Notice of meeting and agenda

Pensions Committee

2.30pm, Wednesday 25 March 2015

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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1. Order of business

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

2. Declaration of interests

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

3. Deputations

3.1 Festival and King's Theatre Edinburgh

4. Minute

4.1 Previous Minute 17 December 2014 – Submitted for approval as a correct record (circulated)

5. Reports

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

5.2 External Audit – Annual Audit Plan 2014-15 - report by the Director of Corporate Governance (circulated)

5.3 Internal Audit Plan for 2015-16 – report by the Chief Internal Auditor (to follow)

5.4 Pension Fund Governance - report by the Director of Corporate Governance (circulated)

5.5 Reform of the Local Government Pension Scheme in Scotland and Regulatory Update (excluding Governance) - report by the Director of Corporate Governance (circulated)

5.6 Funding Strategy Statement - report by the Director of Corporate Governance (circulated)

5.7 2014 Actuarial Valuation for Lothian Pension Fund - report by the Director of Corporate Governance (circulated)

5.8 2014 Actuarial Valuation for Lothian Buses Pension Fund - report by the Director of Corporate Governance (circulated)

5.9 2015-2018 Service Plan and Budget - report by the Director of Corporate Governance (circulated)

5.10 Internal Investment Controls and FCA Update – report by the Director of Corporate Governance (circulated)

5.11 Update on Employers Participating in Lothian Pension Fund – report by the Director of Corporate Governance (circulated)

5.12 Overpayment of Pension – report by the Director of Corporate Governance (circulated)

5.13 2014-2017 Service Plan Update - report by the Director of Corporate Governance (circulated)

5.14 Risk Management Summary – report by the Director of Corporate Governance (circulated)

6. Motions

6.1 If any

Carol Campbell

Head of Legal, Risk and Compliance

Committee Members

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

Information about the Pensions Committee

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

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

Further information

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

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

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

Item 4.1 - Minutes

Pensions Committee

2.30pm, Wednesday 17 December 2014

Present

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

Consultative Panel Members Present:

Helen Carter, Eric MacLennan, Owen Murdoch and John Rodgers

1. Minutes

Decision

To approve the minute of the Pensions Committee of 23 September 2014 as a correct record.

2. Referrals and Recommendations from the Audit Sub-Committee

Councillor Rose advised the Committee of the discussion and decisions taken at the Pensions Audit Sub-Committee the previous day.

Decision

To note the update.

(Reference – Pensions Audit Sub-Committee, 16 December 2014.)

3. Agenda Planning

Details were provided of potential reports for future Pensions Committee and Pensions Audit Sub-Committee meetings in March and June 2015.

Decision

To endorse the recommendation of the Pensions Audit Sub-Committee that in future:

i) EU tax claims reports should be considered only by the Sub-Committee.

ii) Reports on class actions should be incorporated into the Environmental Social and Governance reports and only reported to the main committee and not the Sub-Committee.

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

4. Consultative Panel and Pensions Committee Membership

Due to the upcoming changes to the Fund's governance arrangements in April 2015 the Consultative Panel's nominated members to the Committee had been extended to 1 April 2015.

Decision

To note the extension of the appointment of the two current external members, John Anzani and Darren May, to the Pensions Committee until 1 April 2015.

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

5. Report by the External Auditor on the Annual Report 2014 of Lothian Pension Fund, Lothian Buses Pension Fund and Scottish Homes Pension Fund

The annual report from Audit Scotland on the Lothian Pension Fund, Lothian Buses Pension Fund and Scottish Homes Pension Fund was provided.

The corresponding management actions in response to the identified issues or risks were also considered.

A representative from Audit Scotland attended for this item.

Decision

1) To note the Annual Report on the 2013/14 audit of the Lothian Pension Fund, the Lothian Buses Pension Fund and the Scottish Homes Pension Fund.

2) To note the Action Plan at appendix 2 of the external auditor's report and seek appropriate updates on progress.

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 2015.

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

6. New Scheme Update (Governance)

Due to the implementation on 1 April 2015 of the Public Services Pensions Act 2013 and the Local Government Pension Scheme (Governance) (Scotland) Regulations 2014, changes were required to the governance of the pension funds. Approval was sought for the relevant governance documentation.

The Committee discussed each of the documents individually and a vote was taken on the number of members making up the Pensions Board

Motion

That the membership of the Pension Board should comprise of four employer and four employee members

- Moved by Councillor Rose, seconded by Councillor Orr

Amendment

That the membership of the Pension Board should comprise of five employer and five employee members

- Moved by Councillor Rankin, seconded by Councillor Child

Voting

The voting was as follows:

For the Motion – 2 votes
For the Amendment – 4 Votes

Decision

1) To note the Lothian Pension Fund response to the draft 2014 Regulations.

2) To approve the Nomination Procedure for external members of the Pensions Committee and members of the Pension Board subject to:

   i) Amending paragraph 1.5 to include the Convener of the Pensions Committee and a senior officer of the Scheme Manager in the Review Panel.

   ii) Amending paragraphs 1.6 and 3.5 to state that 'in the event of a tied vote, a nomination or appointment will be made by drawing lots.'

3) To approve the constitution for the Lothian Pension Fund Pension Board subject to:

   i) Amending paragraph 4.2 to state that 'the quorum of the Board will be four (comprising at least two employer and two employee members).'

   ii) Amending paragraph 5.2 to clarify that it is not only the Chair of the Pensions Board who can speak at the meeting.

4) To agree that the membership of the Pension Board should comprise of five employer and five employee members.

5) To approve the updated Training Policy for the Pensions Committee and Pension Board subject to amending paragraph 3.1 to require that members of the Pensions Board must attend a minimum of two of its four quarterly meetings.

6) To use the word 'substitute' in place of 'alternates' throughout the documents.

7) To agree that the Director of Corporate Governance in consultation with the Convener is authorised to approve, on behalf of the Committee, any changes to the Constitution, Nomination Procedure or Training Policy required to address (a) subsequent amendments to the 2014 Regulations (b) any changes that may be deemed necessary for the purposes of satisfying the requirements of the 2014 Regulations, the 2013 Act and/or the Council's own requirements and/or (c) necessary improvements or other amendments to resolve any errors or ambiguities .

8) To refer the report to the City of Edinburgh Council for information.

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

7. Reform of the Local Government Pension Scheme in Scotland and Regulatory Update (excluding Governance)

An update was provided on progress in implementing a new Local Government Pension Scheme in Scotland from 1 April 2015.

Decision

To note the report.

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

8. Pension Fund Cost Benchmarking

A report benchmarking investment costs and pension administration costs had highlighted that Lothian Pension Fund's investment costs were low compared to the global peer group and that administration costs were within the expected range, although higher than the selected local authority peer group.

Decision

1) To note the report.

2) To note that the CEM Investment Benchmarking Analysis and the CIPFA (Chartered Institute of Public Finance and Accountancy) Pensions Administration Benchmarking 2014 comparator reports had been provided, on a confidential basis, to the Convener of the Pensions Committee, Convener of the Pensions Audit Sub-Committee and the Independent Professional Observer.

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

9. Scottish Homes Pension Fund – 2014 Actuarial Valuation and Investment Strategy

An update was provided on the actuarial valuation for the Scottish Homes Pension Fund. Approval was also sought for a revised investment strategy for the Fund.

Decision

1) To approve the 2014 actuarial valuation for the Scottish Homes Pension Fund.

2) To note that the funding level of the Scottish Homes Pension Fund at 31 March 2014 was 88.8% and that Scottish Government would pay contributions of £675,000 per annum to the Fund for three years starting from April 2015.

3) To approve the revised investment strategy for the Fund as detailed in paragraph 3.12 of the Director of Corporate Governance's report.

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

10. EU Tax Claims

A summary was provided of the activity on EU tax claims made on behalf of Lothian Pension Fund. A further £207.2k had been settled since the previous update.

Decision

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

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

11. Environmental Social and Governance Activity Update

An update was provided on recent activity on environmental, social and governance issues.

The Local Authority Pension Fund Forum was established in 1990 and promotes the long term interests of local authority pension funds and aims to maximise their influence.

Decision

1) To note the report.

2) To endorse Councillor Cameron Rose's nomination to stand for re-election to the Local Authority Pension Fund Forum (LAPFF) Executive and for the position of Vice Chair, at the January 2015 AGM.

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

12. Class Actions

A class action was when an investor agreed to act as a lead plaintiff in a case against a company. Details were provided of the recent activity in regard to class actions which could affect the Lothian Pension Funds. The numbers of class actions had reduced recently and were expected to continue to reduce as a result of a court ruling in 2010.

Decision

To note the update on class actions.

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

13. Service Plan Update 2014-2017

An update was provided on the progress against performance indicators and key actions required to enable the Fund to meets its key objectives.

Decision

To note the progress of the Fund against the 2014-2017 Service Plan.

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

14. Risk Management

A summary was provided on the Lothian Pensions Fund's risk management procedures, including details on the operational risk register and quarterly risk overview.

Decision

To note the Quarterly Risk Overview.

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

Pensions Committee

2.30 p.m., Wednesday, 25 March 2015

Agenda Planning

Item number	5.1
Report number	
Executive/routine	
Wards	All

Executive summary

This document provides Committee with an indication of the agenda for future meetings of the Pensions Committee and Audit Sub Committee. It also provides a more general overview of the current cycle of papers for the Committee.

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.

Links

Coalition pledges	
Council outcomes	CO26
Single Outcome Agreement	

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Report

Agenda Planning

Recommendations

1.1 That Committee notes the agenda planning document.

Background

2.1 In order for the Pensions Committee and Consultative Panel to gain an overview of the content of the Committee Cycle it was agreed that an agenda planning document be submitted each quarter.

Main report

3.1 Based on the Committee cycle and the current position, the proposed agendas for the next two meetings are set out below.

June 2015

The following papers are currently scheduled for the Pensions Committee and Audit Sub Committee meeting:

Pensions Committee	Audit Sub Committee
• Referrals/recommendations from the Pensions Audit-Sub Committee • Lothian Pension Fund Annual Report (& Accounts) Unaudited • Statement of Investment Principles • Investment Strategy Panel Activity • Annual Investment and Funding Update – LPF/LBPF/SHPF • Risk management summary	• Lothian Pension Fund Annual Report (& Accounts) Unaudited • Risk management summary

September 2015

Pensions Committee	**Audit Sub Committee**
• LPF Annual Report (& Accounts) Audited • ISA 260 Audit Report • Employers Participating in Lothian Pension Fund' • Service Plan Update • Discretions • Risk management summary	• LPR Annual Report (& Accounts) Audited • ISA 260 Audit Report • Pensions Data Quality • Fraud Prevention • Risk management summary • Delegated authorities – Write offs

Measures of success

4.1 The Committee and Consultative Panel have greater clarity regarding the content of the Committee Cycle.

Financial impact

5.1 None

Risk, policy, compliance and governance impact

6.1 There is no direct impact as a result of this report. The forward planning of the Committees' agendas should facilitate improved risk management and governance for the pension funds.

Equalities impact

7.1 None.

Sustainability impact

8.1 None.

Consultation and engagement

9.1 The consultative Panel for the Funds, comprising member and employer representatives, is integral to governance.

Background reading / external references

None.

Alastair Maclean

Director of Corporate Governance

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Links

Coalition pledges	
Council outcomes	CO26 - The Council engages with stakeholders and works in partnerships to improve services and deliver agreed
Single Outcome Agreement	
Appendices	Appendix 1 – Schedule of Committee papers

Appendix 1

Frequency	Pensions Committee	Audit Sub Committee	Month
Annually	Audit plans and reports (internal and external)	N/A - Draft audits and plan will be developed in consultation with the Convenor of the Audit Sub Committee.	March
	Service Plan and Budget	N/A	March
	Policies/Strategies/Training	N/A	March
	Governance Update (as from March 2016)		March
	LPF Annual Report (& Accounts) **Unaudited**	LPF Annual Report & Accounts (**Unaudited**)	June
	Statement of Investment Principles	N/A	June
	Investment Strategy Panel Activity	N/A	June
	Annual Investment and funding – LPF/LBPF/SHPF	N/A	June
	LPF Annual Report & Accounts **Audited**	LPF Annual Report & Accounts (**Audited**)	September
	ISA 260 Audit Report	ISA 260 Audit Report	September
	N/A	Pensions Data Quality	September
	N/A	Delegated authorities: Write offs -	September
	N/A	Fraud Prevention	September
	N/A	Audit of Foreign Exchange Transaction Costs	September
	Annual Report by External Auditor	Annual Report by External Auditor	December
	Benchmarking Report	N/A	December
	N/A	EU Tax Claims & Income Recovery	December
	N/A	Investment Income Review-Cross-Border withholding tax	December
	Environmental Social and Governance Activity (including Class Actions)	N/A	December
	N/A	Investment Controls & Compliance	December

Frequency	Pensions Committee	Audit Sub Committee	Month
Semi Annually	Employers Participating in Lothian Pension Fund	N/A	March & September
3 Times per year	Service Plan Update	N/A	March, September & December
	Referrals / recommendations from Pensions Audit-Sub	N/A	June, September & December
Quarterly	Risk management summary	Risk management summary	March, June, September and December
Every 3 years	Actuarial Valuation: LPF/LBPF/SHPF Funding Strategy Statement		December or March
As required	Delegated authorities (provider appointments)	N/A	
	Discretions (death grants etc.)	Audit reports	
	N/A	Internal Audit Reports	
	Regulatory Update	N/A	
	Investment Strategy Reviews (at least every 3 years)	N/A	
	N/A	Risk management (in depth review)	

Pensions Committee

2.30 p.m., Wednesday, 25 March 2015

External Audit - Annual Audit Plan 2014-15

Item number	5.2
Report number	
Executive/routine	
Wards	All

Executive summary

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 2014/15. This is shown at Appendix 1 - "Audit Scotland Annual Audit Plan 2014-15".

Stephen O'Hagan, Senior Audit Manager, Audit Scotland, will present the Annual Audit Plan 2014-15 to Committee.

Progress against the Annual Audit Plan 2014-15 will be reported to future meetings of the Pensions Audit Sub-Committee and thereafter the Pensions Committee.

The proposed audit fee for 2014/15 is £47,660, which represents a 1% increase on the previous year. This sum can be met from within the approved budget.

Links

Coalition pledges	
Council outcomes	CO26
Single Outcome Agreement	

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Report

External Audit Plan

Recommendations

The Pensions Committee is requested to:

1.1 Note the Annual Audit Plan 2014-15, as submitted by Audit Scotland;

1.2 Note the formal reliance placed on the work of Internal Audit;

1.3 Note that suitable provision has been made in the approved budget 2014-15 for the audit fee; and

1.4 Note that progress against the Annual Audit Plan 2014-15 will be reported to future meetings of the Pensions Audit Sub-Committee and the Pensions Committee.

Background

2.1 The Audit Plan is reported annually to Pensions Committee by the external auditor, Audit Scotland.

Main report

3.1 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 2014/15. This is shown at Appendix 1 - "Audit Scotland Annual Audit Plan 2014-15".

Measures of success

4.1 Progress against the Annual Audit Plan 2014-15 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 2014-15. This will be determined in due course.

Financial impact

5.1 The proposed audit fee for 2014/15 of £47,660 represents a 1% increase on the previous year's cost of £47,190. Suitable provision has been made in the budget for 2014/15, against which the audit fee will be charged.

Risk, policy, compliance and governance impact

6.1 External audit is a critical part of the governance of the pension funds.

Equalities impact

7.1 There are no adverse equalities impacts arising from this report.

Sustainability impact

8.1 There are no adverse sustainability impacts arising from this report.

Consultation and engagement

9.1 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 2014-15 by the Pensions Audit Sub-Committee should provide financial and risk management assurance.

Background reading/external references

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.

Alastair Maclean

Director of Corporate Governance

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Links

Coalition pledges	
Council outcomes	CO26 - The Council engages with stakeholders and works in partnerships to improve services and deliver agreed
Single Outcome Agreement	
Appendices	Appendix 1 - Audit Scotland Annual Audit Plan 2014-15

Appendix 1

Lothian Pension Fund

Annual Audit Plan 2014/15

Prepared for Lothian Pension Fund

February 2015

Contents

Key contacts

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Summary

Introduction

1. Our audit is focused on the identification and assessment of the risks 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.

2. This report summarises the key challenges and risks facing the Funds and sets out the audit work that we propose to undertake in 2014/15. Our plan reflects:
   - the risks and priorities facing the Funds
   - current national risks that are 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

3. Our planned work in 2014/15 includes:
   - an audit of the financial statements and provision of an opinion on whether:
     - they give a true and fair view of the financial transactions of the Funds during the year ended 31 March 2015, and of the amount and disposition at that date of their assets and liabilities
     - the accounts have been properly prepared in accordance with the Local Government (Scotland) Act 1973 and the 2014/15 Code of Practice on Local Authority Accounting in the United Kingdom (the Code)
   - a review and assessment of the Funds' governance and performance arrangements in a number of key areas including: review of adequacy of internal audit, arrangements to support the annual governance statement and management commentary in the annual report.

Responsibilities

4. 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

5. 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.

6. 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 & Accounting Manager

7. 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:

   - maintaining proper accounting records
   - preparing financial statements which give a true and fair view of the financial transactions of the Funds during the year ended 31 March 2015, and of the amount and disposition at that date of their assets and liabilities.

Format of the accounts

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

Audit Approach

Our approach

9. 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.

10. 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 2014/15 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 2014/15.

11. 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.

12. 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:

- pensions administration
- adherence to the Funds' scheme of delegation
- ICT application security
- accounts payable
- annual governance statement.

Materiality

13. 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.

14. Based on our knowledge and understanding of the Funds we have set our overall planning materiality at 0.5% of net assets for each separate Fund. We set a lower level, known as performance materiality, when defining our audit procedures. This level depends on professional judgement and is informed by a number of factors including:

- extent of estimation and judgement within the financial statements
- nature and extent of prior year misstatements
- extent of audit testing coverage.

15. As the net assets of the Funds are significantly more than the income and expenditure streams, we set separate planning materiality levels for income and expenditure through the fund accounts. These levels are based on 1% of total contributions received for each Fund. We also set separate performance materiality levels for these areas.

16. Exhibit 1 summarises the materiality levels applied across the financial statements areas.

Exhibit 1: Materiality levels

Financial statements area	Planning materiality £000s	Performance materiality £000s
Main fund – net assets statement	23,420	17,570
Main fund – fund account	1,860	1,400
Lothian Buses – net assets statement	1,690	1,230
Lothian Buses – fund account	97	73
Scottish Homes – net assets statement	682	512
Scottish Homes – fund account	75	56

17. Subject to the comments in the paragraph 18, we will report to those charged with governance all individual misstatements over the following thresholds:

- Main fund - £100,000
- Lothian Buses – £15,000
- Scottish Homes - £10,000.

18. In addition, an inaccuracy which would not normally be regarded as material in terms of monetary value may be important for other reasons (for example the failure to achieve a statutory requirement, or an item contrary to law). In the event of such an item arising, its materiality has to be viewed in a narrower context; such matters would normally fall to be covered in an explanatory paragraph in the independent auditor's report.

Reporting arrangements

19. The Local Authority Accounts (Scotland) Regulations 2014 require that the unaudited annual accounts are submitted to the appointed external auditor no later than 30 June each year. The Pension Committee is required to consider the unaudited annual accounts at a meeting by 31 August 2015.

20. Local authorities must publish the unaudited accounts on their websites and give public notice of the inspection period.

21. The 2014 regulations require the local authority (or a committee whose remit includes audit or governance) to meet by 30 September 2015 to consider whether to approve the audited annual accounts for signature. Immediately after approval, the annual accounts require to be signed and dated by specified members and officers and then provided to the auditor. The Controller of Audit requires audit completion and issue of an independent auditor's report (opinion) by 30 September each year.

22. Lothian Pension Fund is required to publish on its website its signed audited annual accounts, and the audit certificate, by 31 October 2015. The annual audit report is required to be published on the website by 31 December 2015.

23. An agreed timetable is included at Exhibit 2 which takes account of submission requirements and planned Pension Committee dates.

Exhibit 2: Financial statements audit timetable

Key stage	Date
Meetings with officers to clarify expectations of working papers and financial system reports	31 March 2015
Testing and review of internal control systems and transactions	By 30 June 2015
Planned committee approval of unaudited financial statements	24 June 2015 TBC
Submission of unaudited Funds' financial statements with working papers package	30 June 2015
Progress meetings with officers on emerging issues	As required
Latest date for final clearance meeting Pensions & Accounting Manager	7 Sept 2015 TBC
Agreement of unsigned financial statements for Pensions committee / Pensions Audit sub-committee, and issue of combined ISA 260report to those charged with governance and Annual Audit Report.	14 Sept 2015
Pension Committee date	30 Sept 2015
Independent auditors report signed	30 Sept 2015

24. 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 pensions and accounting manager 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 Performance Audit and Best Value Group. In addition key findings will be submitted to the Pensions Audit Sub-Committee and Pensions Committee for their consideration.

25. We will provide an independent auditor's report to Lothian Pension Fund and the Accounts Commission that the audit of the financial statements has been completed in accordance with applicable statutory requirements. As part of streamlining our audit approach, this year the Annual Audit Report will be combined with the ISA 260 report. As a result, the Annual Audit Report will be issued by 30 September 2015 which is one month earlier than previous years.

26. All annual audit reports produced are published on Audit Scotland's website: (www.audit-scotland.gov.uk).

27. Planned outputs for Lothian Pension Fund are summarised at appendix 1.

Quality control

28. 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 reviews and internal quality reviews and has been subject to a programme of external reviews by the Institute of Chartered Accountants of Scotland (ICAS).

29. 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

30. Auditors appointed by the Accounts Commission 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.

31. Auditing and ethical standards require the appointed auditor to communicate any relationships that may affect the independence and objectivity of audit staff.

32. 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 other relationships pertaining to the audit of the Funds.

Audit issues and risks

33. 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.

34. **Management override of controls**: Auditing standards (ISA 240 *The auditor's responsibility to consider fraud in an audit of financial statements*) highlights the unique position of management to influence the financial statements by overriding controls that otherwise operate effectively.

    The ability to override these controls exists in all entities and therefore represents a significant financial statements risk due to fraud. We will undertake focused substantive testing of journal entries, accounting estimates and significant transactions outside the course of normal business.

35. **Investment management - special purpose vehicles**: The Funds' investment managers and senior officers' employment are being transferred from City of Edinburgh Council to a newly established company wholly owned by the council. The objective of this move is to mitigate the risk of losing existing specialist staff. The company will employ senior staff and investment managers of the pension fund, and will facilitate the recruitment of staff on different terms and conditions (including notice periods) from existing council terms. The transfer is planned to occur in March 2015.

