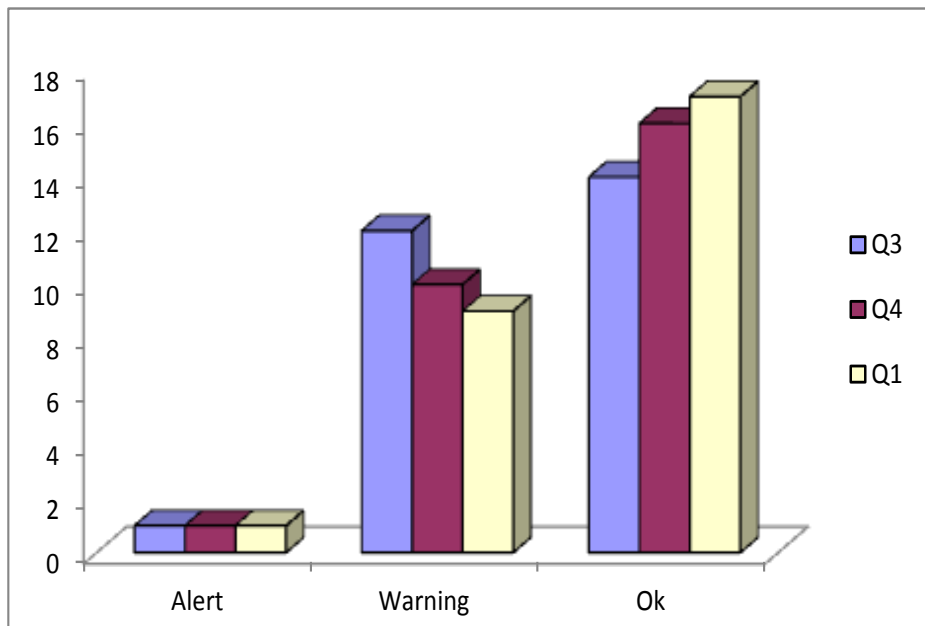
**OTHER KEY POINTS**

	Comments
<b>New significant risks</b>	None
<b>Other new risks</b>	None
<b>New controls</b>	EMIR Delegations and FCA registration. New sign-off process for generic communications.
<b>Eliminated risks</b>	None
<b>Notable initiatives / actions</b>	Introduction of a detailed contract database/review of LPF contracts.  Updating our compliance policies and procedures to take into account the recommendations of the external consultant in relation to the operations of our in-House investment team, including liaising with HR in relation to the need to have our employee terms and incentives benchmarked against equivalent investment and pensions expertise in the market.  Contingency planning for the office move to Atria One, alongside having introduced temporary arrangements for our period in the City Chambers.  Employer survey/engagement as part of the preparations for the 2014 actuarial valuation.