36. These changes will also result in revisions to how staffing costs are recorded by the Funds. We will review in detail the transactions between the limited company and the Funds to consider whether;

    - their disclosure is consistent with CIPFA's Code of Local Authority Accounting
    - the charges made by the company reflect the costs attributable to the management of the Funds' affairs.

37. Further organisational changes will involve the creation of a separate company that is authorised by the Financial Conduct Authority (FCA) to carry out regulated financial activities. The objective of this change is to provide Lothian Pension Funds with more flexibility around undertaking transactions that could be considered regulated activities.

38. Based on discussions with the Funds' officers, indications are that the company will be established after 31 March 2015 and therefore will have no impact on the 2014/15 financial statements. However we will monitor developments in this area and review the governance arrangements for both companies as they are established.

39. **Investment management expenses**: The disclosure of investment management cost has been an area of focus for CIPFA in recent years. In 2014, CIPFA issued new guidance concerning the recording and presentation of investment management costs. Local Government Pension Schemes will be expected to apply this guidance to their 2014/15 financial statements as a matter of best practice.

40. In anticipation of the CIPFA guidance, the Funds applied an approach to estimating Investment management costs to their 2013/14 financial statements. The intention of the Funds' approach was to increase transparency through estimating management fees deducted from the capital value of investments.

41. For the 2014/15 financial statements, we will review the Funds approach to recording and presenting investment management costs against the newly issued CIPFA guidance. The guidance requires all management expenses to be fully disclosed in a note to the financial statements, including those relating to pooled investment vehicles, private equity funds and global real estates funds.

42. **Requirements of new accounting regulations**: The Local Authority Accounts (Scotland) Regulations 2014 have introduced some changes to the contents of the financial statements, the processes for approving the unaudited annual accounts, and the requirements for the publication of the audited annual accounts.

43. The new regulations include for the first time the requirement for a management commentary. The Code of Practice on Local Authority Accounting in the United Kingdom encourages authorities to take into account the relevant provisions of the Government financial reporting manual (FReM) in respect of management commentaries. We will review the narrative in the unaudited annual accounts to ensure it complies with the new accounting regulations.

44. In addition, the 2014 regulations introduce the requirement for the administering authority to undertake an annual review of systems of internal control and report this is in an annual governance statement. Currently the regulations require an administering authority to prepare and publish a governance compliance statement for the pension fund.

45. Lothian Pension Fund has included both an annual governance statement and a governance compliance statement in previous years' accounts. However, the Scottish Government recommends that one statement is prepared that satisfies both sets of regulations. We will review the annual governance statement in the unaudited annual accounts to ensure it complies with the requirements of the regulations.

46. As part of our wider responsibilities under Audit Scotland's Code of Practice, we are required to consider wider dimension

audit issues and risks that are over and above risks relating to the financial statements. The Public Service Pensions Act 2013 introduces a number of changes to the governance structure of pension funds from 1 April 2015. Regulations to implement the Act in Scotland are still being finalised, however Lothian Pension Fund has approved in principle arrangements to ensure a Pension Board will be properly constituted by 1 April 2015. We will monitor progress in this area through the course of our audit.

Summary assurance plan

47. Within these identified risk areas there is a range of more specific risks and these are summarised at Appendix II. In most cases, actions to manage these risks are either planned or already underway within the organisation. Details of the sources of assurance that we have received for each of these risks and any audit work we plan to undertake is also set out in Appendix II. In the period prior to the submission of the unaudited financial statements, we will liaise with senior officers on any new or emerging issues.

Fees and resources

Audit fee

48. Over the past four years, Audit Scotland has reduced audit fees by 23.5% in real terms, exceeding our 20% target. Due to further refinement of our audit approach we have been able to restrict the increase in audit fees for 2014/15 to 1% which, in real terms, represents a 0.6% reduction at 2014 price levels.

49. 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 2015.

50. The agreed audit fee for the 2014/15 audit of the Funds is £47,660. Our fee covers:

- the costs of planning, delivering and reporting the annual audit including auditor's attendance at committees
- a contribution towards functions that support the local audit process (e.g. technical support and coordination of the National Fraud Initiative), support costs and auditors' travel and subsistence expenses.

51. Where our audit cannot proceed as planned through, for example, late receipt of 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

52. David McConnell, Assistant Director, Audit Services is your appointed auditor. The local audit team will be led by Stephen O'Hagan who will be responsible for 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 in Exhibit 3. The core team will call on other specialist and support staff as necessary.

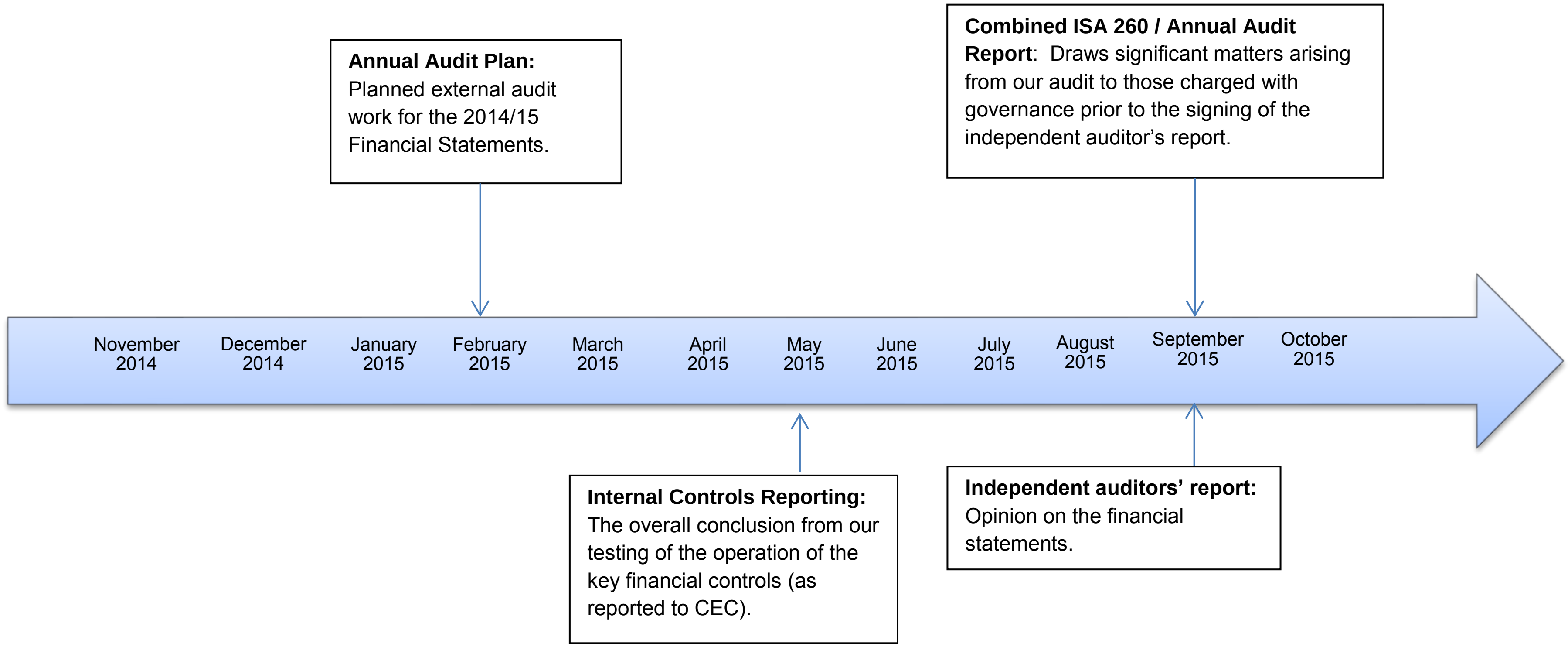
Exhibit 3: Audit team

Name	Experience
David McConnell, CPFA Assistant Director of Audit	David has extensive experience of audit in Central Government, Local Government and the NHS. He has worked in public sector audit since 1981, firstly with the National Audit Office and, since 1985, with the Accounts Commission/Audit Scotland. David is currently the lead for Audit

Name	Experience
	Scotland's Impact working group.
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.
Neil Reid CMIIA & QICA, Senior Auditor	Neil has 25 years public sector experience covering a mix of local government, police and central government within internal and external audit prior to joining Audit Scotland in 2005. Neil's experience has also involved a secondment to Deloitte, as a manager working in their advisory and ERS teams.
Ross McDonald Auditor	Ross joined Audit Scotland's Health and Local Government Team in October 2011. He is currently exam-qualified for the ICAS professional qualification and is due to achieve the necessary experience requirements in the summer of 2015.

Appendix I: Planned audit outputs

The diagram below shows the key outputs planned for Lothian Pension Fund in 2014/15.



Appendix II: Significant audit risks

We undertake a risk-based audit whereby we focus on those areas where we have identified a risk of material misstatement in the accounts. This section shows how our audit approach focuses on the risks we have identified through our planning procedures. ISA 315 *Identifying and assessing the risks of material misstatement through understanding the entity and its environment* defines a significant risk as “an identified and assessed risk of material misstatement that, in the auditor’s judgement, requires special audit consideration.”

In this section we identify a range of risks facing Lothian Pension Fund, the related source of assurance received and the audit work we propose to undertake to secure additional assurance. The management of risk is the responsibility of Lothian Pension Fund and its officers, with the auditor’s role being to review the arrangements put in place by management. Planned audit work, therefore, will not necessarily address all residual risks.

Audit Risk	Source of assurance	Assurance procedure
Management override of controls ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls in order to change the position disclosed in the financial statements	• N/A	• Detailed testing of journal entries • Review of accounting estimates for bias • Evaluating significant transactions that are outside the normal course of business.

Audit Risk	Source of assurance	Assurance procedure
Investment management – special purpose vehicles Investment and other senior staff will be transferred to a new company created to provide the Pension Funds more flexibility in the terms and conditions on which staff are recruited. There is a risk that transactions between Lothian Pension Funds and the newly established company may not be recorded and disclosed in accordance with the accounting requirements of 'The Code'.	• Management's implementation of service level agreements and charging schedules. • Financial statements are consistent with the Companies Act and applicable UK accounting framework by the Funds' management.	• Detailed testing of transaction between the Funds and the newly established company. • Review of the disclosures made in the Funds' 2014/15 financial statements concerning the relationship between the Funds and the company against the requirements of 'The Code' and sector specific guidance.
Investment management expenses CIPFA guidance applicable for 2014/15 requires all management expenses, including those deducted from the capital value of investments, to be fully disclosed in a note to the financial statements. Lothian Pension Fund applied a revised methodology in 2013/14, in advance of the CIPFA guidance, with a view to enhancing the transparency of existing disclosures. There is a risk that the methodology applied does not fully reflect the requirements set out in the CIPFA guidance, or provide a level of comparability with other pension fund disclosures.	• Funds' ongoing dialogue with CIPFA and Local Government Pension Scheme working groups. • Financial statements are consistent with CIPFA guidance.	• Review of the Funds' approach to estimating management expenses against the CIPFA guidance.

Audit Risk	Source of assurance	Assurance procedure
Requirements of new accounting regulations The Local Authority Accounts (Scotland) Regulations 2014 introduce some changes to the contents of the financial statements and the approval processes for the annual accounts. There is a risk that the pension fund annual accounts do not comply with the new regulations and are not approved in accordance with the new requirements.	• Project planning and preparatory work is underway to ensure compliance with the regulations. • Reviewing progress against targets being undertaken.	• Review of compliance as part of the detailed financial statements review for 2014/15

Pension Committee

Internal Audit plan for 2015/16

Item number	5.3
Report number	
Executive/routine	
Wards	All

Executive summary

This document outlines the planned Internal Audit activities for the financial year 2015/16.

The Internal Audit plan has been developed using a risk based methodology to ensure that assurance activity is focussed on the key areas of risk faced by the Pension Fund.

Links

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

Report

Internal Audit plan for 2015/16

Recommendations

1.1 Committee is requested to note the planned audit activity for the year 2015/16.

Background

2.1 The internal audit plan for the Fund is risk based and focuses on the governance, risk and controls within the Fund. In line with the requirements of the Public Sector Internal Audit Standards (PSIAS) which have been adopted by Internal Audit, the audit plan has been developed using a risk based methodology to ensure that assurance activity is focussed on the key areas of risk.

2.2 The methodology used is set out in the Internal Audit Risk Assessment and Plan 2015/16 which was approved by the Governance, Risk and Best Value Committee on 3 March 2015. The audits planned for the Fund are included within this overall Internal Audit plan which is contained in Appendix 1.

Main report

Internal Audit Plan for the Lothian Pension Fund

3.1 The areas proposed for inclusion in the Pensions section of the Internal Audit plan were identified subsequent to discussions with the Lothian Pension Fund management team and members of the Pensions Audit Sub- Committee to identify current areas of risk and to prioritise where obtaining assurance is appropriate.

3.2 The planned reviews for the year to 31 March 2015 are set out below:

	Audit remit	Planned days
1	Immediate Payments Audit the immediate payment (live) system from Payments Units. Also assess reconciliation controls between payroll and pension systems. (This review has been held over from 2014/15 as a consequence of the later than initially expected	20

	implementation of the immediate payments system.)	
2	Investments Managed Externally Assess the processes used for placing funds with external fund managers and the mechanisms used to appoint external fund managers. Review the procedures in place to monitor the performance of externally managed funds. Also consider the procedures used to manage the removal of external fund managers.	20
3	Compliance Asses the procedures in place to ensure that the Fund is compliant with the requirements of the Public Services Pension Act, particularly the Governance regulations. Also consider the mechanisms in place to ensure that the Fund is adhering to the Pension Regulator's Code of Practise.	20

3.3 It is proposed to conduct the Immediate Payment review in Q1 of the financial year with the other two reviews expected to be undertaken simultaneously in late Q2 or early Q3, with the expectation that all reviews will be complete in advance of the December 2015 Pension Committee meeting.

3.4 Planned days are indicative at this stage as the nature, timing and extent of the audit work is not confirmed until the detailed Terms of Reference have been finalised following the completion of the planning process with Fund management, for each review.

Measures of success

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

Financial impact

5.1 A central support charge will be made to the Pension Fund for the provision of Internal Audit services provided. This is in the process of being finalised by Finance but is expected to be in the region of £52,000.

Risk, policy, compliance and governance impact

6.1 The Internal Audit plan sets out the areas of focus for Internal Audit activities for 2015/16. Internal Audit provides assurance over the governance and control environment operating in the Fund.

Equalities impact

7.1 There are no adverse equalities impacts arising from this report.

Sustainability impact

8.1 There are no adverse sustainability impacts arising from this report.

Consultation and engagement

9.1 The internal audit team consulted with the Risk team, Lothian Pension Fund management and members of the, Pensions Audit Sub- Committee in preparing the Internal Audit plan.

Background reading / external references

None.

Alastair Maclean

Director of Corporate Governance

Magnus Aitken, Chief Internal Auditor

E-mail:magnus.aitken@edinburgh.gov.uk | Tel: 0131 469 3143

Links

Coalition pledges	
Council outcomes	CO26 – The Council engages with stakeholders and works in partnerships to improve services and deliver agreed objectives.
Single Outcome Agreement	
Appendices	Appendix 1 – The City of Edinburgh Council: Internal Audit Risk Assessment and Plan 2015/16

Appendix 1

The City of Edinburgh Council

Internal Audit Risk Assessment and Plan 2015/16

FINAL

Contents

Distribution List	
For action:	Corporate Management Team
For approval:	Governance, Risk and Best Value Committee

1. Introduction and Approach

Introduction

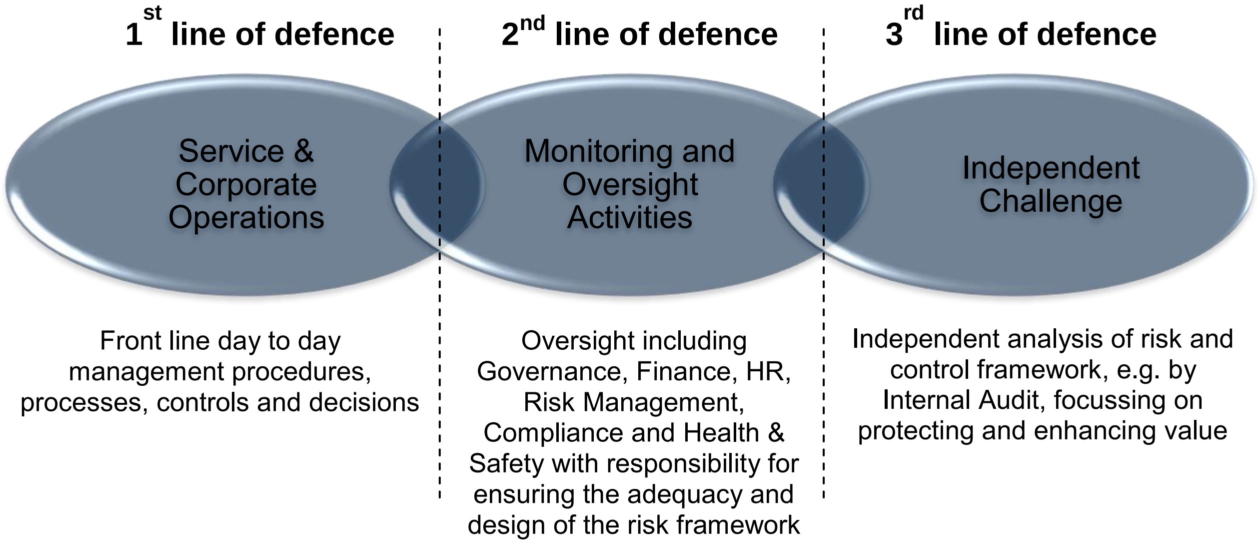
This document sets out the risk assessment and the internal audit plan for The City of Edinburgh Council.

Approach

The internal audit service will be delivered in accordance with the Internal Audit Charter. A summary of our approach to undertaking the risk assessment and preparing the internal audit plan is set out below. The internal audit plan is driven by The City of Edinburgh Council's agreed outcomes, organisational objectives and priorities, and the risks that may prevent The City of Edinburgh Council from meeting these. A more detailed description of our approach can be found in Appendix 1 and 2.

Step 1 *Understand corporate objectives and risks*	• Obtain information and utilise sector knowledge to identify corporate level objectives and risks.
Step 2 *Define the audit universe*	• Identify all of the auditable units within the organisation. Auditable units can be functions, processes or locations.
Step 3 *Assess the inherent risk*	• Assess the inherent risk of each auditable unit based on impact and likelihood criteria.
Step 4 *Assess the strength of the control environment*	• Assess the strength of the control environment within each auditable unit to identify auditable units with a high reliance on controls.
Step 5 *Calculate the audit requirement rating*	• Calculate the audit requirement rating taking into account the inherent risk assessment and the strength of the control environment for each auditable unit.
Step 6 *Determine the audit plan*	• Determine the timing and scope of audit work based on the organisation's risk appetite.
Step 7 *Other considerations*	• Consider additional audit requirements to those identified from the risk assessment process.

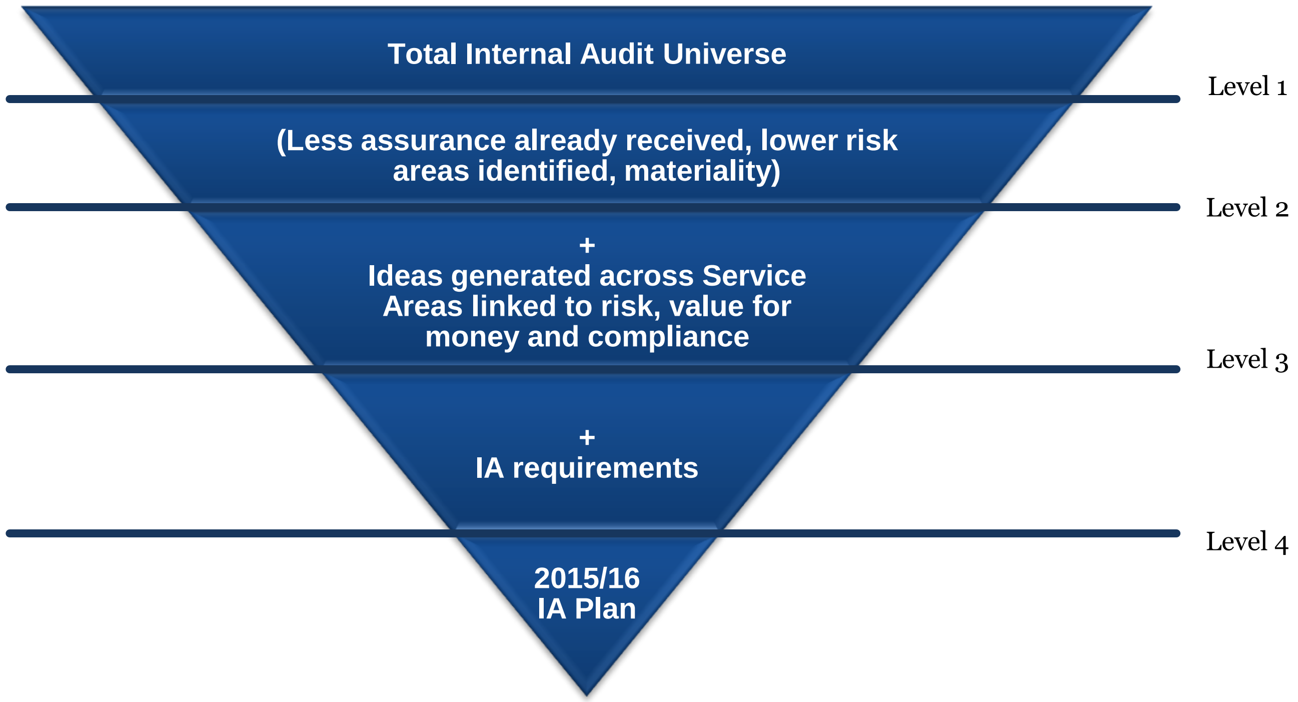
This approach takes into account the role of Internal Audit, as one of the Council's assurance providers from the 3rd line of defence:



Basis of our plan

The level of available resources for the internal audit service for 1 April 2015 to 31 March 2016 is 1,245 days, and therefore the plan does not purport to address all key risks identified across the audit universe as part of the risk assessment process. Accordingly, the level of internal audit activity represents a deployment of limited internal audit resources and in approving the risk assessment and internal audit plan, the Governance Risk and Best Value Committee recognises this limitation.

Taking into account the above, the plan is drafted as follows:



As set out in Public Sector Internal Audit Standards, the focus of internal audit's strategy and programme is planned around a risk-based approach. This underpins its value.

The annual Internal Audit Plan is based on a risk assessment of the audit universe in the organisation (operational, financial and other), undertaken before the beginning of the year and primarily based on the following:

- The Council's current Risk Registers;
- Regular liaison meetings with Service Area directors and other senior management;
- Discussions with the members of the Governance, Risk and Best Value Committee;
- New projects/initiatives undertaken by the Council;
- Prior year Internal Audit findings; and
- Requirements of PSIAS (Governance, Risk Management, Internal Control).

The internal audit plan for 2015/16 therefore represents a balance between compliance, value add based on risk assessment and input from management (members of SMTs, CMT and GRBV).

Basis of our annual internal audit conclusion

Internal audit work will be performed in accordance with methodology aligned to Public Sector Internal Audit Standards (PSIAS). As a result, our work and deliverables are not designed or intended to comply with the International Auditing and Assurance Standards Board (IAASB), International Framework for Assurance Engagements (IFAE) and International Standard on Assurance Engagements (ISAE) 3000.

Our annual internal audit opinion will be based on and limited to the internal audits we have completed over the year and the control objectives agreed for each individual internal audit. The agreed control objectives will be reported within our final individual internal audit reports.

In developing our internal audit risk assessment and plan we have taken into account the requirement to produce an annual internal audit opinion by determining the level of internal audit coverage over the audit universe and key risks. We do not believe that the level of agreed resources will impact adversely on the provision of the annual internal audit opinion.

Other sources of assurance

In developing our internal audit risk assessment and plan we have taken into account other sources of assurance and have considered the extent to which reliance can be placed upon these other sources. Other sources of assurance for each auditable unit are noted in our Risk Assessment in section 3 of this document, and a summary is given below.

The other sources of assurance for The City of Edinburgh Council are as follows:

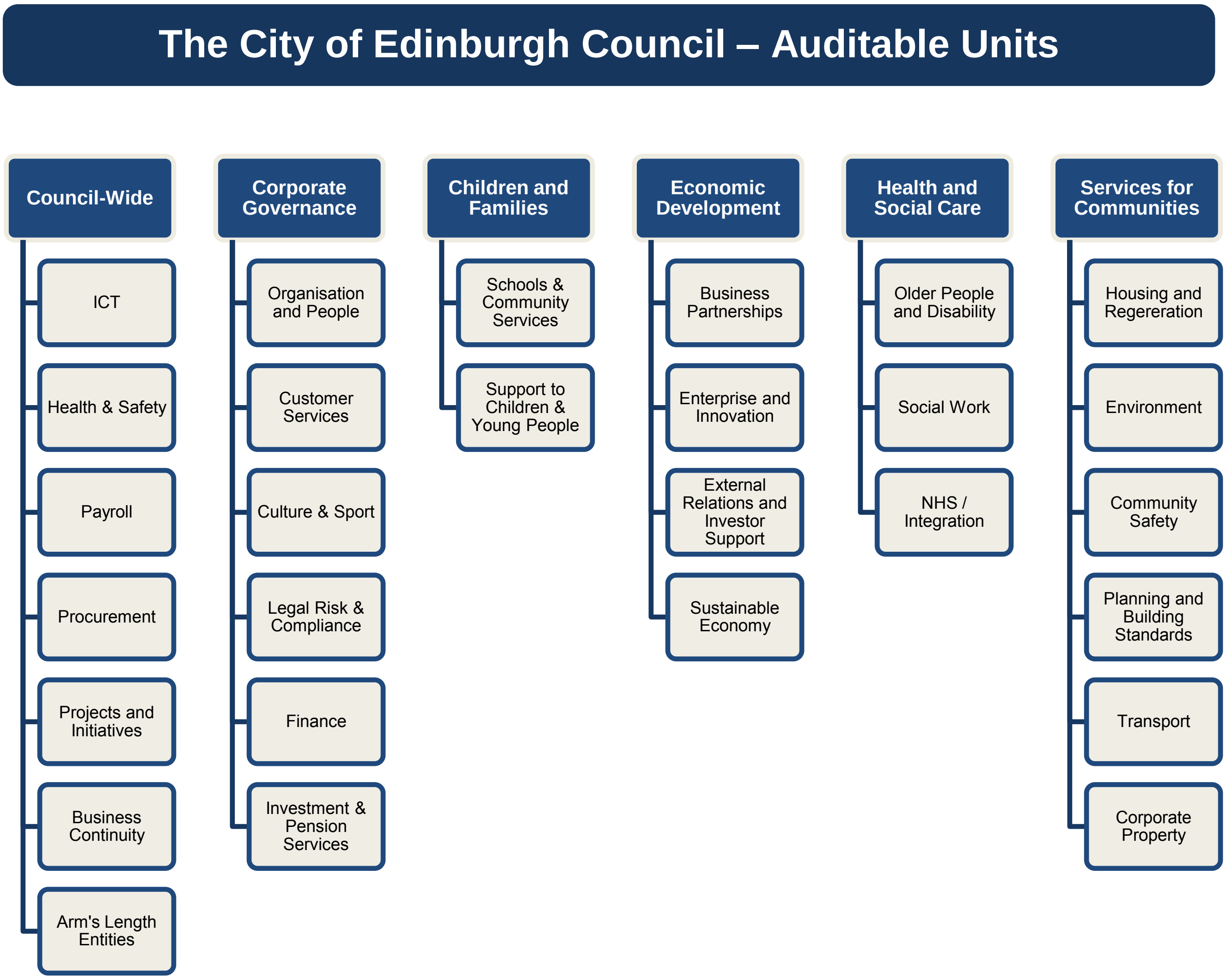
- External inspections such as those undertaken by the Care Inspectorate, Child Protection Inspection Unit, Education Scotland and Audit Scotland.
- External audit
- Reviews and audits by the Scottish Information Commissioner (OSIC) on Freedom of Information and the Information Commissioner's Office (ICO) on data protection and security.

We do not intend to place reliance upon these other sources of assurance.

2. Audit universe, corporate objectives and risks

Audit universe

The diagram below represents the high level auditable units within the audit universe of The City of Edinburgh Council. These units form the basis of the internal audit plan. We have identified 7 Council-Wide auditable units which nominally sit within Corporate Governance but which cover the entire Council.



Note that we are not representing joint body assurance as a result of the Health and Social Care Integration with NHS Lothian.

3. Risk assessment

Risk assessment results

Each auditable unit has been assessed for inherent risk and the strength of the control environment, in accordance with the methodology set out in Appendix 1 and 2. The results are summarised in the table below.

Ref	Auditable Unit	Inherent Risk Rating	Control Environment	Colour code	Frequency	No of audits (15/16)	No of audits (14/15)	Other Assurance / Notes
A	**Council-Wide**					**8**	**15**	
A.1	ICT	5	2	●	1	2	6	Specific ICT application reviews are included within Service Area reviews noted below. Also note 3 reviews in 14/15 were c/fwd from 13/14 plan.
A.2	Health and Safety	5	3	●	1	1	2	H&S perform independent audit work, school audits
A.3	Payroll	5	4	●	1	-	4	Payroll Internal Audit work for 2015/16 covered by the Key Financial Controls reviews (Finance)
A.4	Procurement	5	4	●	1	1	1	
A.5	Projects & Initiatives	5	4	●	2	2	1	Corporate Programme Office provide direct assurance on major projects
A.6	Business Continuity	5	3	●	1	1	-	ISO external certification
A.7	Arm's Length Entities	5	3	●	1	1	-	
B	**Corporate Governance**					**8**	**13**	
B.1	People and Organisation	5	3	●	1	1	-	See also Payroll Council-wide below
B.2	Customer Services	4	4	●	2	-	4	
B.3	Culture & Sport	3	3	●	3	-	1	
B.4	Legal Risk & Compliance	4	4	●	1	1	1	
B.5	Finance	5	3	●	1	3	5	Audit Scotland external audit and Best Value report
B.6	Investment & Pension Services	4	4	●	2	3	2	Internal Audit reviews are required to be completed annually

Ref	Auditable Unit	Inherent Risk Rating	Control Environment	Colour code	Frequency	No of audits (15/16)	No of audits (14/15)	Other Assurance / Notes
C	**Children and Families**					**20**	**6**	
C.1	Schools & Community Services	5	2	🔴	1	17	4	A total of 15 schools to be reviewed as part of a revised approach to assessing the estate. Each school review assumed to be an audit.
C.2	Support to Children & Young People	5	4	🔴	1	3	2	Assurance also gained from Care Inspectorate and Child Protection Inspection Unit visits.
D	**Economic Development**					**1**	**-**	
D.1	Business Partnerships	3	4	🟡	3	-	-	EICC and EDI audits in 15/16 included in Arm's Length Entities.
D.2	Enterprise and Innovation	2	4	🟢	-	-	-	
D.3	External Relations and Investor Support	3	4	🟡	3	-	-	Council-wide FOI review included in 15/16 Plan (Legal, Risk & Compliance).
D.4	Sustainable Economy	4	3	🟠	2	1	-	
E	**Health and Social Care**					**5**	**3**	
E.1	Older People and Disability	5	4	🔴	1	2	1	
E.2	Social Work	5	4	🔴	1	1	2	ICT review of SWIFT (14/15 and 15/16)
E.3	NHS / Integration	5	2	🔴	1	2	-	
F	**Services for Communities**					**7**	**11**	
F.1	Housing & Regeneration	5	3	🔴	1	1	4	
F.2	Environment	4	4	🟠	2	-	2	
F.3	Community Safety	3	4	🟠	2	-	1	
F.4	Planning & Building Standards	4	4	🟠	3	1	-	
F.5	Transport	5	4	🔴	1	1	2	
F.6	Corporate Property	5	2	🔴	1	4	2	School audits include Health & Safety
G	**Other/Miscellaneous**					**4**	**5**	
G.1	Joint Boards	2	4	🟢	3	3	4	Required to be completed annually
G.2	Tattoo	2	4	🟢	3	1	1	Required to be completed annually

Ref	Auditable Unit	Inherent Risk Rating	Control Environment	Colour code	Frequency	No of audits (15/16)	No of audits (14/15)	Other Assurance / Notes
	TOTALS					**53**	**53**	

Key to frequency of audit work

Audit Requirement Rating	Frequency
● (red)	Annual
● (amber)	Every two years
● (yellow)	Every three years
● (green)	No further work

The audit requirement rating drives the frequency of internal audit work for each auditable unit.

The internal audit budget allows for 1,345 days. The audit plan is a rolling programme aiming to ensure all auditable units are subject to an internal audit at least once in a three year cycle. An exception to this is that school reviews this will be subject to a five year cycle, based on resource constraints.

4. Annual plan and internal audit performance

Annual plan and indicative timeline

The internal audit plan has been split out as shown below to reflect the core areas of our Internal Audit programme determined by Council Management, risk registers, corporate priorities and Internal Audit standards.

Through discussions with Heads of Service, Directors and members of the Governance, Risk and Best Value Committee we developed a full suite of potential internal audit reviews based on our risk assessment and suggestions provided by each service.

This was then presented to the CMT to determine the reviews of highest priority and to help finalise the planned reviews, which are presented to the Governance, Risk and Best Value Committee on the following pages in the table below.

There are 53 Internal Audit reviews scheduled for 2015/16 (including contingency for additional currently unplanned reviews). Included within this, we are proposing to implement a rotational audit of the schools estate, which equates to approximately 10% of the available audit days available. In 2015/16 this will involve the review of 15 schools. The above compares with 53 reviews originally included under the 2014/15 audit plan. Each proposed review for 2015/16 is included in the table below and has been cross referenced to the corresponding key corporate and service area level risks, which are included within Appendices 3 and 4.

Auditable Unit	Description	Q1	Q2	Q3	Q4	Days	Link to Risk	Fraud (H/M/L)
Council-Wide								
ICT (Council-wide)	Information Asset Register To review the completeness of the Council's Information Asset Register (IAR) to ensure existence and completeness of all critical systems. Map the linkage of the critical down time thresholds into the defined Disaster Recovery Plan.				✓	30	CMT7	Low
ICT (Council-wide)	Data Integrity High level review of the accuracy and timeliness of critical management information	✓				20	CMT15	High
Health and Safety (Council-wide)	Health and Safety Annual Plan Review the development and progress of the Health and Safety Annual Plan.			✓		30	CMT11 HSC2 CF4	N/A
Procurement (Council-wide)	Procurement Arrangements Review of the Council's Procurement processes and controls. Review to include an assessment of the Management Information dashboards and controls over 'one time payments'.	✓				30	CG3 SFC4	High

Auditable Unit	Description	Q1	Q2	Q3	Q4	Days	Link to Risk	Fraud (H/M/L)
Projects and Initiatives (Council-wide)	<u>BOLD</u> Review of the processes and controls in place for tracking phase 2 savings accurately and ensuring savings are only counted once. Reporting on these savings will also be reviewed.				✓	25	CMT4 CMT5 CG8	Low
Projects and Initiatives (Council Wide)	<u>Neighbourhood Partnerships</u> Review accountability and management of spend in the Neighbourhood Partnerships.		✓			25	GRBV	Medium
Business Continuity (Council-wide)	<u>Business Continuity Planning</u> Review over the Council's Business Continuity Plan, with specific assessment around the governance of the plan and communication to staff.				✓	30	CG1	N/A
Arm's length entities (Council-wide)	<u>Governance arrangements</u> Review of governance responsibilities and arrangements over Council controlled entities, such as Lothian Buses, EDI and EICC.	✓				30	CMT24 ED1 CG9	High
Corporate Governance								
People and Organisation	<u>Workforce Planning</u> Review the processes and controls in place for managing secondments and 'acting up' roles.		✓			25	CMT31 CMT34 CG5 CG6 SFC6 HSC3	High
Legal, Risk and Compliance	<u>Freedom of Information Requests</u> Review the key controls established by the Council to capture and respond to FOI requests, across all departments, within the required timeframe/ legislative requirements. Review should also cover training in place for dealing with FOIs and the processes in place for checking the provision of requested information and level of redaction.			✓		25	CMT10 ED1	Medium
Finance	<u>Demographics in Budgeting Process</u> Review the use of demographic assumptions incorporated into the financial planning and budgeting processes across the Council.	✓				30	CMT6 CG9 SFC2 SFC3 HSC1 ED2 CF5	Low

Auditable Unit	Description	Q1	Q2	Q3	Q4	Days	Link to Risk	Fraud (H/M/L)
Finance	Anti-Fraud Arrangements Review the Council's anti-fraud arrangements. Assess the controls and governance arrangements in place for the prevention, detection and reporting of fraud within the Council.		✓			20	CG4	High
Finance	Continuous Controls Over Key Financial Systems Testing of key controls within the Council's key financial systems using continuous auditing and data techniques to interrogate complete populations of data where controls are automated.	✓	✓	✓	✓	60	CG4	High
Investment & Pension Services	Pensions - Immediate Payments Audit the immediate payment (live) system from Payments Units and assess reconciliation controls between payroll and pension systems.	✓				20	N/A	Medium
Investment & Pension Services	Pensions - Investments Managed Externally Assess the processes in place to allocate and monitor the performance of externally managed funds. Also consider the procedures used to manage the appointment and removal of external fund managers.		✓			20	N/A	Medium
Investment & Pension Services	Pensions - Compliance Asses the procedures in place to ensure that the Fund is compliant with its regulatory requirements.		✓			20	N/A	Medium
Children and Families								
Schools & Community Services	Schools audits* Follow-up of self-assessments covering Health and Safety and Financial Management in schools. This will be piloted using the Children and Families' risk ratings to prioritise schools on a rotational basis.	✓	✓	✓	✓	150	CMT39 SFC1 CF4	High
Schools & Community Services	Contingency Planning Review contingency plans to respond to severe weather and emergency situations, including infection control, leading to loss or disruption of services.				✓	25	CF3 CF6	N/A
Schools & Community Services	Access Controls- Schools IT systems Review of access controls for the Schools IT estate.		✓			30	CF2	High

Auditable Unit	Description	Q1	Q2	Q3	Q4	Days	Link to Risk	Fraud (H/M/L)
Support to Children & Young People	Implementation of the Children and Young People's Bill Review the implementation of the Bill following guidance from the Scottish Government.		✓			25	CF1	N/A
Support to Children & Young People	DBS Checks and References Review the procedures in place to ensure that staff working with looked after children have appropriate DBS Checks and that references have been taken up before they work with children.	✓				25	CF4	Low
Support to Children & Young People	Information Governance Review the processes and controls in place for managing and sharing sensitive data with appropriate partners such as GPs, teachers and social work.				✓	30	CF7	Low
Economic Development								
Sustainable Economy	Energy Action Plan Review progress in implementing the Sustainable Energy Action Plan (SEAP) and assess controls around the set-up of the planned Energy Services Company.		✓			25	CMT19	Low
Health and Social Care								
Older People and Disability	Care Sector Capacity Review of strategic planning for provision of care, given the change in demographics of the City.				✓	30	HSC3	Low
Older People and Disability	Personalisation/SDS- Option 3 Review the key risk areas relating to option 3 of SDS (the Council as the care provider).			✓		30	HSC6	Low
Social Work (ICT)	SWIFT – Access Controls Review access controls for the SWIFT system.		✓			30	HSC5	Medium
NHS Integration	Integration Review the budgeting process for integrated care and also assess the controls in place to deal with the unknown/unexpected elements of integrated care.	✓				30	CMT2 HSC4 CF8	Low
NHS Integration	IT readiness for Health and Social Care Integration Review the readiness of the IT environment for integration of Health and Social Care.			✓		30	CMT3 HSC4 HSC5 CF8	N/A

Auditable Unit	Description	Q1	Q2	Q3	Q4	Days	Link to Risk	Fraud (H/M/L)
Services for Communities								
Housing & regeneration	Transfer of the Management of Development Funding (TMDF) Review grants to ensure that there are sufficient controls in place and evidence over expenditure.	✓				25	Statutory	High
Planning & Building Standards	Planning Controls and Procedures Review of controls and management around Section 75 contributions.				✓	25	SFC3	Medium
Transport	Contract Management - Roads Review prioritisation of repairs and controls over contract management of work.	✓				20	GRBV	High
Corporate Property	Shared Repairs and Maintenance Review plans for the new arrangements in place for shared repairs.				✓	30	CMT1 CMT26 SFC1 SFC2	Medium
Corporate Property	Property Maintenance Review adequacy of the framework and controls for identification of repairs required, prioritisation of resources and contract management.		✓			30	CMT1 SFC1 SFC2 SFC5	High
Corporate Property	CAFM Review the systems and controls in place around the new Computer Aided Facilities Management (CAFM) IT system that manages property estate.			✓		30	CMT1 SFC1 SFC5	Medium
Corporate Property	Property Disposals Monitoring of properties with outstanding conditions of sale.	✓				20	CMT1 CMT16 SFC5	Low
Arm's Length Companies								
Joint Boards	Lothian Valuation Joint Board - provision of internal audit services			✓		10	N/A	N/A
Joint Boards	SesTran - provision of internal audit services			✓		10	N/A	N/A
Joint Boards	LBCJA – provision of internal audit services				✓	10	N/A	N/A
Tattoo	Tattoo - provision of internal audit services			✓		10	N/A	N/A
Miscellaneous								
Internal Audit	4 additional ad hoc reviews added in the year – management/IA discretion	✓	✓	✓	✓	80	N/A	N/A
Internal Audit	Contingency	✓	✓	✓	✓	20	N/A	N/A
Internal Audit	Corporate Governance work at LVJB, LBCJA and SesTran				✓	15	N/A	N/A

Auditable Unit	Description	Q1	Q2	Q3	Q4	Days	Link to Risk	Fraud (H/M/L)
Internal Audit	Cycling Walking Safer Streets Grant and Carbon Reduction Commitment Scheme	✓				10	N/A	N/A
Internal Audit	Follow Up of outstanding actions	✓	✓	✓	✓	55	N/A	N/A
Internal Audit	Fraud Support	✓	✓	✓	✓	10	N/A	N/A
Internal Audit	GRBV Reporting	✓	✓	✓	✓	15	N/A	N/A
Internal Audit	Internal Audit Annual Plan 2016/17				✓	20	N/A	N/A

Appendix 1: Detailed methodology

Step 1 - Understand corporate objectives and risks

In developing our understanding of your corporate objectives and risks, we have:

- Reviewed your strategy, organisational structure and corporate risk register;
- Drawn on our knowledge of the local government sector; and
- Met with a number senior management, members of the Governance, Risk and Best Value Committee members and other Councillors.

Step 2 - Define the Audit Universe

In order that the internal audit plan reflects your management and operating structure we have identified the audit universe for The City of Edinburgh Council made up of a number of auditable units. Auditable units include functions, processes, systems, products or locations. Any processes or systems which cover multiple locations are separated into their own distinct cross cutting auditable unit.

Step 3 - Assess the inherent risk rating

The internal audit plan should focus on the most risky areas of the business. As a result each auditable unit is allocated an inherent risk rating i.e. how risky the auditable unit is to the overall organisation and how likely the risks are to arise. The criteria used to rate impact and likelihood are recorded in Appendix 2.

The inherent risk assessment is determined by:

- Mapping the corporate risks to the auditable units;
- Our knowledge of your business and its sector; and
- Discussions with management.

Impact Rating	Likelihood Rating				
	5	**4**	**3**	**2**	**1**
5	5	5	4	4	4
4	5	5	4	4	3
3	4	4	3	3	2
2	4	3	3	2	2
1	3	3	2	2	1

Step 4 - Assess the strength of the control environment

In order to effectively allocate internal audit resources we also need to understand the strength of the control environment within each auditable unit (1=poor controls to 5=strong controls). This is assessed based on:

- Our knowledge of your internal control environment;
- Information obtained from other assurance providers; and
- The outcomes of previous internal audits.

Step 5 - Calculate the audit requirement rating

The inherent risk and the control environment indicator are used to calculate the audit requirement rating. The formula ensures that our audit work is focused on areas with high reliance on controls or a high residual risk.

Inherent Risk Rating	Control Design Indicator				
	1	2	3	4	5
5					
4					
3					
2					
1					

Step 6 - Determine the audit plan

Your risk appetite determines the frequency of internal audit work at each level of audit requirement. Auditable units may be reviewed annually, every two years or every three years.