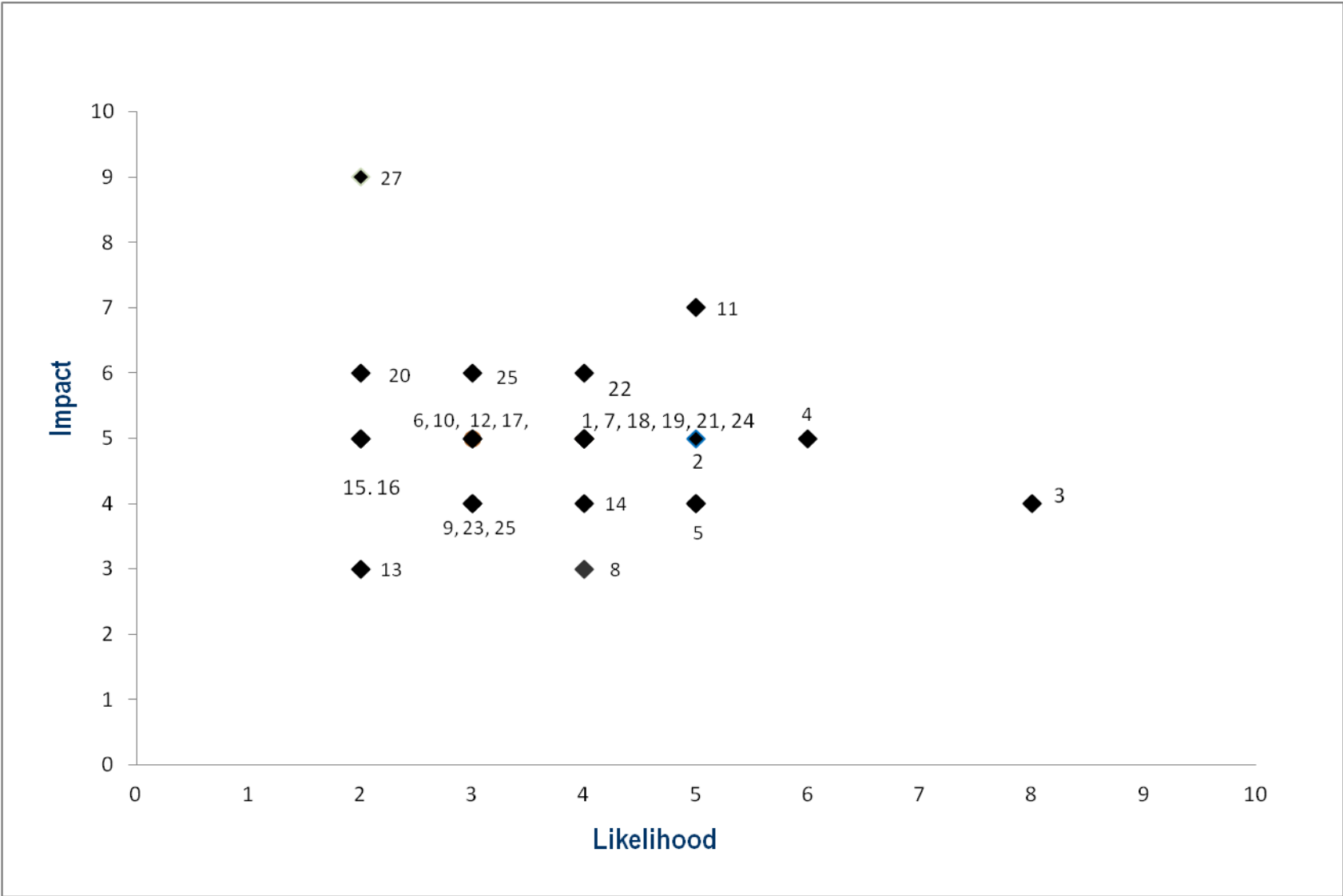
**Material Litigation**

None

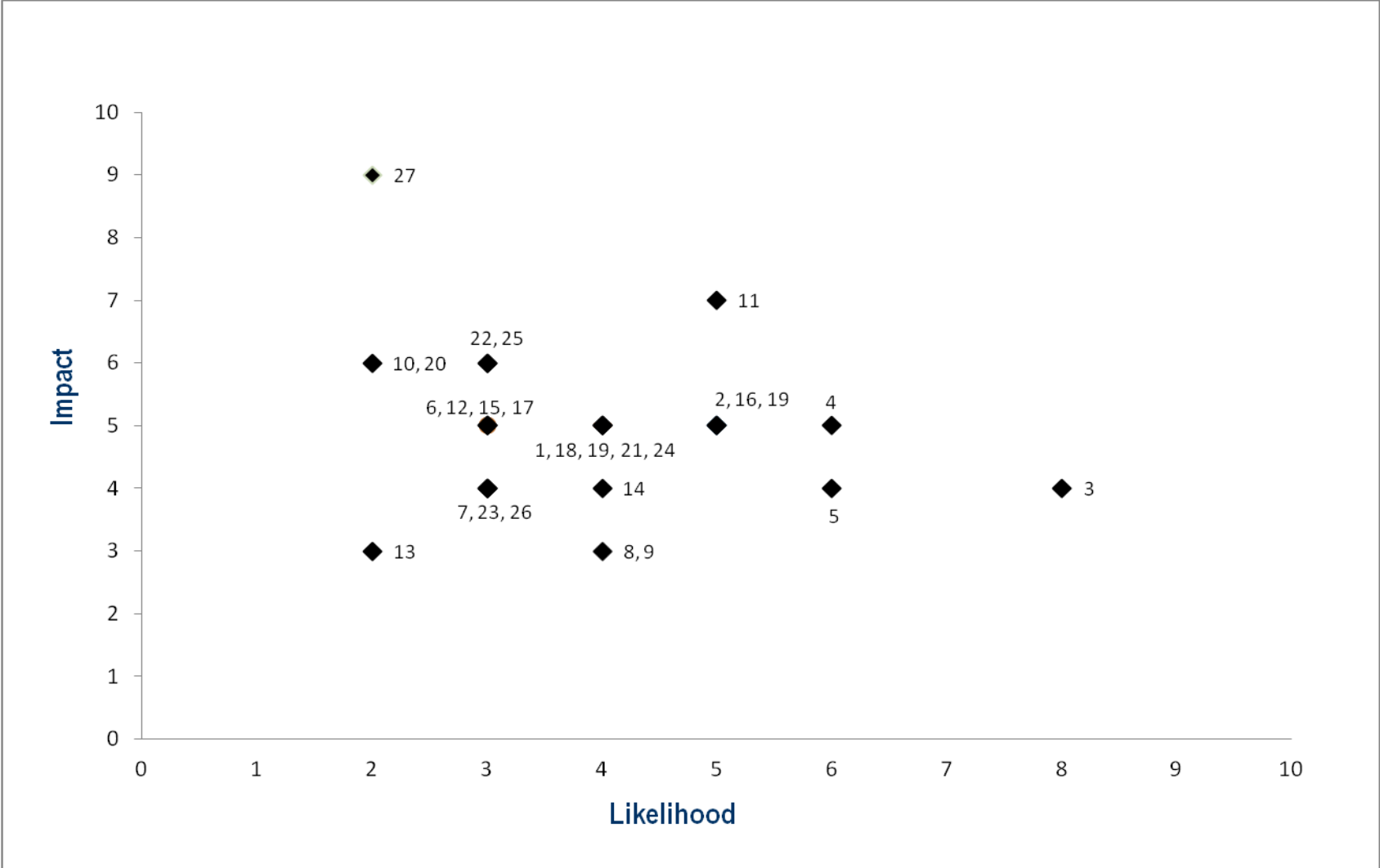
**All Risks: Status Overview**



Q1(2014) All Risks: Impact and Likelihood Overview



Q4 (2013) 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		