In some cases it may be possible to isolate the sub-processes within an auditable unit which are driving the audit requirement. For example, an auditable unit has been given an audit requirement rating of 5 because of inherent risks with one particular sub-process, but the rest of the sub-processes are lower risk. In these cases it may be appropriate for the less risky sub-processes to have a lower audit requirement rating be subject to reduced frequency of audit work. These sub-processes driving the audit requirement areas are highlighted in the plan as key sub-process audits.

Step 7 - Other considerations

In addition to the audit work defined through the risk assessment process described above, we may be requested to undertake a number of other internal audit reviews such as regulatory driven audits, value enhancement or consulting reviews. These have been identified separately in the annual plan.

Appendix 2: Risk assessment criteria

Determination of Inherent Risk

We determine inherent risk as a function of the estimated **impact** and **likelihood** for each auditable unit within the audit universe as set out in the tables below.

Impact rating	*Assessment rationale*
5	Critical impact on operational performance; or Critical monetary or financial statement impact; or Critical breach in laws and regulations that could result in material fines or consequences; or Critical impact on the reputation/brand of the Council which could threaten its future viability.
4	Major impact on operational performance; or Major monetary or financial statement impact; or Major breach in laws and regulations resulting in significant fines and consequences; or Major impact on the reputation or brand of the Council.
3	Moderate impact on the Council's operational performance; or Moderate monetary or financial statement impact; or Moderate breach in laws and regulations with moderate consequences; or Moderate impact on the reputation of the Council.
2	Minor impact on the Council's operational performance; or Minor monetary or financial statement impact; or Minor breach in laws and regulations with limited consequences; or Minor impact on the reputation of the Council.
1	Insignificant impact on the Council's operational performance; or Insignificant monetary or financial statement impact; or Insignificant breach in laws and regulations with little consequence; or Insignificant impact on the reputation of the Council.

Likelihood rating	*Assessment rationale*
5	Has occurred or probable in the near future
4	Possible in the next 12 months
3	Possible in the medium term (2-5 years)
2	Possible in the longer term (5-10 years)
1	Unlikely in the foreseeable future

Appendix 3: Corporate Risks

Corporate level objectives and risks have been determined by The City of Edinburgh Council. The prioritised inherent risks facing the Council are recorded in the table below and have been considered when preparing the internal audit plan. The internal audit plan within Section 4 details how each of the planned reviews can be cross referenced to a related corporate level risk of the Council.

Corporate Management Team Prioritised Inherent Risks

Ref	Prioritised Inherent Risk	15/16	Other Assurance
CMT1	Risk that the Council does not have a capital portfolio that is fit for purpose and/or meets Health & Safety standards now and in the future.	✓	
CMT2	Risk over the affordability and delivery of the Adult Social Care, particularly in light of expected demographic changes, could impact the outcomes and care for the people of Edinburgh.	✓	
CMT3	Risk that the IT infrastructure is not fit for purpose and doesn't meet the present or future needs of the Council impacting the Council's ability to deliver services as expected.	✓	
CMT4	Risk that the Council's transformational change agenda is not implemented effectively with support from Elected Members resulting in the Council failing to meet service delivery outcomes impacting cost reductions and staff morale.	✓	CPO assurance
CMT5	Risk that the Council does not generate sufficient savings to meet budgets in the short and longer term resulting in under delivery of key services.	✓	
CMT6	Risk of a lack of strategic planning in relation to increasing demand for critical services, taking into account the growth in the City's population as well as changing demographics, leading to a shortfall in funding and a lower quality of service.	✓	
CMT7	Risk that the re-procurement of the ICT contract does not deliver the service propositions required to meet the needs of the organisation resulting in service disruption and remedial action incurring significant costs to the Council.	✗	External support and assurance from CPO
CMT8	The organisational model to deliver critical services is not optimised to allow the Council to build a flexible, motivated and high performing workforce, resulting in inefficient service delivery and budget overspend.	✓	
CMT9	Risk of ICT disruption and outages for the remainder of the existing outsourced provider contract impacts 'business as usual' and the Council's ability to deliver all requirements as expected.	✓	
CMT10	Risk that the Council does not appropriately prioritise resource to meet its statutory, legal and other stated delivery commitments resulting in potential harm to service users and significant reputational damage.	✓	Covered by multiple reviews in 2015/16
CMT11	Risk that Health and Safety policy and culture are not clearly understood and embedded in a consistent manner within the organisation, leading to a lack of accountability and responsibility which could result in avoidable harm.	✓	
CMT12	Risk that the CMT is overly focussed on tactical issues and does not prioritise strategic issues resulting in uninformed decisions over the strategic direction of the Council.	✗	No specific IA work to address this risk

Appendix 4: Service Area Risks

Service level objectives and risks have been determined by The City of Edinburgh Council's Senior Management Teams. Key risks identified by the Service Area Senior Management Teams that have contributed to the risk based approach to the 2015/16 Internal Audit Plan are recorded in the tables below and are referenced in the Annual Plan of Internal Audits in Section 4.

Corporate Governance

Ref	***Corporate Governance Key Risks***	***2015/16***	***2014/15***
CG1	Failure to deliver business continuity planning agenda and to act on business critical issues e.g. severe weather resulting in major service failure.	✓	✗
CG2	Changes in the ICT contract and loss of critical IT systems could lead to disruption of essential services.	✓	✓
CG3	Failure to develop and implement robust procurement procedures would impact the ability to meet required savings.	✓	✓
CG4	Failure to maintain adequate financial controls could lead to loss, fraud, legal action, inefficiencies and inability to achieve agreed Council outcomes.	✓	✓
CG5	An inadequate ability to resource the business accurately based on clear prioritisation and quality of management information means that our outcomes are not accomplished.	✓	✗
CG6	A lack of appropriately skilled staff results in inappropriate management of key processes (e.g. holidays, overtime, acting up, follow up of IA recommendations) leading to inefficiencies, budget overruns and reputational damage through lack of control and appropriate oversight. Inability to recruit and retain key skilled staff means there isn't the right staff to deliver the services.	✓	✓
CG7	Budget pressures to central services in order to balance the Council's budget may impact adversely on services provided and could lead to reputational damage	✓	✓
CG8	There is a risk that stakeholders unreasonably expect that BOLD is all that is necessary to accomplish savings targets to achieve a balanced budget for the Council in the future.	✓	✓
CG9	Failure to manage external companies and organisations of the Council leads to service failures resulting in significant reputational damage of the Council.	✓	✗

Children and Families

Ref	Children & Families Risk	2015/16	2014/15
CF1	Insufficient resources to meet statutory obligations in relation to vulnerable children and young people.	✓	✓
CF2	ICT system fails to support C&F operations resulting in inefficiencies and potential service failures or security breaches.	✓	✓
CF3	Lack of effective contingency planning to respond to severe weather and emergency situations leading to loss or disruption of services.	✓	✗
CF4	Non-compliance with legislation (including Health and Safety) would lead to regulatory fines and/or employee injury.	✓	✓
CF5	Inadequate management of current and future budgets results in inability to maintain and deliver statutory, education and care service obligations.	✓	✓
CF6	Infection is not prevented or in the case of an outbreak not adequately managed across the network of schools and establishments.	✓	✓
CF7	Not managing information sharing safely and effectively leading to legal/reputational implications	✓	✓
CF8	Integration of C&F and Child Health Services not effectively managed with partners resulting in additional and unnecessary cost.	✓	✗

Economic Development

Ref	Economic Development Risk	2015/16	2014/15
ED1	Ineffective communication with stakeholders (staff, councillors, third parties) could lead to expectation gaps around service delivery resulting in reputational damage	✓	✗
ED2	Due to reducing budgets there is a risk that current service levels cannot be maintained resulting in service shortfalls and reputational damage	✓	✓

Health and Social Care

Ref	Health and Social Risk	2015/16	2014/15
HSC1	Reduced service budgets, demographic changes and loss of household income for vulnerable groups due to social security reductions leading to higher demands for more (resource) intensive services and budget deficits.	✓	✓
HSC2	Personal injury or loss arises out of failure to meet Health and Safety requirements.	✓	✓
HSC3	Insufficient capacity in the care sector to meet demand due to recruitment challenges, contract fee levels, provider failure, leading to not meeting targets, e.g. unscheduled care, delayed discharges and access to services.	✓	✓
HSC4	Agreement between NHS Lothian and the Council may not be reached on the Integration Scheme to create the Integration Authority and funding the	✓	✗

Ref	Health and Social Risk	2015/16	2014/15
	shift in the balance of care.		
HSC5	Risk of ICT and data protection failure due to data being held on different systems which are not integrated, information not being easily accessible and/or retrievable or data not being securely stored leading to loss and/or poor decision making.	✓	✗
HSC6	The full implementation of and delivery of benefits from SDS will take time and may have a negative impact in the short term (e.g. on waiting lists, the accuracy of the calibration of the Funding Allocation System).	✓	✓

Services for Communities

Ref	Services for Communities Risk	2015/16	2014/15
SFC1	An increase in reporting of building defects, a change of local risk tolerance levels resulting in substantial increase in knowledge and understanding of H&S risks.	✓	✓
SFC2	Service demand exceeds service capacity due to budgetary cuts and reduced investment in resources and infrastructure, combined with the pressure to maintain services at existing levels of delivery.	✓	✓
SFC3	Significant economic and social growth within the City and increased service demand has resulted in substantial service pressures with risk that we are unable to meet future growth demand.	✓	✓
SFC4	The planning and coordination of procurement of goods, services and works can be inadequate leading to Standing Order being waived leading to additional expense and a breach of EU procurement regulations.	✓	✓
SFC5	A lack of a holistic view around property rationalisation and allocation of savings leads to uncertainty/lack of clarity, competing attitudes and additional savings pressures.	✓	✗
SFC6	Due to increased service pressures on staff and wider economic market conditions there is a risk of appropriately trained and skilled staff falling below the minimum acceptable levels required to deliver the service	✓	✓

Pensions Committee

2.30 p.m., Wednesday, 25 March 2015

Pension Fund Governance

Item number	5.4
Report number	
Executive/routine	
Wards	All

Executive summary

The City of Edinburgh Council ("**CEC**") requires to make certain changes to the governance of the pension funds it administers in order to take into account the arrangements anticipated in the Local Government Pension Scheme (Governance) (Scotland) Regulations 2015 ("**2015 Regulations**"), which seeks to implement the provisions of the Public Service Pensions Act 2013 ("**2013 Act**").

These changes need to be implemented by 1 April 2015 and the Committee considered and approved CEC's approach at its meeting on 17 December 2014. The form of the 2015 Regulations was, at that time, still to be finalised and certain other matters were still to be determined. This report provides Committee with an update on these developments and on the progress to implement the new governance arrangements.

Links

Coalition pledges	
Council outcomes	CO26
Single Outcome Agreement	

EDINBVRGH
THE CITY OF EDINBURGH COUNCIL

Report

Pension Fund Governance

Recommendations

The Pensions Committee is requested to:

1.1 Note the updates in this report in relation to the implementation of the new governance arrangements by CEC for the pension funds that it administers.

1.2 Note the updates to the Pension Board Constitution, Nomination and Appointments Procedure and the Training and Attendance Policy (Appendix 1).

1.3 Note the appointments of the Member and Employer Representatives as full members of the Committee by Council on 12 March 2015.

1.4 Note the appointment of the membership of the Pension Board to be constituted from 1 April 2015.

1.5 Note the cessation of the Consultative Panel with effect from 31 March 2015 and thank its members for their significant contributions to the Funds' governance.

Background

2.1 Please note the following key developments since the Committee meeting last met on 17 December 2014:

Milestone	Date
Vacant positions within the Committee and Pension Board advertised	24 December 2014
The Pensions Regulator ("**TPR**") has published its draft Code of Practice for the governance and administration of public service pension schemes ("**Code**").	12 January 2015
Final 2015 Regulations laid before the Scottish Parliament	19 February 2015
Closing date for nominations for the positions on the Committee and Pension Board	14 February 2015
COSLA Resources & Capacity Group agreed council employer nominations to the Scheme Advisory Board	5 March 2015
Non-Councillor members of the Committee agreed by Council	12 March 2015
Scottish Pubic Pensions Agency deadline for nominations to the Scheme Advisory Board	13 March 2015
Induction Training for Pension Board members	March/April 2015

Main report

Local Government Pension Scheme (Governance) (Scotland) Regulations 2015

3.1 The final 2015 Regulations have been released and a summary of the key changes is as follows:

Regulation	Update
Scheme Advisory Board (SAB)	
2(3)	The provision requiring the Scottish Ministers and/or the Scheme Manager to “have regard to the advice” of the SAB has now been removed.
3(1)(a)	The regulations no longer provide for the need for substitutes to attend the SAB on behalf of appointed representatives of the scheme employers or trade unions.
3(2) and (3)	There is no longer provision for an independent Chair for the SAB (the chair will be rotated between scheme employer and trade union representatives). The Scottish Ministers must approve that Chairperson.
3(6)	Provision has been included to ensure that the “reasonable administrative costs” of the SAB are to be met by the funds. There is no detail in relation to how such costs will be allocated.
Pension Board	
5(c)	The regulations contain drafting amendments to provide a sharper focus on the Pension Board’s remit (e.g. to ensure good governance, legal and regulatory compliance of the pension funds).
6(2)	The number of members on the Pension Board no longer needs to take into account the size of the relevant fund. The regulations no longer provide for the need for substitutes to attend the Pension Board on behalf of appointed representatives of the scheme employers or trade unions
10	The detail in relation to training requirements has been removed from the regulations (some practical guidance is however contained in the Pensions Regulator Code).

3.2 The Fund’s governance documentation has been updated to take into account comments raised at the last Committee and changes to the 2015 Regulations. The removal of substitutes for the Pension Board is the main change. Final versions of the following documents (highlighting the updates) are set out in Appendix 1.

3.2.1 the Nomination and Appointments Policy;

3.2.2 the Constitution for the Pension Board; and

3.2.3 the Training and Attendance Policy.

Appointment of Non-Councillor Members to the Pensions Committee

3.3 In accordance with the Nomination and Appointments Policy, and having been endorsed by Council on 12 March 2015, the following persons have been appointment to the Pensions Committee:

3.3.1 John Anzani, as a Member Representative; and

3.3.2 Darren May, as an Employer Representative.

Appointment of Pension Board Members

3.4 In accordance with the Nomination and Appointments Policy, the following persons are to be appointed as members of the Pension Board:

3.4.1 Eric Adair (EDI Group), Linda McDonald (Handicabs), Richard Lamont (Visit Scotland), Rucelle Soutar (the Edinburgh Military Tattoo) and Simon Belfer (Napier University), as the five Employee Members; and

3.4.2 any five of Graham Turnbull (UCATT), Jim Anderson, Eric Maclennan and Catrina Warren (UNISON), Thomas Carr Pollock (GMB) and John Rodgers and Garry Cross (UNITE), as the five Employer Members.

As regards the Union Members, the LPF Review Panel has proposed that the membership comprise a representative for each of the four unions and that UNISON should appoint an additional representative reflecting its greater membership in the Fund. Failing agreement on this proposal, an election will be held. A verbal updated on the position will be provided at the meeting.

3.5 The Pension Board will be established under its Constitution with effect from 1 April 2015 and so the first joint meeting of the Committee and the Pension Board will be on 24 June 2015.

Scottish LGPS Scheme Advisory Board

3.6 It is understood that, at the time of writing, the Scottish Public Pensions Agency are seeking nominations for the 7 employer and 7 union places on the Scottish LGPS Scheme Advisory Board (SAB). At the meeting of COSLA's Resources & Capacity group, the following councillor nominations to the SAB were agreed:

Stewart Cree, Moray Council
Jim Goodfellow, East Lothian Council
John Mitchell, Scottish Borders Council
Ian Macalpine, East Renfrewshire Council
Alasdair Rankin, City of Edinburgh Council

3.7 At this stage it is unclear how nominations for the non-council employer and union places on the SAB are being sought and how the selection process will operate.

The Pensions Regulator (TPR) – Code of Practice for Public Service Pension Schemes

3.8 The Pensions Regulator will take on the role of regulating public sector pension schemes with effect from 1 April 2015.

3.9 The TPR has now published the Code of Practice for the governance and administration of public service pension schemes, which will apply to all public sector pension schemes, including the local government pension schemes. A website link to the Code is provided at the end of this report.

3.10 Key points to highlight would be:

Area	Overview
Force and effect	The Code is not itself law but should generally be viewed as enforceable regulatory guidance for those persons who have legal duties under either the 2013 Act or the 2015 Regulation (e.g. including CEC/Scheme Manager and the Pension Board members). Having queried the position around personal liability of Pension Board members and others within the Scheme Manager with the TPR, it has confirmed that it is not in a position to comment or issue further guidance in this regard beyond what would constitute a breach of the law itself. The Fund will further explore the position to provide assurance to the Committee and Pension Board that all appropriate measures are being taken in this regard.
Knowledge and understanding	The Code requires Pension Board members to be conversant with the rules and policies associated with the pension funds. The practical guidance suggests this is a comprehensive obligation requiring such persons to have knowledge of all applicable rules and policies, for instance extending to the accounting requirements for the pension funds. A Pension Board member must also have knowledge and understanding of (i) the law relating to pensions, and (ii) any other matters which are prescribed in regulations, to a level which will enable such persons to properly exercise their function as a member of the Pension Board. Again, the practical guidance suggests this is a high standard of knowledge and understanding. While standards for Pension Board members under the 2013 Act and 2015 Regulations remain as yet untested, equivalent case law for private sector pension funds suggests these requirements should be treated seriously and with the assumption of attaining a high standard of knowledge and understanding. **Note:** the Code does not make specific reference to investment regulations and law in this section, beyond the general inclusion of Investment Management regulations that would apply to the LGPS.

Area	Overview
Conflicts of Interest	A conflict of interest is defined in the Code as a financial or other interest which is likely to prejudice a person's exercise of functions as a member of the Pension Board. It does not include a financial or other interest arising merely by virtue of that person being a member of the scheme or any connected scheme. The Constitution for the Pension Board must, and does, include provision to ensure that there is ongoing scrutiny around such conflicts of interest. In particular, CEC must seek sufficient information to allow it to properly determine that no such conflicts exist from time to time. The conflict of interest provisions equally apply to the Scottish Ministers need to ensure that the LGPS Scheme Advisory Board members do not have any conflicts on an ongoing basis.
Publishing	CEC must publish information about its Pension Board, including: (i) who the members of the Pension Board are, (ii) representation on the Committee, (iii) matters falling within the Pension Board's responsibility, (iv) disagreements between the Pension Board and Committee, and (v) any other requirements to publish information about governance of the scheme (e.g. HMRC directions). A relevant section will be included within the Lothian Pension Fund website and certain statements included within the annual report for the pension funds.
Risk / Internal Controls	CEC must establish/continue to operate internal controls which are adequate for the purpose of securing that the pension funds are administered in accordance with their rules and applicable law. **Note:** there is more general reference to applicable law here, which would arguably include the law and regulation of investments. Also, the Code does specifically refer to this including arrangements and procedures to be followed for the safe custody and security of the assets of the pension funds.
Pension Administration	The Code includes specific requirements around CEC keeping records, maintaining contributions and certain information being provided to members of the pension funds by CEC. This also includes detailed provisions around ongoing compliance with the Data Protection Act 1998.

Area	Overview
Resolving issues and whistle-blowing	The Code includes certain requirements around internal dispute resolution procedure and reporting breaches of the law. In particular, CEC, members of the Pension Board, any other person who is otherwise involved in the administration of the pension funds, employers, professional advisers and anyone else involved in advising the pension funds is under a duty to report any breach of law of "material significance" to the TPR. The duty to report overrides any other duty at law, except that of professional legal privilege.

3.11 The Fund already implements many of the standards and principles which are covered in the Code but a detailed review is underway to assess where procedures may need to change.

Training

3.12 The Fund's existing training policy requires Committee members to undertake a minimum of 3 days (21 hours) training and members of the Consultative Panel are required to fulfil at least one days training (7 hours) per year.

The training log for members of the Committee and Consultative Panel for 2014/15 is attached at Appendix 2.

As at the time of writing this report, a total of 193.75 training hours were recorded for both the Consultative Panel and the Pension Committee over the course of the 2014/15 reporting period, which is lower than the previous year being 362.34 hours. It is however anticipated that the NAPF conference and funding training, taking place between 11 to 13 March, will enable the majority of Committee members to meet the 21 hour target.

3.13 Members of the Committee and Pension Board are reminded that, under the new Training and Attendance Policy, there continues to be a requirement to undertake 3 days (21 hours) training per year and that this is now accompanied by the formal legal requirements around maintaining appropriate levels of 'knowledge and understanding'. As previously highlighted, the TPR now has enforcement powers in relation to these legal obligations.

3.14 Follow up training will be scheduled for existing members of the Committee and be included in a training programme to be circulated in due course. In particular, the TPR has issued an online Toolkit specific to the public sector and details of this resource will also be circulated to the Committee and Pension Board members. Members of the Committee and Pension Board are encouraged to use this training resource.

3.15 In addition to this, following December's Committee, the Fund has reviewed what additional support the Independent Professional Observers could provide in terms of ongoing training. A quarterly pre-Committee/Pension Board open session with the Independent Professional Observer has been set up on a trial basis. This will be scheduled to take place immediately prior to each quarterly meeting, to provide the opportunity to raise any general queries in relation to their role/the pension funds themselves and/or specific technical queries which might arise from their review of the papers prior to the meetings. The success of these open sessions will be reviewed after two quarters.

3.16 Induction training for members of the Pension Board is being scheduled. That training will include an overview of the TPR Code and the Lothian Pension Fund's policies and procedures.

Consultative Panel

3.17 The Consultative Panel will, with effect from 1 April 2015, cease to exist.

3.18 Committee is asked to thank the members of the Panel for their significant contribution to the pension fund governance and particularly those members who will not be involved in the Pension Board.

Measures of success

4.1 CEC's amended governance arrangements for the administration of the pension funds need to be in place by 1 April 2015 to ensure compliance with the 2015 Regulations and the 2013 Act.

4.2 The new governance arrangements facilitate improved and efficient ongoing compliance of the pension funds, without unnecessarily impeding the strategic decision making of the Committee or the day-to-day administration of the funds.

4.3 Any duplication between the remit, operation and associated costs of the Committee, Audit-Sub Committee and the Pension Board is kept to a minimum.

Financial impact

5.1 Costs of the levies of the National Scheme Advisory Board and The Pensions Regulator are not yet known. A provision of £22K has been included in the proposed budget for 2015-18, covered elsewhere on the agenda.

5.2 Training costs are already included in the pension funds' budget.

Risk, policy, compliance and governance impact

6.1 The Local Government Pension Scheme (Governance) (Scotland) Regulations 2015 and the Public Service Pensions Act 2013 are intended to facilitate better governance of the overall local government pension scheme in Scotland and the individual pension funds. However, CEC had already addressed many of the key concerns in its governance structure and so does not necessarily anticipate any improvements for the fund in the short term. Improvements may however follow in the longer term, through the effective operation of the governance framework/ training programmes and more active input from TPR and, potentially, the SAB.

6.2 CEC's scheme of delegation and Committee terms of reference may require to be updated to take into account the governance changes proposed by this report.

Equalities impact

7.1 There are no adverse equalities impacts arising from this report.

Sustainability impact

8.1 There are no adverse sustainability impacts arising from this report.

Consultation and engagement

9.1 Notwithstanding the cessation of the Consultative Panel for the Lothian Pension Funds, the Committee and Pension Board will continue to include employer and member representatives. This continues to be viewed as being integral to the governance of the pension funds.

Background reading / external references

The TPR Code of Practice for the governance and administration of public service pension schemes - http://www.thepensionsregulator.gov.uk/docs/draft-code-14.pdf

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Links

Coalition pledges	
Council outcomes	CO26 - The Council engages with stakeholders and works in partnerships to improve services and deliver agreed
Single Outcome Agreement	
Appendices	Appendix 1a – The Lothian Pension Fund Constitution Appendix 1b – The Lothian Pension Fund Nominations and Appointments Policy Appendix 1c – Pensions Committee and Pension Board Fund Training and Attendance Policy Appendix 2 - Training Log for members of the Committee and Consultative Panel

Appendix 1a

The Lothian Pension Fund

Pension Board Constitution

Introduction

The City of Edinburgh Council (the "**Scheme Manager**") is required to establish a Pension Board for the purposes of facilitating the administration of the Lothian Pension Fund, the Lothian Buses Pension Fund, the Scottish Homes Pension Fund and any other Local Government Pension Scheme that it may administer from time to time (the "**Funds**"). The Pension Board has been established under the provisions of the Local Government Pension Scheme (Governance) (Scotland) Regulations 2015 (the "**2015 Regulations**") and the Public Service Pensions Act 2013.

Further to Regulation 6(6) of the 2015 Regulations, this constitution (the "**Constitution**") shall supersede any model or other constitution regarding the operation and functioning of the Pension Board associated with the Funds (the "**Pension Board**").

1. Remit and exercise of functions

1.1 The Pension Board shall carry out its compliance functions ("**Functions**") strictly within the remit set out in Regulation 5 of the 2015 Regulations.

1.2 Members of the Pension Board ("**Members**") shall have access to and receive all papers provided to the Scheme Manager's Pensions Committee (the "**Pensions Committee**") (and any sub-committee) for the purpose of their carrying out the Functions. Members may requisition additional reports from the Scheme Manager in accordance with Regulation 8(3) of the 2015 Regulations to the extent reasonably required for the proper performance of their Functions.

1.3 Members shall have a collective duty to act independently in the interests of the members and employer bodies in the Funds and also the taxpayers. In most cases the interests of these stakeholders in the Funds will be aligned, but where they do diverge the Members shall use their reasonably exercised discretion to take a balanced and proportionate view of the interests of the respective stakeholders in the Funds in the context of the particular circumstances and having regard to any regulation or guidance issued by the UK Pensions Regulator.

1.4 Members of the Pension Board shall not participate in the voting, decision making or other business of the Pensions Committee, or the operational activity of the Scheme Manager, other than to input to the discussion and/or consideration of matters by the Pensions Committee to the extent required and appropriate in the performance of their Functions.

2. Membership

2.1 The membership of the Pension Board will at all times consist of equal numbers of trade union representatives (drawn from trade unions that represent the membership of the Funds) ("**Employee Members**") and scheme employer representatives (drawn from scheduled or admitted bodies that participate in the Funds) ("**Employer Members**" and will comprise:

a. five Employer Members; and
b. five Employee Members.

2.2 Members who are appointed to the Pension Board will at all times be required to:

a. demonstrate the relevant knowledge, understanding and expertise to properly perform the Functions;
b. make all reasonable efforts to regularly attend the meetings of the Pension Board;
c. make appropriate contributions at Pension Board meetings in the performance of their Functions; and
d. comply with the Scheme Manager's Training and Attendance Policy (as amended from time to time).

2.3 To the extent that any Member does not comply with the competency criteria set out in paragraph 2.2 above, the Scheme Manager shall have the right to serve notice on the Pension Board to that effect. On receiving notice from the Scheme Manager, the Pension Board shall take action to remove the relevant Member and reappoint a suitable replacement, unless it can demonstrate to the Scheme Manager's reasonable satisfaction that such Member has or will be able to perform the Functions in compliance with such criteria.

2.4 At no time shall a Member be appointed or retained who is at that time also a member of the Pensions Committee.

2.5 Subject to paragraph 12 herein, no person may be appointed to the Pension Board that, in the Scheme Manager's sole discretion, has a Conflict of Interest. A **'Conflict of Interest'** being a financial or other interest which is likely to prejudice a person's exercise of the Functions as a Member, but does not include a financial or other interest arising merely by virtue of that person being a member of any of the Funds.

2.6 Persons other than Members may attend meetings of the Pension Board at its direction and at its chairman's discretion as to numbers and, where the Pension Board and the Pensions Committee will meet concurrently, with the prior approval of the Convener of the Pensions Committee.

3. Meetings

3.1 Members participate in a meeting of the Pension Board where it has been called and constituted in accordance with this Constitution and the 2015 Regulations.

3.2 The Pension Board shall meet at least quarterly and, in the normal course, to coincide with the meetings of the Pensions Committee. While the statutory roles and function of the Pensions Committee and Pension Board are separate, normal practice will be that both bodies will meet at the same time to consider the same agenda, with the Convener of the Pensions Committee chairing the concurrent meeting.

3.3 A majority of the Pension Board may otherwise agree to hold meetings from time to time and will authorise one of the joint secretaries to issue notice of such a meeting and make the necessary arrangements.

3.4 No less than 7 days notice of a meeting of the Pension Board must be given to each Member, unless unanimously agreed by the Members, and will usually be given in writing (including in electronic form). Any papers to be considered at or in advance of a meeting of the Pension Board shall be circulated to the Members no less than 5 days before the meeting.

3.5 In determining whether a Member is participating in a meeting of the Pension Board it is irrelevant where any Member is or how they communicate with each other. If all of the Members participating in the meeting are not in the same place they may decide that a meeting is to be treated as taking place wherever any of them is.

4. Quorum for Members' meetings

4.1 At a meeting of the Pension Board, unless a quorum is participating, no proposal is to be voted on, except a proposal to call another meeting.

4.2 The quorum for a Pension Board meeting shall be four Members, comprising at least two Employer Members and two Employee Members.

4.3 If the total number of appointed Members for the time being is less than the quorum required, the Members must not take any decision other than a decision to fill any Member vacancies.

5. Chairing meetings

5.1 Members will appoint a Member to chair the meetings of the Pension Board during any meeting not held concurrently with a meeting of the Pensions Committee.

5.2 Where the Pension Board and the Pensions Committee meet concurrently the Convener of the Pensions Committee will chair the meeting and the chairman of the Pension Board may act as a spokesperson on behalf of the Pension Board (without prejudice to the rights of any other member of the Pension Board to speak at the meeting).

5.3 The chairman of the Pension Board will be rotated on an annual basis so that it shall be held in alternate years by:

a. a person nominated by a majority vote of the Employer Members and subsequently appointed by the Pension Board; and
b. a person nominated by the majority vote of the Employee Members and subsequently appointed by the Pension Board.

5.4 Where the appointed chairman is not participating in a meeting of the Pension Board the participating Members must appoint one of themselves to chair it.

6. Decisions by Members

6.1 Subject to Regulation 9 of the 2015 Regulations, decisions by the Members shall be made by either a majority approval at a meeting of the Pension Board or by way of a unanimous written resolution approved (through either signing of the resolution itself or agreement to it in writing by email) by all of the Members at that time.

6.2 If the number of votes for and against a proposal are equal the chairman shall have the casting vote, unless the chairman is otherwise excluded from participating in the relevant vote (e.g. should they have a conflict of interest etc.).

6.3 Where the Pension Board agree to invoke its right under Regulation 9(1) of the 2015 Regulations to request that the Pensions Committee review a particular decision, such a request (except where the Pensions Committee and Pension Board agree that would not be appropriate) will be made within 10 days of that decision having been made by the Pensions Committee. The Pension Board will only request that a decision of the Pensions Committee be reviewed where it has reasonable grounds for such review, in accordance with Regulation 9(3) of the 2015 Regulations and that such grounds are within the remit of its Functions.

6.4 Where any difference in views between the Pension Board and the Pensions Committee is to be published, pursuant to Regulation 9 of the 2015 Regulations, the Pension Board shall provide the Scheme Manager with a written statement to that effect and give the Scheme Manager and the Pensions Committee a reasonable period of time to consider that statement and respond with any comments.

6.5 The Pension Board shall ensure, working together with the Scheme Manager, that any joint secretarial report published pursuant to Regulation 9(4) of the 2015 Regulations does not include any:

a. incorrect, inaccurate, ambiguous or misleading statements; or
b. confidential or sensitive information, the disclosure of which may result in the Scheme Manager being in breach of contract or any applicable law or would be substantially to the financial or other detriment of the Funds and their stakeholders.

7. Delegation to individual Members and sub-committees

7.1 Members of the Pension Board may delegate Functions to a particular Member or a sub-committee of Members of the Pension Board for the purpose of attending any sub-committee of the Pensions Committee. It is anticipated that any such sub-committee of the Pension Board will contain a reduced number of Members proportionate to the relevant sub-committee being attended, but will at all times be constituted to have equal numbers of Employer Members and Employee Members. Decisions taken by any sub-committee must follow the procedures, in as far as they are applicable, of this Constitution which govern decisions by the Pension Board.

8. Secretaries

8.1 The Scheme Manager and the Employee Members shall each appoint a joint secretary of the Pension Board in accordance with Regulation 6(4).

8.2 The Scheme Manager shall provide reasonable and appropriate support in order to assist with the administration of the Pension Board, such as the preparation of minutes of meetings (including any decisions, noting conflicts, attendance etc.) of the Pension Board whether held separately or at the same time as the Pensions Committee meetings.

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9 Appointment and removal of Members

9.1 Any person who is willing to act as a Member and has the requisite level of knowledge, skill and expertise may be appointed as a Member in accordance with the Scheme Manager's Appointment and Nomination Policy (as amended from time to time).

9.2 A person ceases to be a Member as soon as:

a. that person dies or resigns as a Member;
b. that person is convicted of a serious criminal or civil offence or is declared bankrupt;
c. that person has become physically or mentally incapable of acting as a Member and may remain so for more than three months; or
d. the Scheme Manager has issued a notice to the Pension Board pursuant to paragraph 2.3 of the Constitution which the Scheme Manager has confirmed is not to be withdrawn.

9.3 A Member may also be removed with the unanimous approval of all other Members of the Pension Board.

10 Amending the Constitution

10.1 This Constitution may be amended by the agreement of no less than 80% of the Members of the Pension Board and with the written consent of the Scheme Manager. Any amendments to the Constitution must be made in compliance, and not conflict, with the 2013 Act (where appropriate) and the 2015 Regulations.

10.2 Where the Pension Board has agreed to amend the Constitution in accordance with paragraph 10.1 above, but the Scheme Manager has refused to give its consent, the matter may be referred to the National Scheme Advisory Board in Scotland for resolution pursuant to Regulation 6(7) of the 2015 Regulations.

11 Costs and Members' expenses

11.1 The Pension Board will liaise with the Scheme Manager to assist the Scheme Manager in budgeting for the likely costs of operating the Pension Board in the subsequent financial years. Any costs associated with the operation and administration of the Pension Board (including the costs of any advisers to be appointed by the Pension Board) will be borne by the Funds, provided that the Pension Board has sought prior approval of the Scheme Manager before incurring such costs.

11.2 The Funds also shall pay and/or reimburse the Members for any reasonable expenses properly incurred in connection with their attendance at meetings of the Pension Board, any sub-committee or training event held in accordance with the Scheme Manager's Training and Attendance Policy provided that the Scheme Manager's prior approval is sought before incurring any such expenses (other than routine costs associated with travelling to and from Pensions Committee meetings) and appropriate receipts are sent to the Scheme Manager evidencing the expenses being claimed for.

12 Conflicts of interest

12.1 Members must declare any potential conflicts of interest at the start of any meeting of the Pension Board.

12.2 If the proposed decision of the Members is particularly concerned with an actual or proposed transaction or arrangement with a person or entity in which the Member is interested, that Member is not to be counted as participating in the decision-making process for quorum of voting purposes, except where:

a. the remaining Members in attendance unanimously vote that the Member should participate;
b. the Member's interest cannot reasonably be regarded as likely to give rise to a conflict of interest; or
c. the Member's conflict of interest arises simply by virtue of its role as a representative of either a member or employer group or body.

13. Records of decisions

13.1 Minutes of each meeting of the Pension Board will be prepared, including where the Pension Board and Pensions Committee meet concurrently, which shall include a record of the time and place of the meeting, those attending, any conflicts of interest noted and all decisions made at such meetings by the Members.

13.2 The draft minutes will be approved at the next meeting of the Pension Board, signed by the chairman and copy circulated to the Pensions Committee and the Scheme Manager.

13.3 Notwithstanding the process to prepare and agree the minutes, a summary of the decisions taken at each meeting of the Pension Board will be circulated to the Members and the Pensions Committee within 10 days of that meeting taking place.

13.4 Copies of the agreed minutes of Pension Board meetings shall be retained by the Scheme Manager for no less than 12 years from the date of the decision.

Approved by: **The City of Edinburgh Council** (as administering authority of the Lothian Pension Fund, the Lothian Buses Pension Fund and the Scottish Homes Pension Fund) on 25 March 2015 . This constitution is subject to change, depending on the final regulations.

Appendix 1b

The Lothian Pension Fund
Nominations and Appointments Policy

for

External Members of the Pensions Committee

and

Members of the Pension Board

Introduction

Pensions Committee: The City of Edinburgh Council ("**CEC**" or "**Scheme Manager**") operates a Pensions Committee (the "**Pensions Committee**") for the purposes of facilitating the administration of the Lothian Pension Fund, the Lothian Buses Pension Fund, the Scottish Homes Pension Fund and any other Local Government Pension Scheme that it may administer from time to time (the "**Funds**"). The Terms of Reference of the Pensions Committee require that, in addition to the elected members, two additional members should be appointed to the Pensions Committee as follows:

A. a member drawn from the membership of the Funds ("**Member Representative**"); and
B. a member drawn from the scheduled or admitted bodies that participate in the Funds ("**Employer Representative**").

This policy sets out the means through which CEC will operate and support the nomination and appointment of the Member and Employer Representatives to the Pensions Committee.
Pension Board: CEC is also required to establish and maintain a Pension Board (the "**Pension Board**"), for the purposes of assisting with the ongoing compliance of the Funds. The Pension Board is constituted under the provisions of the Local Government Pension Scheme (Governance) (Scotland) Regulations 2015 (the "**2015 Regulations**") and the Public Service Pensions Act 2013 and will at all times consist of equal numbers of trade union representatives (drawn from trade unions that represent the membership of the Funds) ("**Employee Members**") and scheme employer representatives (drawn from local authorities and scheduled or admitted bodies that participate in the Funds) ("**Employer Members**". Further to the Constitution for the Pension Board (dated25 March 2015) (the "**Constitution**") the Pension Board will comprise:

A. Five Employer Members; and
B. Five Employee Members.

The Constitution provides for the operation of the Pension Board and this policy sets out the Scheme Manager's procedures for inviting nominations for the membership of the Pension Board and putting forward eligible candidates for appointment by the Pension Board.

1. Pensions Committee: Nomination and Election

1.1 Where required to fill a vacancy, employer bodies that participate in the Funds will be invited to nominate a suitable representative to be considered for selection as the Employer Representative on the Pensions Committee.

1.2 Where required to fill a vacancy, the members of the Funds will be invited to nominate themselves to be considered for selection as the Member Representative on the Pensions Committee.

1.3 All candidates put forward for the roles of either Employer or Member Representative will be requested to provide a brief biography, highlighting their background, any relevant experience and why they would be suitable for the role.

1.4 No person may be appointed to the Pensions Committee under this policy where, in the Scheme Manager's sole discretion, that person has a Conflict of Interest. A **'Conflict of Interest'** being a financial or other interest which is likely to prejudice the exercise of that persons' functions as a member, but does not include a financial or other interest arising merely by virtue of that person being a member or employer body in any of the Funds.

1.5 Once either the employer bodies and/or members of the Fund have been given a reasonable period of time to respond, CEC will draw-up a list of relevant candidates for each of the roles and send that list on to the Independent Professional Observer or such other suitable independent person or advisor (the "**Independent Professional Observer**"), the convener of the Pensions Committee and a senior officer within the Scheme Manager (the "**Review Panel"**) for review. The Review Panel will check the candidates and their respective submissions with a view to excluding any candidates that, at their discretion, would have a Conflict of Interest or not meet any standards, guidance or code of practice issued by the Pensions Regulator in relation to the knowledge, understanding and expertise for a member of such a body from time to time. The Review Panel will then send the updated list of potential candidates to CEC to facilitate the election.

1.6 CEC will then facilitate the elections of the Member and Employer Representatives by the members **and employer**s of the Fund respectively. Such election(s) may take place at a meeting called and arranged by CEC or through the form of an electronic or other remote voting system. The Employer and Member Representatives will be required to be elected through receiving a majority of the votes cast by their respective peers. In the event of a tied vote, CEC will facilitate the determination of the election through the drawing of lots between the tied candidates. Where only one candidate was put forward for the role, CEC will proceed to appoint that individual to the relevant role without the need for an election.

2. Pensions Committee: Appointment and Ratification by Council

2.1 Once a candidate for the Member and/or Employer Representative has been selected, and has confirmed their willingness to take up the role, approval of the appointment will be sought from the Council pursuant to the Committee Terms of Reference and Delegated Functions.

2.2 Any newly appointed Member and Employer Representatives will require to have read, understood and signed the Lothian Pension Fund's Code of Conduct prior to taking up their role.

2.3 Any newly appointed Member and Employer Representatives will require to have completed the necessary induction training from CEC prior to taking up their role.

2.4 The Employer and Member Representatives will serve a maximum term of two consecutive years and whereupon they will either stand down or require to submit themselves as a candidate for a further election.

2.5 The Employer and Member Representatives will be required to make all reasonable efforts to regularly attend the meetings of the Pensions Committee and are required to comply with the Lothian Pension Fund's Training and Attendance Policy. Failure to do so could result in their position(s) on the Pensions Committee being reviewed.

2.6 Any member of the Pension Board will not be eligible for appointment as either the Employer or Member Representative on the Pensions Committee.

3. Pension Board: Nomination and Election

3.1 Where required to fill a vacancy or vacancies, employer bodies that participate in the Funds will be invited to nominate suitable representative(s) to be considered for selection as an Employer Member on the Pension Board.

3.2 The Scheme Manager will, in consultation with the Pension Board (once established), review and allocate the Employee Member(s) among the trade unions in order to ensure they are broadly representative of the proportion of members represented by each trade union. Where required to fill a vacancy or vacancies, those trade unions will be requested to invite nominations, elect and put forward suitable individuals for appointment as Employee Member(s) to the Pension Board.

3.3 All candidates put forward for the roles of an Employer Member and/or Employee Member will be requested to provide a brief biography, highlighting their background, any relevant experience and why they would be suitable for the role.

Employer Members

3.4 Once the employer bodies have been given a reasonable period of time to respond, the Scheme Manager will draw up a list of relevant candidates for the role(s) and send that list on to the Review Panel for review with regard to the obligations on the Scheme Manager pursuant to the 2015 Regulations. The Review Panel will check the candidates and their respective submissions with a view to excluding any candidates that, at their discretion, would not meet the criteria set out in the 2015 Regulations or any standards, guidance or code of practice issued by the Pensions Regulator from time to time. The Review Panel will then allocate the Employer Member(s) among the employers in order to ensure they are broadly representative of the different types of employer body in the Fund(e.g. local authorities, education establishments, charities etc).

3.5 Where there are more candidates than vacancies, the Scheme Manager will then facilitate the election of the Employer Member(s). Such election(s) may take place at a meeting called and arranged by the Scheme Manager or through the form of an electronic or other remote voting system. The Employer Member(s) will be required to be elected by a majority of the votes cast (or if more than one member is to be appointed the individuals receiving the most votes in descending order to fill the number of vacancies). In the event of a tied vote, the Review Panel will determine which candidate is appointed to the role. Where only one candidate was originally put forward for the role, the Scheme Manager will proceed to appoint that individual to the relevant role without the need for an election.

Employee Members

3.6 Once the trade unions representing members of the Funds have put forward their candidates, the Scheme Manager will send the list of prospective candidates to the Review Panel for review with regard to the obligations on the Scheme Manager pursuant to the 2015 Regulations. The Review Panel will check the candidates and their respective submissions with a view to excluding any candidates that, at their discretion, would not meet the criteria set out in the 2015 Regulations or any standards, guidance or code of practice issued by the Pensions Regulator from time to time. The Scheme Manager will then proceed to arrange for the appointment of the appropriate candidates as Employee Member(s) of the Pension Board and liaise with the trade union bodies collectively in relation to any candidate that did not meet the criteria set out in the 2015 Regulations and/or the Pensions Regulator's guidance (with a request for a further candidate to be put forward in accordance with the procedures set out herein). In the event of there being more candidates than vacancies, the Scheme Manager will then facilitate the election of the Employee Member(s).

4. Pension Board: Appointment

4.1 Candidates selected to be either Employer Member(s) and/or Employee Member(s) will then be appointed to those roles by the Scheme Manager or (following the establishment of the Pension Board) by the Pension Board itself on receiving notice of the selected individuals from the Scheme Manager.

4.2 Employer Members and Employee Members will otherwise carry out their role and be appointed and removed in accordance with the Constitution.

4.3 Any individuals appointed as member of the Pension Board will require to have read, understood and signed the Lothian Pension Funds' Code of Conduct prior to taking up their role.

4.4 Members of the Pension Board will be required to have completed the necessary induction training from the Scheme Manager prior to taking up their role.

4.5 Any member of the Pensions Committee will not be eligible for appointment as a member of the Pension Board.

Approved by: **The City of Edinburgh Council** (as administering authority of the Lothian Pension Fund, the Lothian Buses Pension Fund and the Scottish Homes Pension Fund) on 25 March 2015. This policy is subject to change, depending on the final regulations.

Appendix 1c

The Lothian Pension Fund

Pensions Committee and Pension Board

Training and Attendance Policy

Introduction

Pensions Committee: The City of Edinburgh Council ("**CEC**" or "**Scheme Manager**") operates a Pensions Committee (the "**Pensions Committee**") for the purposes of facilitating the administration of the Lothian Pension Fund, the Lothian Buses Pension Fund, the Scottish Homes Pension Fund and any other Local Government Pension Scheme that it may administer from time to time (the "**Funds**"). Members of the Pensions Committee owe an independent fiduciary duty to the members and employer bodies in the Funds and the taxpayer. Such members are therefore required to carry out appropriate levels of training to ensure they have the requisite knowledge and understanding to properly perform their role.

Pension Board: The Scheme Manager is also required to establish and maintain a Pension Board (the "**Pension Board**"), for the purposes of assisting with the ongoing compliance of the Funds. The Pension Board is constituted under the provisions of the Local Government Pension Scheme (Governance) (Scotland) Regulations 2015 (the "**2015 Regulations**") and the Public Service Pensions Act 2013. Members of the Pension Board should also receive the requisite training and development to enable them to properly perform their compliance role.

This policy sets out the requirements and practicalities for the training of members of both the Pensions Committee and the Pension Board. It also provides some further detail in relation to the attendance requirements for members of the Pension Board and in relation to the reimbursement of expenses.

1. Training of the Pensions Committee and Pension Board Members

1.1 New members of the Pensions Committee and/or Pension Board must attend an induction course by the Scheme Manager before taking up their role. This course will provide an overview of the structure and operation of the Funds and insight into the roles and responsibilities of the members on their respective body. The purpose of this training is to allow the Pensions Committee members to consider and decide on all matters relating to the Funds, involving complex investment and pension matters, and to enable Pension Board members to assist the Pensions Committee in providing input on the compliance implications associated with such matters.

1.2 Members of the Pensions Committee and Pension Board will also be required to undertake no less than three days (21 hours) of training in each calendar year. This training obligation will be met through the following:

- Internal training events designed specifically for this purpose and to cover a range of pension administration and investment matters.
- External events for Funds' stakeholders, such as the annual employer seminar and finance briefing.
- Seminars and conferences offered by industry wide bodies, such as the LAPFF, LGC and NAPF.
- Seminars and training events offered by the Fund's external professional advisers, investment managers and other service providers.
- Online training, including that provided by the Pensions Regulator (e.g. the Pensions Trustee and Public Service Schemes/Toolkits) from time to time.
- Other training deemed appropriate by the Scheme Manager from time to time.

1.3 In designing a programme of training for the members of the Pensions Committee and the Pension Board the Scheme Manager will have regard to the Pensions Regulator's codes of practice and guidelines, the CIPFA Guidelines on the Principles for Investment Decision Making in the Local Government Pension Scheme and the CIPFA Knowledge and Skills Framework issued from time to time.

1.4 Members of the Pension Board may be required to attend further specific training which will focus on any regulatory, legislative or other technical updates which they should be aware of in the performance of their compliance role.

2 Training of the Secretaries of the Pension Board

2.1 Any joint secretary of the Pension Board appointed by the trade unions pursuant to the Constitution must also attend an induction course which provides an overview of the structure and operation of the Funds by the Scheme Manager and focuses on any key matters associated with the ongoing governance and administration of the Funds.

3 Attendance of the Pension Board

3.1 Section 2.2 (b) of the constitution of the Pension Board (the "**Constitution**") requires members of the Pension Board to make all reasonable efforts to regularly attend the meetings of the Pension Board. To provide further clarity, and pursuant to section 2.2(d) of the Constitution, the Scheme Manager requires that members of the Pension Board must attend a minimum of two out of the four quarterly meetings of the Pension Board which will be held concurrently with the quarterly meetings of the Pensions Committee. In addition, members of the Pension Board should use all reasonable efforts to attend any meetings of the Pension Board held out-with the main cycle of quarterly meetings and, in any event, shall not miss any more than two such additional meetings in any calendar year.

4. Monitoring and Reporting

4.1 Each member of the Pensions Committee and Pension Board will inform the Scheme Manager of relevant training attended from time to time.

4.2 A report will be submitted to the Pensions Committee annually highlighting the training and attendance of each member of the Pensions Committee and Pension Board.

4.3 Where the Scheme Manager has a concern that a member of the Pension Board is not complying with the requisite training or attendance requirements it may serve a notice on the Pension Board, pursuant to section 2.3 of the Constitution, requiring the Pension Board to remove that member and seek to appoint a replacement. The Pension Board shall be given reasonable opportunity to review the circumstances and, where appropriate, liaise with the Scheme Manager with a view to demonstrating that such member will be able to continue to properly perform the functions required of a member of the Pension Board and request that the Scheme Manager withdraw the notice. Any decision to withdraw such notice will be made by the Scheme Manager at its sole discretion.

4.4 This training policy will be reviewed on an ongoing basis by the Scheme Manager.

5. Reimbursement of expenses

5.1 All reasonable expenses properly incurred by members of the Pensions Committee, appointed pursuant to the Nominations and Appointments Policy, and the Pension Board necessary for the performance of their roles will be met by the Funds, provided that the Scheme Manager's prior approval is sought before incurring any such expenses (other than routine costs associated with travelling to and from Pensions Committee meetings) and appropriate receipts are sent to the Scheme Manager evidencing the expenses being claimed for.

Appendix 2

Committee and Consultative Panel Members' Training Record
From 1 April 2014 to 31 March 2015

Event:	NAPF	LGPS Conference Bournemouth	Investment Training	Pensions Audit Sub-Committee preparation time	Pensions Committee preparation time	Pensions Audit Sub-Committee preparation time	Pensions Committee	Union Briefing	Draft Regulations (Governance)	Hermes EOS and Standard Life Investment	Actuarial Valuation	LAPFF	Hermes training Colin Melvin	Pensions Audit Sub-Committee preparation time	Pensions Committee	NAPF Conference	Pensions Committee	Any additional training /reading /meetings	Total
Date	19 to 21/05/14	19 to 20/06/14	13/6/14	16/6/14	17/6/14	22/9/14	23/9/14	29/9/14	27/10/14	13/11/14	26/11/14	3 to 5/12/14	17/12/14	16/12/14	17/12/14	11 to 13/03/15	25/3/14		
Please note 1/2 an hour preparation is given to all those that attend the audit sub committee. 1 hour is given to those who attend																			
Pensions Committee																			
Maureen Child			3	n/a	0	n/a	1		2		3		0	n/a	1				**10**
Bill Cook	7		2	0.5	1	0.5	1		2	0	1	0	1	0.5	1				**17.5**
Jim Orr			3	0.5	1	0	1		2		1		1	0.5	1				**11**
Alasdair Rankin (Convener)			3	n/a	1	n/a	1		2		1		1.5	n/a	1			4	**14.5**
Cameron Rose			0	0.5	1	0.5	1		0	1.5	2.5	12	0.75	0.5	1			15	**36.25**
John Anzani (joined September 2013 and voted member representative to Pensions Committee)	**10**		0	n/a	1	n/a	1		2		3	12	1.5	n/a	1				**31.5**
Darren May (voted employer representative to Pensions Committee)			3	n/a	1	n/a	1		2	2.5	0	7	0	n/a	0				**16.5**
Lothian Pension Funds' Employer Representatives																			
Eric Adair			0	0.5	0	0.5	0		0	0	3		0	0.5	0				**4.5**
Guy Hughes			0	n/a	0	0	0		0		0		0		0			4	**4**
Alan Williamson			0	n/a	0	0	0		0		0		0		0				**0**
Helen Carter, (joined October 2013)			3	n/a	1	0	1		0		0		0		1			4	**10**
Sharon Dalli (joined September 2013)			3	n/a	0	0	0		2		0		0		0				**5**
Member Representatives																			
Charlie Boyd			0	n/a	0	0	1		0		3		1.5		0				**5.5**
John Rodgers			0	n/	1	0	1		0		3		1.5		1			1	**8.5**
Eric MacLennan			**3**	0.5	1	0.5	1	3	0		3		0	0.5	1				**13.5**
Owen Murdoch			**0**	**n/a**	0	0	1		2		0		1.5		1				**5.5**
Total																			193.75

Separate sessions/training

John Rodgers - Credited with 1 hour after discussion with John Burns regarding Valuation Report

Cameron Rose - Credited with 15 hours related to LAPFF work

Guy Hughes - Credited with 4 hours for consultation with Clare Scott over the year.

Helen Carter - Credited with 4 hours for consultation with Clare Scott over the year.

Alasdair Rankin - Credited with 4 hours for consultation with Clare Scott and pre meeting discussions.

Pensions Committee

2.30 p.m., Wednesday, 25 March 2015

Reform of the LGPS in Scotland and Regulatory Update (excluding Governance)

Item number	5.5
Report number	
Executive/routine	
Wards	All

Executive summary

Good progress continues to be made towards implementation of a new Local Government Pension Scheme (LGPS) in Scotland from 1 April 2015.

Coverage of the LGPS in England and Wales and other pensions regulatory matters is included for reference.

A review of implementation, together with periodic regulatory updates, will be provided to future Pensions Committees.

The Administering Authority (Discretions) Policy Statement has been updated to include discretions required under the new scheme and is attached for approval by Committee.

Links

Coalition pledges	
Council outcomes	CO26
Single Outcome Agreement	

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Report

Reform of the LGPS in Scotland and Regulatory Update (excluding Governance)

Recommendations

The Pensions Committee is requested to:

1.1 Note the report;

1.2 Approve the Administering Authority (Discretions) Policy Statement, as shown at Appendix 1 and delegate amendment of section 36 of the policy (transfers) to the Director of Corporate Governance once the national position is clear.

Background

2.1 This report is the latest in a series of regular updates on public service pension reform and specifically the implications of fundamental change to the design and governance of the Local Government Pension Scheme in Scotland.

2.2 A separate report on Governance matters is provided elsewhere on the agenda.

Main report

3.1 With the new LGPS in Scotland coming into effect on 1 April 2015, recent efforts have focussed on implementation and communication.

LGPS 2015 - HR, Payroll and Administration Guidance

3.2 During January 2015 the following documents were made available on www.lgpsregs.org for LGPS Pension Funds and employers in Scotland:

- HR Guide - version 1.1
- Payroll Guide - version 1.3
- Administration Guides
- "85 year rule" –version 1.0
- Aggregation – version 1.1
- Annual Benefit Statements - version 1.1
- Discretion List - version 1.0
- Discretion Policy - version 1.0
- Survivor Benefits - version 1.0
- Transfers - version 1.0
- Trivial commutation - version 1.2

- Underpin - version 1.1
- Practitioners' Guide - version 1.4

3.3 The Scottish Public Pensions Agency (SPPA) has also circulated draft guidance notes for comment, prior to final publication, covering the following specific points:

- Lifetime allowance and additional cash commutation
- Limit on total amount of benefits – Lifetime Allowance
- Application of a pension debit for divorced members
- Application of a pension credit to the former spouse or civil partner of the member
- Annual Allowance charges: calculation of Scheme Pays offset
- Use of accumulated AVCs to provide additional pension under the Scheme.

"85 year rule" – additional flexibility

3.4 The "Rule of 85", as known, perpetuates historic protection for LGPS members who joined the scheme prior to 1 December 2006. Where a member's age and years of service total more than 85, and the member shall attain age 60 prior to 1 April 2020, then the member can retire from age 60 (or age 55 with employer's permission) without actuarial reduction to benefits. Presently, this means that although a member may satisfy the "Rule of 85" criteria, the member is only allowed to retire early (prior to age 60) should the employer be willing to meet the associated strain costs. The LGPS (Transitional Provisions and Savings) (Scotland) Regulations 2014 have introduced an option available to the employer to elect to "switch off" this protection.

The member would then be able to retire early, in acceptance of the associated reduction to benefits. Clarification from the Scottish Public Pensions Agency (SPPA) on the application of a "part waiver" of the actuarial reduction is being sought.

LGPS 2015 – Communications

3.5 Work on member and employer communications material continues to be progressed by the SLOGPAG Communications Sub-Group. All information currently approved by SLOGPAG for public release is available though the website www.scotlgps2015.org. The Fund has helped to develop the Scotland wide-communications resources including the following:

- Video for members
- Modeller showing estimate of benefits from April 2015 onwards
- Presentation for employer and member events
- Five in-depth topic briefings – available on the website
- Series of e-newsletters linked to topic briefings to be issued over the period to the change (newsletters can also be for use on notice boards), including coverage of the complicated issue of pensionable pay and other protections
- Poster highlighting the changes, what is staying the same and also protections.
- Briefing and web page for the councillors' scheme.

Lothian Pension Fund specific communications

3.6 The Fund continues to use the Scotland-wide material as a basis for communications directly to members and via employers.

3.7 The Fund has provided regular updates to employers and members during the reform of the LGPS including updates on the Fund's website, newsletters and employer briefings. A letter will be issued to active members in April 2015 to give them formal notice of the Scheme changes as part of the Fund's disclosure requirements.

3.8 The Fund has been carrying out presentations in workplaces of larger employers. Employers are making arrangements for these sessions. Additional sessions are scheduled for any members to attend. These will be held across the Lothian regions and will be publicised in the letter to members.
The following communications methods will also be used in the coming months:

- Fund e-newsletters linking to briefings on the Scotland-wide site sent via employer;
- Short promotional video for use by employers at workplace or team meetings
- Employer toolkit with staff newsletter article /payroll message /team briefing presentation - for use by the employer.

3.9 Work is also underway to update the Lothian Pension Fund website with the new scheme information.

3.10 On 26 February 2015, LPF held a further training workshop targeted at payroll and HR officers of employers. The purpose was to ensure employers are fulfilling their obligations for LGPS2015. A check list of these obligations has also been sent to all employers.

Staff training

3.11 Six members of the Fund's pension administration team attended training workshops in January 2015 provided by specialists from LGPC. Feedback and tuition is now being provided to colleagues.

Software systems

3.12 Final testing of both the pension administration system and the secure data transmission portal (between the Fund and employers) is in progress.

Actuarial factors

3.13 The Government Actuary's Department (GAD) has issued updated actuarial factors to ensure the new benefit structure of the LGPS 2015 can be appropriately reflected in pension calculations by administering authorities.

3.14 The Actuary is also in progress of reviewing the actuarial factors used for the calculation of strain costs payable by employers in the event of a member leaving before normal retirement.

Policy Statements – LGPS 2015 Regulations

3.15 The Fund has updated its "Administering Authority (Discretions) Policy" to accord with the regulatory requirements from 1 April 2015. Changes have been made to reflect:

- The introduction of Additional Pension Contributions (APCs) and removal of augmented service and ability to make new Additional Regulation Contributions (ARCs);
- Removal of the requirement for members to nominate co-habiting partner to receive dependant benefits
- Various other changes to reflect wording/terms used in the new regulations.

The revised statement is shown at Appendix 1. Committee is asked to approve the Policy, and in light of the uncertainty around the operation of the Public Sector Transfer Club (see below), to delegate decisions regarding transfers to the Director of Corporate Governance.

3.16 Similarly, the Pensions Administration Strategy and Communications Policy of Lothian Pension Fund will also require minor presentational update to reflect the LGPS 2015 Regulations. The statutory consultation with employers will be undertaken shortly and a revised strategy will be recommended to the Pensions Committee at a forthcoming meeting.

LGPS membership of the Public Sector Transfer Club

3.17 On 19 December 2014 the Local Government Pensions Committee (LGPC) sent a letter to the Chief Secretary to the Treasury, Danny Alexander MP, regarding the LGPS's membership of the Public Sector Transfer Club. With the objective of facilitating staff movement across the public sector, the principle of the Transfer Club is that final salary benefits are fully protected. The introduction of career average revalued earnings (CARE) schemes with differing revaluation rates adds not only administrative complexity but a potential cost burden for the LGPS. This arises from the proposed club arrangements for CARE schemes whereby transferred pensions would continue to be revalued using the index applied to active members in the previous scheme. The letter outlined that the LGPC would support the LGPS continuing to provide club transfers in respect of final salary benefits and therefore requested that it remain part of the Transfer Club for that purpose only. A response from HM Treasury is awaited as to whether the LGPS will be permitted to stay in the Club on that basis or whether the LGPS would be allowed to leave the Club.

Other Regulatory Updates
Transfers to Defined Contribution Schemes

3.18 As previously advised to Committee, private sector pension reform promoting more flexible access to pension savings has a potential impact for the LGPS arising from member transferring out of the LGPS to defined contribution (DC) schemes.

3.19 The Pension Schemes Bill, as originally drafted, required members of defined benefit (DB) schemes to have received independent financial advice before they would be permitted to transfer into a DC arrangement, unless they have pension wealth of less than £30,000. The Government had originally planned to set the £30k limit with reference to a members' total pensions savings. The Government has now amended this at the Report Stage on 27 January 2015 such that the exemption would now apply to members who have less than £30,000 of pension wealth in that DB scheme, on a Cash Equivalent Transfer Value (CETV) basis. The National Association of Pension Funds (NAPF) has welcomed this as providing "clarity for DB schemes whilst ensuring adequate protection for members".

3.20 On 24 February 2015, HM Treasury issued draft "Funded Public Service Pension Schemes (Reduction of Cash Equivalents) Regulations 2015", setting out the method for calculating the level of reductions of a cash equivalent transfer value in order to provide protection to the funded LGPS.

Guaranteed Minimum Pension (GMP) – reconciliation to HMRC member records

3.21 Following the end of contracting out in April 2016, HMRC will be sending a statement to all affected individuals stating the amount of Guaranteed Minimum Pension (GMP) they will receive and who is responsible for paying it. Ahead of this, there is a requirement for pension schemes to reconcile their members' GMP records to those of the HMRC. Otherwise, schemes risk making overpayments to existing members and even individuals for whom they believe they have no liability. Schemes will have until December 2018 to challenge any discrepancies. With exercises frequently taking up to three years to complete, this gives schemes a limited window to make sure their own records tally with HMRC's.

3.22 The Fund has registered with HMRC for its GMP reconciliation service and has started examining members' records. Staff resources will continue to be directed towards this data cleansing activity in order to ensure compliance with HMRC deadlines. Updates on this work will be provided to Committee over the coming year.

LGPS in England and Wales – Shadow Scheme Advisory Board (SSAB)

3.23 The SSAB has announced its 2015 strategy to tackle scheme deficits. Its stated objective is a "stronger, more flexible" approach to deficit management. Policy recommendations include the calculation of funding levels on a standardised basis to allow for a more reliable comparison of funds, also serving to aid the process of identifying where help and intervention may be needed. Additionally, funds should have enhanced flexibility in managing employer exit payments and that calculation of exit payments should be revised. The development of best practice guidance for funds in managing deficits of employers, including the benefits of doing covenant checks and the range of security options available to funds is also proposed.

3.24 This update on the Shadow Scheme Advisory Board is provided to Committee purely for information as the regulatory regime is entirely separate from that pertaining to the LGPS in Scotland. Nevertheless, the issues arising may similarly prevail in Scotland and may well be the focus of attention of the Scottish Scheme Advisory Board, once this is established from 1 April 2015.

Measures of success

4.1 This report is purely advisory.

Financial impact

5.1 There are no financial implications arising directly from this report. However, changes to the LGPS in Scotland will have financial consequences for Lothian Pension Fund and Lothian Buses Pension Fund, participating employers and members. These are addressed in the separate reports on this agenda covering the respective actuarial valuations.

Risk, policy, compliance and governance impact

6.1 This report is purely advisory at this stage. There is a risk, however, that early-access and taxation changes for defined contribution pension schemes may have an impact on the cash-flow, investment and funding of the pension funds.

Equalities impact

7.1 There are no adverse equalities impacts arising from this report. Changes to the design of the LGPS are subject to Equality Impact Assessment by the Scottish Government.

Sustainability impact

8.1 There are no adverse sustainability impacts arising from this report. The Public Service Pensions Act 2013 aims to make pensions more sustainable.

Consultation and engagement

9.1 The Consultative Panel for the Lothian Pension Funds, comprising employer and member representatives, is integral to the governance of the Funds. Lothian Pension Fund is committed, on an ongoing basis, to keeping its employers and members fully informed of all the key developments on reform of the LGPS in Scotland.

Background reading / external references

Scotland wide communications for the LGPS 2015 is provided at:
www.scotlpgs2015.org.

Alastair Maclean

Director of Corporate Governance

Contact: John Burns, Pensions & Accounting Manager

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

Links

Coalition pledges	
Council outcomes	CO26 - The Council engages with stakeholders and works in partnerships to improve services and deliver agreed
Single Outcome Agreement	
Appendices	Appendix 1 - Draft Administering Authority (Discretions) Policy Statement

Lothian Pension Fund
Pensions Discretions Policy Appendix 1

This is the Pensions Discretions Policy of Lothian Pension Fund (“the Fund”). It is prepared and maintained by the City of Edinburgh Council, the Administering Authority for the Fund. This statement was agreed by the Pensions Committee on 25 March 2015.

Lothian Pension Fund’s policy where discretion is applicable is shown in the table below. Where further discretion is required, officers’ over-riding priority will be to act in the best the interests of the Fund by taking into account advice (where applicable) and rulings on similar cases from the Pensions Ombudsman.

	Local Government Pension Scheme **Administering Authority Discretions/Decisions**	**Current Policy**
1	Whether to agree to an admission agreement with a body applying to be an admission body.	Funding Strategy Statement
2	Agree terms of admission agreement	
3	Whether to agree to an admission agreement with a NHS Scheme employing authority.	
4	Whether to terminate a transferee admission agreement in the event of • insolvency, winding up or liquidation of the body; • breach of its obligations under the admission agreement; • withdrawal of approval by HMRC to participate in the scheme; and • failure to pay over sums due to the Fund within a reasonable period of being requested to do so.	
5	Agree method for paying additional pension with employer	
6	Whether to set up a separate admission agreement fund.	
7	Decide on Funding Strategy for inclusion in funding strategy statement for approval by Pensions Committee.	
8	Whether to obtain revision of employer’s contribution rate on termination of an admission agreement where underfunding not met by insurer, bond or indemnity.	
9	Whether to obtain revision of employer’s contribution rate if there are circumstances which make it likely a Scheme employer will become an exiting employer	
10	Whether any strain on Fund costs be paid up front by employing authorities following redundancy, early retirement, flexible retirement, or the waiver (in whole or in part) of any actuarial reduction on flexible or discretionary retirement.	
11	Agree to bulk transfer payment	

12	Governance compliance statement must state whether the administering authority delegates their function or part of their function in relation to maintaining a pension fund to a committee, a sub committee or an officer of the administering authority and if they do so delegate, state: • the frequency of any committee or sub committee meetings • the terms of reference, structure and operational procedures appertaining to the delegation • whether representatives of employing authorities or members are included and, if so whether they have voting rights The statement must also state • the extent to which a delegation, or the absence of a delegation, complies with guidance from Scottish Ministers and the extent it does not comply, state the reasons for non-compliance and • the terms, structure and operational procedures appertaining to the local Pensions Board	Annual Governance Compliance Statement
13	Decide frequency of payments to be made over to the Fund by employers and whether to make an administration charge.	Pensions Administration Strategy
14	Decide form and frequency of information to accompany payments to the Fund.	
15	Recover additional costs arising from employing authority's level of performance.	
16	Whether to charge interest on payments by employers which are overdue.	
17	Whether the Fund should appeal against employer decision (or lack of decision).	
18	Specify information to be supplied by employers to enable administration. Authority to discharge its functions.	
19	Whether to have a written pensions administration strategy and if so the matters it should include.	
20	A pension account may be kept in such form as the administering authority considers appropriate	Lothian Pension Fund will decide the form in which pension accounts are kept based on any published advice or best practice and in the most efficient manner that can be devised.

21	Automatically aggregate terminated concurrent employments with active concurrent employment if no option is received from the scheme member within one month of being notified of the option to aggregate.	Lothian Pension Fund will automatically aggregate terminated concurrent employments with active concurrent employments if no option is received from the scheme member within one month of being notified of the option.
22	Whether to obtain a satisfactory medical certificate before agreeing to an application to pay Additional Pension Contributions (APCs) or Shared Cost Additional Pension Contributions (SCAPCs).	Members will be required to produce medical evidence in support of an application to purchase additional pension, unless SCAPCs are being paid in respect of lost pension due to short-term absence such as career break, child-related leave or reserve forces leave. Where that evidence incurs costs these will be met by the member.
23	Whether to accept an application to pay an APC/SCAPC if not satisfied that the member is in reasonably good health.	Where satisfactory medical evidence cannot be obtained in support of the member's application, the request will not be granted.
24	Whether to turn down a request to pay APCs or SCAPCs over a period of time where it would be impractical to allow such a request.	In view of the administration costs involved for both the Fund and the employer, requests to pay APCs or SCAPCs over a period of time to make up lost pension for an absence of less than 10 working days will be refused. Members will still be able to proceed but will be required to make APCs or SCAPCs as a lump sum payment.
25	Whether to charge a member for provision of estimate of additional pension that would be provided by the scheme in return for transfer of in-house AVC funds.	Member is entitled to one free estimate within a 12 month period. If a further estimate is to be provided within a 12 month period then a charge will be made.
26	Whether to extend the 3 month election period that allows a member on leaving employment (by reasons of redundancy) to capitalise their added years contract.	Lothian Pension Fund will not extend the election time period of three months for capitalisation except where a member was not made aware of this right.

27	Whether, where a person is incapable of managing their affairs, to pay the whole or part of that person's pension benefits to another person for their benefit.	Where a member is unable to manage their own affairs then it will decide, based on the circumstances of the individual case, who should receive payment of the member's benefits, having full regard for the fact that they must be applied for the benefit of the member or their beneficiaries.
28	Make an election on behalf of deceased member with a certificate of protection of pension benefits.	Lothian Pension Fund will determine the pay figure and make an election on behalf of a deceased person.
29	Allow extension of period within which a scheme member must submit election for benefits or alter the date from which they elect to have pension paid.	Members may make an election for payment of benefits up to three months before their intended retirement date.
30	Can pay death grant due to personal representatives or anyone appearing to be beneficially entitled to the estate without the need for confirmation, grant of probate/letters of administration. Decide to whom a death grant is paid.	As required Lothian Pension Fund will use its absolute discretion in accordance with the regulations and in the first instance consider the member's expression of wish form. Where no valid nomination exists, payment may be made to an obvious beneficiary i.e. spouse, children, dependant, relative, executors or any other person who makes a valid claim. In cases where a number of potential beneficiaries exist, dependency and intestate law will be considered as a guide to determining claims.
31	Decide to whom any Additional Voluntary Contributions or Shared Cost Additional Pension Contributions monies (including life assurance monies) are to be paid on the death of the member.	Lothian Pension Fund will decide, based on the circumstances of the individual case, who should receive payment of the member's monies, having full regard for the fact that they must be applied for the benefit of the member's nominee, personal representative or any person appearing to have been a relative or dependent of the member.

32	Approve medical advisors used by employers (for ill-health retirement)	Lothian Pension Fund approves and maintains a list of medical advisors.
33	Whether to extend six month period to lodge a stage 1 Internal Dispute Resolution Procedure appeal.	The "appointed person", as nominated by Lothian Pension Fund in accordance with Scheme Regulation 54 (3)(b), under its Internal Dispute Resolution Procedure, may extend the time limit depending on the merits of the case.
34	Date to which benefits shown on annual benefit statements are calculated.	Benefit statements will show benefits calculated as at 31 March for active members. Deferred and pension credit members will show benefits calculated to the most recent pension increase date.
35	Decide policy on abatement of pensions following re-employment.	Lothian Pension Fund will not abate pensions of pensioner members on re-employment (This excludes the abatement of Compensation Pensions where no such discretion exists).
36	Allow transfer of pension rights into the Fund	Transfer in of previous pension rights is restricted to Public Sector Transfer Club (PSTC). Applications must be made within twelve months of joining the pension scheme. *This position may be reviewed if there are any changes to the PSTC for the Local Government Pension Scheme following the introduction of the new Local Government Pension Scheme from 1 April 2015.*
37	Decide whether deferred beneficiary meets permanent ill-health criteria	Lothian Pension Fund will pay early payment of deferred on health grounds subject to ill-health medical certification.
38	Where a deferred member's former employing authority has ceased to be a Scheme employer, whether to grant application for early payment of benefits on or after age 50/55 and before age 60	Lothian Pension Fund will not grant early payment of benefits on or after age 50/55 and before age 60 unless there are exceptional extenuating circumstances.

39	Decide evidence required to determine financial dependence of co-habiting partner on scheme member or financial interdependence of co-habiting partner and scheme member	Lothian Pension Fund will require the following documentary evidence from at least two years prior to the date of death: 1. Proof that the scheme member and co-habiting partner were free to marry each other 2. Proof of co-habitation 3. Proof of financial interdependency 4. A declaration from the co-habiting partner that neither they nor the scheme member had been living with someone else as if they were husband and wife or civil partners.
40	Decide to treat a child who commences full-time education or vocational training after the date of the member's death as an eligible child after the child attains age 18 until age 23.	At the time of a member's death, a child over age 17 who is in full-time education having not having had a break of over one year will be treated as an eligible child.
41	Decide to treat child as being in continuous education or training despite a break.	A break of one year will be disregarded so long as there is a clear intention to return to education or training following the break.
42	Decide to suspend child's pension during a break in education or training.	Lothian Pension Fund will suspend a child's pension during a break in education or training.
43	Decide to treat a child who is disabled within the meaning of the Equality Act 2010 as being an eligible child.	Lothian Pension Fund will rely on medical certification. Where that evidence incurs costs these will be met by the child's guardian.
44	Decide whether to commute a small pension.	Lothian Pension Fund will commute small pensions in accordance with the provisions of the Finance Act 2004.
45	Decide whether to commute pension on grounds of serious ill-health.	Subject to the member's wishes and medical certification that life expectancy is less than one year, Lothian Pension Fund will commute pension on grounds of serious ill-health.

46	Decide, in the absence of an election from the member, which benefit is to be paid where the member would be entitled under 2 or more regulations in respect of the same period of membership	Lothian Pension Fund will award the benefit that produces the best benefit for the scheme member.
47	Decide valuation day for pension sharing order	The valuation day for pension sharing orders shall be the date of divorce. The implementation date for the pension sharing order will be the last day of the four month implementation period from the date of decree.
48	How to discharge Pension Credit liability	Lothian Pension Fund will discharge pension credit liabilities by conferring appropriate rights under the Scheme on the ex-spouse or ex-civil partner. The ex-spouse or ex-civil partner may request a transfer of pension rights to another qualifying arrangement.
49	Decide charges to be levied in Pension Sharing cases	Charges are set with reference to the National Association of Pension Funds schedule of charges and are increased in line with the cost of living each year.
50	Agree to pay annual compensation on behalf of employer and recharge payments to employer	Lothian Pension Fund on behalf of the City of Edinburgh Council pays compensation on behalf of employers and recharges payments to the employer, subject to any future reviews of the process.
51	Extend the time limit for repayment of a previous refund (16/5/74 to 05/04/1978)	Lothian Pension Fund will extend the time limit indefinitely.
52	Intervals at which instalments of annual compensation are payable (may agree different to LGPS pension date)	Lothian Pension Fund on behalf of the City of Edinburgh Council pays annual compensation in line with the LGPS pension date i.e. in arrears on the 15th of each month, subject to any future reviews of the process.

Other Discretions (not covered under the provisions of the LGPS)		
53	Scheme members who have a deferred Scottish local government benefit and rejoin the LGPS, doesn't aggregate benefits and leaves again within two years.	To avoid making unauthorised payments, Lothian Pension Fund will **not** subsequently pay a short service refund lump sum to the member on leaving.
54	For upheld complaints, consider any financial awards in line with Lothian Pension Fund's Policy relating to compensation for distress or inconvenience.	When considering financial awards, consideration will be given to the levels of compensation awarded by the Pensions Ombudsman for similar cases.

Pensions Committee

2.30 p.m., Wednesday, 25 March 2015

Funding Strategy Statement

Item number	5.6
Report number	
Executive/routine	
Wards	All

Executive summary

As required under the Local Government Pension Scheme (Scotland) Regulations, the Lothian Pension Funds' Funding Strategy Statement has been reviewed as part of the actuarial valuation process to ensure that it remains appropriate. In revising the Funding Strategy Statement, due consideration has been given to:

- Actuarial valuation results;
- Consultation feedback from Fund employers;
- Results of the review of employer covenant;
- Revised guidance from CIPFA ; and
- Forthcoming changes to the Local Government Pension Scheme.

Links

Coalition pledges	
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Report

Funding Strategy Statement

Recommendations

The Pensions Committee is requested to:

1.1 Approve the revised Funding Strategy Statement;

1.2 Note the responses received as part of the consultation process.

Background

2.1 The Funding Strategy Statement (FSS) is a policy document which summarises the approach to funding pension liabilities. Relevant policies on:

- Employer admission to the Fund;
- Bulk transfers;
- Employers leaving the Fund and
- Charging

are appended to the FSS for completeness.

2.2 The FSS was last reviewed and updated in March 2012 during the 2011 actuarial valuation.

Main report

Actuarial Valuation of the Pension Funds

3.1 As separately reported to Committee on this agenda, the Fund Actuary carried out a valuation of the Funds as at 31 March 2014. These valuations are required under regulation 32 of the Local Government Pension Scheme (Administration) (Scotland) Regulations 2008 and the Actuary has prepared the reports in line with required Technical Actuarial Standards.

3.2 The valuation reports contain rates and adjustment certificates setting out employer contribution rates for the 3 years from 1 April 2015. Such certificates must be in place before the first anniversary of the valuation date i.e. by 31 March 2015. In setting contribution rates, the Actuary must have regard to the Funding Strategy, and the Actuary will certify these rates following Committee approval of the FSS.

CIPFA Guidance

3.3 The Scheme regulations require that in formulating the FSS, Funds must have regard to relevant CIPFA Guidance. The draft FSS has been amended to reflect the current CIPFA guidance (“Preparing and maintaining a funding strategy statement in the Local Government Pension Scheme 2012'), this includes changes to the structure of the document and inclusion of extracts of the Fund's risk register.

Local Government Pension Scheme (Scotland) Regulations 2015

3.4 As reported to Committee separately on this agenda, a new Local Government Pension Scheme will be introduced in Scotland from 1 April 2015. Therefore, regulatory references in the FSS have been amended.

Contribution Stability Mechanism (Section 8.5 of Appendix)

3.5 As previously reported to Committee, a contribution stability mechanism has been in operation since the last actuarial valuation. Following further work with the Fund Actuary, a revised mechanism was agreed for certain employers in Lothian Pension Fund. This mechanism is intended to be in place for 6 years (2 valuation cycles).

3.6 The contribution stability mechanism has been made available to employers:

- which allow new employees to join the Fund;
- have contribution rates calculated on an individual basis;
- offer a satisfactory covenant; and
- (where applicable) have the agreement of their guarantor to participate in the mechanism.

3.7 Employers in this group who are admitted bodies but do not have a guarantor, will be required to obtain a guarantor in order to remain part of the Contribution Stability Mechanism. The Fund will engage with these employers in order to regularise admission documentation and to include an appropriate guarantor.

3.8 Employers had the option to opt out of the contribution stability mechanism. One employer has elected to opt-out and pay the theoretical contribution rate instead.

Change to funding strategy for employers close to exit (Section 8.2 of Appendix)

3.9 Work carried out as part of the review of the employer covenant highlighted the fact that a number of employers have very few active members and are therefore close to exit. When the last active member leaves the Fund, as required by the Scheme regulations (and the Fund's policy on employers leaving Fund), a cessation valuation must be carried out to value the employer's liabilities and identify any payment required to cover such liabilities.

3.10 The Fund's policy has been for the cessation valuation to be undertaken using government bond discount rate with a prudent allowance for mortality improvements. As a result, cessation valuations can often result in large deficits. This approach is unchanged in the draft FSS. However in order to improve employers' understanding of cessation valuations, the Actuary has provided each employer with the value of their pension liabilities on the cessation basis as at 31 March 2015.

3.11 In order to address the previous inconsistency between the actuarial valuation and cessation valuation, a revised funding and contribution strategy has been proposed for those employers with:

- less than 5 active members, and/or
- a future working lifetime of active members of less than 6 years.

3.12 For such employers, the proposed funding strategy is based on a more prudent gilts basis, akin to that used in the cessation valuation. In addition employer contributions have been based on their liabilities, rather than being part of a Pool. In effect, the proposed funding basis aims to spread the deficit payment payable on cessation over the future working lifetime of the active members.

3.13 As well as raising awareness of the cessation valuation, this strategy smoothes employer contributions in the period leading up to the employer's exit from the Fund. It also reduces the risk of employers being unable to pay large deficits when the last active member leaves.

3.14 A change in investment strategy is also proposed for these employers. Assets will be invested in lower-risk investments which will help reduce the degree of short-term change in employer contribution rates in the period prior to the employer leaving the Fund.

Change to employer pooling (Section 8.4 of Appendix)

3.15 The FSS includes a change to the pooling arrangements for the calculation of contribution for small employers. Two previous pools ('Closed' and 'Open' pools for employers closed and open to new entrants respectively) have been merged into one pool for the purposes of sharing demographic experience and smoothing contribution rates. A single pool of employers is thought to be more sustainable as the number of employers open to new entrants reduces over time and employers closed to new members leave the Fund. Actuarial adjustments are made to contribution rates in order to recognise the differences in funding between open and closed employers.

Review of other policies appended to the FSS

3.16 The policies appended to the FSS have also been reviewed. The Bulk Transfer policy has been published which outlines the procedure which will be followed in circumstances where a number of Scheme members are transferred into, or out of, the Fund. The general principle is that bulk transfers should be 'cost neutral' to the Fund.

3.17 The policy on employers leaving the Fund has been amended to allow discretion on the basis of the cessation valuation calculation where a successor body, or guarantor, for an employer has sufficient covenant strength to justify less prudent assumptions. Such flexibility would be useful to cope with the increasingly complex employer reorganisations which the Fund is seeing.

3.18 The Charging Policy has been amended to incorporate costs recharged to Scheme members to provide transparency on all circumstances where fees are recharged by the Fund.

Consultation with employers

3.19 As required under the Scheme regulations, a draft FSS was issued to employers for consultation. Feedback received from employers, together with the Fund's response is summarised and attached as Appendix 2 to this report.

3.20 In addition, several meetings were held with smaller employers close to exit whose contributions payable from 1 April 2015 are adversely affected by the proposed change to the funding strategy.

Measures of success

4.1 The funding strategy should ensure that the Fund has sufficient assets to meet pension obligations in the long term.

Financial impact

5.1 The funding strategy should ensure that the Fund has sufficient assets in the long term to meet its liabilities.

5.2 The funding strategy and the results of the actuarial valuation have significant financial impact on the Fund's employers. The contribution stability mechanism was introduced to provide certainty of pension contributions to certain Fund employers for future years, together with appropriate assurance of funding level to the Fund.

Risk, policy, compliance and governance impact

6.1 An extract from the Lothian Pension Fund risk register is included in the FSS. The change in funding strategy for small employers close to exit should improve employers' awareness of cessation valuations and reduce the risk that such employers are unable to meet deficit payments with the resulting liability being spread over all other employers within the Fund.

Equalities impact

7.1 There is no equalities impact.

Sustainability impact

8.1 There is no sustainability impact.

Consultation and engagement

9.1 The revised FSS was drafted in consultation with the Fund Actuary, Hymans Robertson. As noted above, a copy of the draft revised FSS was issued to employers for consultation. A summary of the responses received is attached as Appendix 2 to this report.

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

Background reading / external references

None.

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Links

Coalition pledges	
Council outcomes	CO26 - The Council engages with stakeholders and works in partnerships to improve services and deliver agreed
Single Outcome Agreement	
Appendices	Appendix 1: Revised Funding Strategy Statement Appendix 2: Feedback from consultation

FUNDING STRATEGY

STATEMENT

MARCH 2015

Contents

1. Introduction

This is the Funding Strategy Statement (FSS) of Lothian Pension Fund ("the Fund"). It is prepared and maintained by the City of Edinburgh Council, the Administering Authority for the Fund, in consultation with the Fund's Actuary and following a period of consultation with participating employers.

The Funding Strategy Statement is a summary of the Fund's approach to funding liabilities. It is not an exhaustive statement of policy on all issues.

This Funding Strategy Statement is produced in accordance with the Chartered Institute of Public Finance & Accountancy (CIPFA) revised guidance "Preparing and maintaining a funding strategy statement in the Local Government Pension Scheme 2012"), which affirms the FSS as being a key part of a pension fund's risk management framework.

This statement was agreed by the Pensions Committee on 25 March 2015 and is effective from 1 April 2015. It replaces all previous Funding Strategy Statements and policies on funding.

1.1 Maintenance

The Administering Authority will review the Funding Strategy Statement every three years in conjunction with actuarial valuations or more frequently if considered appropriate.

1.2 Availability

This document is available on the Fund's web site (www.lpf.org.uk). Printed copies are available on request.

2. Purpose of the Funding Strategy Statement

The Department for Communities and Local Government has stated that the purpose of the Funding Strategy Statement is:

- "to establish a ***clear and transparent Fund-specific strategy*** which will identify how employers' pension liabilities are best met going forward;
- to support the regulatory framework to maintain ***as nearly constant employer contribution rates as possible***; and
- to take a ***prudent longer-term view*** of funding those liabilities."

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

The statement and appendices set out how the Administering Authority balances the potentially conflicting aims of affordability of contributions, transparency of process, stability of employers' contributions, and prudence in the funding basis. Specific clarity is provided as to the Fund's policies in respect of:

- employers being admitted to the Fund;
- employers leaving the Fund (cessations);
- bulk transfers; and
- the charging for services and recovery of costs incurred.

2.1 Regulatory Framework

Pension benefits accrued by members of Lothian Pension Fund are determined by statute.

The contributions paid by the members of the Fund are fixed in the Scheme Regulations. Employers pay the balance of the cost of delivering the benefits, however, in line with the requirements of the Public Service Pensions Act 2013, the Scheme Regulations incorporate a cost sharing mechanism to ensure sustainability of the Scheme over the long term.

The Funding Strategy Statement focuses on the pace at which employers pay for the benefits i.e. the approach used to determine contribution rates. It forms part of a framework that includes:

- the Local Government Pension Scheme) (Scotland) Regulations 2014 (as amended) and the LGPS (Management and Investment of Funds) (Scotland) Regulations 2010;
- the Pensions Committee, the Pensions Audit Sub-Committee and the Pension Board;
- the Rates and Adjustments Certificate, which can be found appended to the Fund Actuary's valuation report;
- actuarial factors for valuing early retirement costs and the cost of buying extra service; and

- the Fund's Annual Report, including the Annual Governance Statement, the Governance Compliance Statement and the Statement of Investment Principles.

This is the framework within which the Fund's Actuary carries out triennial valuations to set employers' contributions and provides recommendations to the Administering Authority when other funding decisions are required, such as when employers join or leave the Fund.

3. Purpose of the Fund

3.1 Purpose of the Fund

- The Fund provides benefits to members and their dependants. The Fund receives contributions, transfer payments and investment income;
- pays pension benefits, transfer values and administration costs; and
- makes investments to meet the future costs of pension promises made to members of the Scheme.

as defined in the Local Government Pension Scheme (Scotland) Regulations 2014 and the Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010.

4. Responsibilities of the Key Parties

The sound and effective management of the Fund can only be achieved if all interested parties exercise their statutory responsibilities conscientiously. Although a number of these parties, including investment managers and external auditors, have a responsibility to the Fund, the following may be considered of particular relevance to the funding strategy:

4.1 The Administering Authority should:

- operate the Fund as per the Regulations;
- collect and account for employer and employee contributions, investment income and other amounts due to the Fund as stipulated in the Scheme regulations;
- invest surplus monies in accordance with the regulations;
- ensure that sufficient cash is available to meet liabilities as and when they fall due;
- pay relevant benefits from the Fund as set out in the Scheme regulations;
- manage the actuarial valuation process in consultation with the Fund's Actuary;
- prepare and maintain a Funding Strategy Statement and Statement of Investment Principles after proper consultation with interested parties;
- monitor all aspects of the Fund's performance and funding, and amend the FSS/SIP accordingly;
- take measures as set out in the Scheme regulations to safeguard the Fund against the consequences of employer default;
- effectively manage any potential conflicts of interest arising from its dual role as both Fund administrator and scheme employer;
- manage any cessation valuation in consultation with the Fund's Actuary;
- prepare and maintain admission, cessation, bulk-transfer and charging policies. The admission, cessation and charging policies are included in this document, and

- fulfil all other duties as specified in Lothian Pension Fund's Pensions Administration Strategy – available in the 'publications' section of the Fund's website www.lpf.org.uk

4.2 The Individual Employers should:

- calculate an employee's contribution rate and deduct the correct contributions from members' salaries;
- pay employee and employer contributions to the Administering Authority on a timely basis and provide appropriate supporting documentation in a format and timescale specified by the Fund;
- develop and maintain a policy where discretion can be exercised within the regulatory framework (e.g. granting enhanced benefits) bearing in mind costs
- make additional contributions, in accordance with agreed arrangements, for augmentation of scheme benefits and early retirement strain;
- notify the Administering Authority promptly of organisation changes for example, changes in ownership or structure, TUPE transfers which could affect future funding;
- notify the Administering Authority of a possible ending of its admission agreement/participation in the Fund within the terms of that agreement or otherwise as required by the Regulations (typically a 3 month notice period is required), including closed employers where the last employee member is leaving (whether due to retirement, death or otherwise leaving employment);
- meet costs as specified in the Charging Policy (see appendix D); and
- fulfil all other duties as specified in the Fund's Pensions Administration Strategy.

4.3 The Fund Actuary should:

- prepare actuarial valuations to assess the solvency of the Fund and the required employers' contribution rates;
- engage with the Administering Authority in consultation processes;
- advise on bulk transfers and individual benefit related matters;
- provide advice and valuations on the termination of admission agreements;
- provide advice to the Administering Authority as required on bonds or other forms of security against the financial effect on the fund of employer default;
- assist the Administering Authority in assessing whether employer contributions need to be revised between valuations as required by the regulations; and
- fully reflect actuarial professional guidance and requirements in the advice given to the Administering Authority.

Lothian PENSION FUND

5. General Funding and Solvency Issues

5.1 Funding Principles

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

The "solvency" or "funding level" is a measure of the amount of money held in the Fund at a point in time compared to the value of the benefits promised to its members. It is calculated by dividing the assets of the Fund by the value of the accrued liabilities.

The Fund's Actuary is required to report on the solvency of the Funds and recommend future employer contribution rates every three years. In assessing the solvency and employer contribution rates, the Actuary makes a number of financial and demographic assumptions (see below). The solvency of the Funds and the contribution rates can be very sensitive to these assumptions.

The Funds seek to achieve solvency (i.e. a funding level) of 100% over a period in time.

In calculating solvency, the Actuary values the benefits using the assumptions described above. Assets are taken into account at their market value.

The Regulations specify the principles which must be used in the funding strategies. However it is the responsibility of the Administering Authority, acting on the advice of the Funds' Actuary, to determine the precise approach and the financial and demographic assumptions to be used in the actuarial valuation.

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

5.2 Financial Assumptions and Link to Investment Strategies

The key financial assumption in calculating the solvency and contribution rates is the rate of return which will be achieved on the Funds' investments. The Fund must be able to meet all benefit payments as and when they fall due. These payments will be met by contributions (resulting from the funding strategy) or asset returns (resulting from the investment strategy). To the extent that investment returns may be lower than expected, then higher contributions may be required from employers, and vice versa. Hence, the funding and investment strategy are inextricably linked.

The expected return is based on the yield on UK government bonds (gilts) at the time of the actuarial valuation. If appropriate, allowance is made for the fact that the investment strategy includes assets other than gilts which are expected, over the long term, to deliver a higher return for the Fund.

The discount rate(s) adopted in the actuarial valuation is derived by considering the expected rate of investment return which is anticipated to be achieved by the underlying investment strategy.

The Funds invest in assets other than gilts in order to reduce the cost to the employer in the long term.

However, the investments are not guaranteed to deliver returns in excess of gilts. This means that the solvency can be volatile, particularly in the short term. In order to minimise the degree of short-term change in employer contribution rates, expected investment returns are considered over the long term.

The Pensions Committee is responsible for setting investment strategies after taking professional investment advice. The Funds shall undertake a regular review of the Funds' investment strategies to ensure appropriate alignment with their liabilities. Employer covenant and membership maturity profile are both risk factors which may impact on liabilities and therefore which will be taken into account.

The Investment Strategy Panel meets quarterly to monitor the investments of the Fund. The Panel discusses issues such as asset allocation, risk and performance. This includes how investments are spread across different assets, countries, sectors and companies in order to reduce the overall risk.

Further information on the investment strategy can be found in the Funds' Statement of Investment Principles which is available on the website (www.lpf.org.uk).

5.3 Demographic Assumptions

The Actuary makes a number of demographic assumptions including mortality, salary growth, rates of retirement, commutation experience and withdrawal. They are intended to be best estimates of the future experience of the Funds.

The assumptions take into account the past experience of the employer and Funds, other Local Government Pension Schemes and/or the general population, as considered appropriate by the Actuary.

5.4 Contributions

Employee contributions are determined by the Local Government Pension Scheme (Scotland) Regulations 2014. A member's contribution rate is calculated on an annual basis, dependent on their actual pensionable pay at 31 March each year and allowing for any election made under Regulation 10 (50:50 option).

Employer contributions are calculated by the Fund Actuary. They are made up of two elements:

A. an estimate of the cost of benefits accruing in the future, referred to as the "future service rate" and;
B. an adjustment for the solvency of the Fund based on the benefits already accrued. If there is a surplus, there may be a contribution reduction; if there is a deficit there may be a contribution increase. For all employers, contributions to cover any Past Service Deficit are expressed as a fixed monetary sum, rather than as a percentage of payroll. The period over which any funding deficit or surplus is spread for each Fund is covered further in Sections 6, 7 and 8 below.

All employers are required to pay the estimated additional cost (strain cost) of **non-ill health early retirements**, to allow for the fact that the pension is paid earlier and for longer. This is calculated and payable at the time of the early retirement.

The Administering Authority periodically monitors the actual contributions received to ensure they are in line with those expected. As set out in the Fund's Pensions Administration Strategy, employers are expected to provide requisite detailed information on a monthly basis to assist this monitoring exercise and to substantiate the payments made.

The contribution rates are subject to review and change if there are changes in employer circumstances between actuarial valuations for example if an employer closed to new members or left the Fund.

6. Funding – Scottish Homes Pension Fund

Scottish Government acts as guarantor to the Scottish Homes Pension Fund. A bespoke funding strategy has been developed for the Scottish Homes Pension Fund. This has been agreed by the Administering Authority, the Fund's Actuary and the Scottish Government (previously known as the Scottish Executive).

The strategy aims for the Fund to be 100% solvent by 2044 using a discount rate based on government bonds. It includes target funding levels at each actuarial valuation. Contributions from the Scottish Government are determined by reference to the target funding levels. The deficit recovery period is 8 years.

The funding strategy is designed to reduce investment risk as the Fund is closed to new members and the liabilities will mature over the time, with a reducing allocation to equities over time reflecting the requirement of the Scottish Government to lock away any surpluses that may occur over time by accelerating the transfer into bonds.

7. Funding – Lothian Buses Pension Fund

The Lothian Buses Pension Fund closed to new members in 2008 and the liabilities are expected to mature over time.

The objectives of the funding strategy include:

- to ensure solvency of the Fund;
- to minimise the degree of short-term change in employer contribution rates;
- reduce the risk of the investment strategy over time;
- to ensure that sufficient cash is available to meet all liabilities as they fall due for payment

When determining employer contributions at the Fund Actuary's triennial valuation the Administering Authority may (after consultation with the Fund Actuary) take into account any events that arise after the valuation date, but before the formal valuation report is signed off (which must occur within one year of the valuation date), that materially affect the employer contributions. In doing so, the Fund will aim to achieve the objectives of the funding strategy.

Changes in employer contributions may be phased over time in order to minimise the degree of short-term change. The Administering Authority in consultation with the Fund's Actuary and the employer decides how any reductions or increases to contribution rates are introduced.

8. Funding – Lothian Pension Fund

8.1 Objectives of the Lothian Pension Fund's Funding Strategy

The objectives of the funding strategy include:

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

8.2 Investment Strategy

Overall the Fund adopts a long-term investment strategy, aiming to maximise the investment return within reasonable and considered risk parameters and hence minimise the cost to the employer.

However employers (with the exception of Transferee Admitted Bodies) who are closed to new members and have less than 5 active members, or are expected to leave the Fund within two valuation periods (6 years), will be assumed to be invested in lower-risk investments i.e. index-linked government bonds. This aims to reduce the degree of short-term change in employer contribution rates in the period prior to the employer leaving the Fund and hence manage risks for both the individual employer and for the Fund as a whole,

In addition it is recognised that within Lothian Pension Fund, employers' circumstances vary and there may be demand from other employers for a lower-risk investment strategy for their section of the Fund. The Fund will consider such requests subject to practical implementation. However it is not practical for the Fund to offer individual employers full flexibility on asset allocation.

Where a different investment strategy is adopted for specific employer(s), the basis used to calculate employer contribution rates may be adjusted if appropriate.

8.3 Notional Sub-Funds for Employers

In order to establish contribution rates for individual employers or groups of employers, it is convenient to notionally subdivide the Fund as a whole between the employers, as if each employer had its own notional sub-fund within the Fund. This subdivision is for funding purposes only. It is purely notional in nature and does not imply any formal subdivision of assets, nor ownership of any particular assets or groups of assets by any individual employer or group.

The Lothian Pension Fund does not account for each employer's assets separately on a cashflow basis. The Fund's Actuary apportions the assets between the employers at each valuation using income and expenditure figures and an ‘analysis of surplus’ approach.

8.4 Grouping

Changes in employer contributions may be phased over time in order to minimise the degree of short-term change. The Administering Authority, in consultation with the Fund’s Actuary and the employer, decides how any reductions or increases to contribution rates are introduced.

The **large employers** in the Fund are required to fund the benefits of their own employees; the Actuary calculates a different contribution rate specific to each large employer.

Individual contribution rates will also apply to:

- Transferee Admission Bodies;
- employers who have less than five active members or are expected to leave the Fund within two valuation periods (6 years). See Section 8.2 above; and
- other small employers who do not qualify for inclusion in the pool due to the funding level criteria (see below).

Other **smaller employers** who are grouped together for the purpose of calculating contribution rates at the actuarial valuation. This grouping provides some protection against changes in the contribution rate of a small employer from one actuarial valuation to the next.

Criteria are set for the purpose of determining which employers should be part of the Pool in order to manage the risk for both the individual employer and for the Fund as a whole. The Administering Authority has ultimate discretion in determining whether or not an employer joins and remains in the Pool and may remove an employer from the Pool if its experience or characteristics are extreme or untypical compared to other employers in the Pools. To be included:

- an employer should generally have less than 100 total members and/or;
- have an average full time equivalent annual salary of less than £40,000;
- funding level of at least 80% at each of the current and previous actuarial valuations for an employer open to new entrants; and
- funding level of at least 90% at each of the current and previous actuarial valuations for an employer which is closed to new entrants.

The Pool criteria and individual employer’s participation in the Pool will be reviewed at each valuation. For example if a small employer’s funding level has recovered, they will rejoin the Pool, and pay the appropriate Pool contribution rate.

Employers in the Pool pay either the Open Rate or Closed Rate.

- The Open Rate applies to employers who allow new employees to join the Fund;
- Those employers in the Pool, who no longer allow new employees to join the Scheme, pay a higher rate ('the Closed Rate') to account for the fact that membership numbers are reducing over time, and so their membership profile is maturing; and
- Any employer who does not admit any new entrants within a reasonable period is deemed to be closed to new entrants. For the purposes of this statement, a reasonable period is an inter-valuation period (i.e. three years between formal valuations of the Fund). Any employer who elects to close to new entrants will revert to the Closed Rate with immediate effect. Any employer classed as 'deemed closed' which takes on new staff who join the Scheme will revert to the Open Rate with immediate effect.

8.5 Contribution Stability

The policy of the Fund is to operate a Contribution Stability Mechanism on an ongoing basis subject to regular reviews in order to provide certainty of pension contributions to Fund employers for future years, together with ensuring appropriate assurance of funding level to the Fund. Contribution stability will not be offered to all employers – each employer's particular circumstances will be considered, in particular the strength of the covenant offered and the extent of membership commitment to the Fund. Employers are not obliged to participate in the Contribution Stability Mechanism, but if they wish to opt out, they must make an election at the outset. This election will cover the entire duration of the current Contribution Stability Mechanism (expected to be 6 years from the 2014 actuarial valuation) as well as future reviews of the Contribution Stability Mechanism. Any decision to allow an employer to join the Contribution Stability Mechanism at a later date will be at the discretion of the Administering Authority.

An employer which chooses not to participate will instead pay the theoretical contribution rate (as set by the Fund Actuary at the actuarial valuation) for the 3 years from 1 April 2015 (allowing for phasing to minimise the degree of short term change) and thereafter.

Employers which are open to new entrants and have contribution rates calculated based on their individual circumstances will be offered contribution stability subject to:

- satisfactory assessment of the employer covenant; and
- agreement by their guarantor to inclusion of the employer in the contribution stability mechanism where appropriate

For the 2014 actuarial valuation, the Contribution Stability Mechanism is expected be in place for 2 actuarial valuation periods (or 6 years). Employer contributions will be frozen, at the total rate determined at the 2011 valuation, until 31 March 2018. Thereafter, for the next three years, rates could only vary from this rate by a maximum of plus or minus 0.5% per annum.

An employer's participation in the Contribution Stability Mechanism is expected to extend to the full duration of the mechanism. However, contribution stability will be subject to ongoing review by the Fund which reserves the right to remove an employer from the Contribution Stability Mechanism should particular circumstances deem it prudent to do so, for example assessment of employer covenant, financial or demographic experience. In addition, if an employer closes to new entrants they will be removed from the Contribution Stability Mechanism and a recalculation of their contribution rate may be required.

Contribution stability will not be afforded to the following employers:

- Employers which are closed to new entrants;
- Transferee Admission Bodies; and
- Community Admission Bodies which are part of the Pool.

Full information on the Contribution Stability Mechanism is available on the Fund's website.

8.6 Deficit/Surplus Spreading

In deciding the period over which any funding deficit or surplus is spread, the Administering Authority considers a number of factors including the objective of minimising the degree of short term change in employer contribution rates and employers' ability to meet their commitments to the Fund.

The deficit recovery periods used for different employers range from 20 years for Councils to the remaining contract period for Transferee Admission Bodies which can in some cases be a matter of months. The differences in deficit recovery periods reflect the financial strength of the employers and the perceived long-term commitment to the Fund.

The following table shows the employers in the Fund for which are required to fund the benefits of their own employees, setting out the key characteristics of each type of employer which influence the period over which any surplus/deficit has been spread.

	Employer	Deficit Recovery Period (Years)
Councils/Large Scheduled bodies	City of Edinburgh Council	20
	Midlothian Council	
	West Lothian Council	
	East Lothian Council	
	Scottish Fire & Rescue Service (Civilians)	20
	Police Scotland (Civilians)	20
	Lothian Valuation Joint Board	20
	Forth Estuary Transport Authority	20
	Scottish Water	20
	Lothian Buses	FWL [1]
	Scottish Police Authority	FWL [1]
Universities / Colleges	Heriot-Watt University	15
	Newbattle Abbey College	
	Queen Margaret University College	
	Napier University	
	Edinburgh College	
	West Lothian College	
	Scottish Rural University College	FWL [1]
	University of Edinburgh	
Other Large employers	Audit Scotland	15
	Barony Housing Association	
	Convention of Scottish Local Authorities	
	Visit Scotland	
	West Lothian Leisure	FWL[1]
	Edinburgh Leisure	
	EDI	
	CHAS	
	The Improvement Service	
	SESTRAN	
Transferee Admission Bodies		Shorter of FWL [1] or contract period

[1] Future Working Lifetime of current active members

In calculating the contribution rate for the groups of small employers (including the ‘Pools), the deficit is spread over the Future Working Lifetime of current active members

8.7 Post Valuation Adjustments

When determining future employer contributions at the triennial actuarial valuation the Administering Authority may (after consultation with the Fund Actuary) take into account any events that arise after the valuation date, but before the formal valuation report is signed off (which must occur within one year of the valuation date), that materially affect the employer contributions referred to above. In doing so, the Fund will aim to minimise the degree of short-term change in employer contribution rates while still ensuring the long-term solvency of the overall Fund

8.8 Employers Joining the Fund

Appendix A sets out in full the Fund's policy on employers joining the Fund.

Bodies applying to join the Fund will be provided with a copy of this Statement and will be required to provide a written undertaking that they understand and are aware of the long-term financial implications of participation in the Fund.

8.9 Employers Leaving the Fund

Appendix C sets out in full the Fund's policy on employers leaving the Fund in any of the following circumstances:

- When the employing authority is wound up or liquidated;
- When the last active member leaves or retires from an employer;
- When the admission agreement is otherwise terminated by either the employing authority or the admission authority, subject to the notice period specified in the admission agreement;
- In the case of Transferee Admission Bodies, when the contract comes to an end and is not renewed;
- In the case of scheduled bodies, when the body no longer has an active member contributing to the Fund or through changes in over-riding legislation or Government policy can no longer contribute to the Local Government Pension Scheme; and
- Where an employer has an active admission agreement, but no active members and no new members will join in the future, then the admission agreement will be terminated and actions detailed in Appendix C will apply, other than where specific provision exists in the admission agreement for such circumstances.

8.10 Bulk Transfers

The treatment of bulk transfers of pension rights to and from the Fund are detailed in Appendix B.

9. Key Risks and Controls

The Administering Authority has an active risk-management programme in place. The risk register is reviewed periodically with a quarterly summary provided to the Pensions Committee. The following extract from the risk register, with Impact and Likelihood for each risk scored on a scale of 0-10, highlights those risks which can be considered of particular relevance to the funding strategy:

Risk	Existing controls	Impact*	Likelihood*	Current Risk
Investment performance leading to pressure on employer contributions	• Regular actuarial valuations & review of funding strategy, including longevity assessment. • Regular asset liability studies. • Frequent performance assessment by Investment Strategy Panel. • Bespoke investment strategy offered to employers.	5	4	20
The collapse of an Employer body member, leading to pressure on other employers	• Improved and enhanced Admissions Policy including use of guarantees. • Regular contact with employers. • Education to improve understanding, including grant funding implications. • Employer covenants on-going review. • Membership and employer monitoring • Funding strategy now consistent with cessation policy	4	8	32
Employers make HR decisions without considering the impact on the pension fund	• Monitoring via actuarial valuation. • Employer training programme. • Communications - employer bulletin. • Individual employer contribution rates. • Pensions Administration Strategy. • Funding Strategy Statement. • Staff Training. • Take note/action when last active member leaves or retires.	3	3	9
Adverse movement against non-investment funding assumptions leading to pressure on employer contributions	• Regular actuarial valuations and review funding strategy, including longevity assessment. • Pooling for small employers to reduce volatility. • Regular contact with employers. • Contribution stability in place	5	6	30

*Assessed on a scale of 1-10

Appendix A: Admission Policy

1. Background

The Local Government Pension Scheme (LGPS) (Scotland) Regulations contain powers for the City of Edinburgh Council (CEC) to admit bodies into the Lothian Pension Fund. Those bodies must meet certain conditions, generally relating to their purpose and aims, contained in the regulations before being considered for admission.

This document sets out the policy of CEC as Administering Authority of Lothian Pension Fund (‘the Fund’) in applying discretion to admit, on application, a new body into the fund for the purposes of allowing employees of that body access to the LGPS.

This policy will be reviewed as and when considered necessary.

2. General application of discretion to admit new bodies

The Pensions Committee of the City of Edinburgh Council, as the executive body responsible for the administering authority function, delegates power to approve or reject applications to the Director of Corporate Governance.

The Director of Corporate Governance will consider all applications from bodies who meet the conditions of the scheme regulations. In making his decision, due weight will be given to the merit of the body’s financial covenant.

Approved applications will be subject to the conclusion of an admission agreement containing the appropriate matters prescribed in scheme regulations. Appropriate legal advice will be obtained in drafting and concluding admission agreements.

The body will be provided with a copy of the current Funding Strategy Statement of the Fund and will be required to provide a written undertaking that they understand and are aware of the long-term financial implications of participation in the Fund.

A bi-annual report will be submitted to the Pensions Committee providing details of the delegated decisions made during the year.

3. Policy in relation to Transferee Admission Bodies (TABS)

TABS as defined in the scheme regulations will be admitted, subject to the conclusion of an admission agreement between the CEC, the scheme employer (where different) and the TAB. The Scheme employer will also be required to act as a guarantor and undertake to meet any amounts due to the Fund in respect of any funding or contribution shortfall either during or at the cessation of the contract.

4. Policy in relation to Community Admission Bodies (CABS)

CABs as defined in the scheme regulations, and who are based at least in part in the Lothian area, may be admitted to the Fund.

The applying CAB must provide documentary evidence of their:

- aims and objectives;
- articles of association;
- latest annual accounts; and
- future income streams including the source and timing.

CABs will be expected to find a guarantor who will undertake to meet any amounts due to the Fund in respect of any funding or contribution shortfall either during or cessation of the admission agreement. The body must supply documentary evidence of the guarantee obtained and, where considered necessary by CEC, of the financial security of the guarantor.

Appendix B - Bulk Transfer Policy

1. Introduction

This is the policy of Lothian Pension Fund ("the Fund") as regards the treatment of bulk transfers of pension rights to and from the Fund.

These procedures and policies apply to employers participating in the Main Fund and the Lothian Buses Pension Fund.

1.1 Regulatory Framework

The Local Government Pension Scheme (Scotland) Regulations 2014 outline the general framework for employees and employers participating in the Local Government Pension Scheme in Scotland.

1.2 Reviews of Policy

This policy will be reviewed at least every three years following triennial valuations or following changes in the Regulations pertaining to employees transferring rights.

It should be noted that this statement is not exhaustive and individual circumstances may be taken into consideration where appropriate.

2. Principles

2.1 Overriding Principles

The purpose of bulk transfer negotiations is to determine the amount of service credits to be awarded and transfer payment to be paid when a number of members transfer their benefits from one pension scheme or Fund to another.

On transfers out from the scheme, it is the Fund's general policy that the bulk transfer amount should not leave the Fund (and the specific employer concerned) with insufficient assets to meet the remaining members' liabilities. Further, where possible, all bulk transfers should be "cost neutral" for the ceding employers, i.e. there should be no financial impact on them, positive or negative, based on the ongoing valuation basis.

On transfers in from another scheme, it is the Fund's general policy that bulk transfers be treated in the same manner as a transfer out.

However, it should be noted that if a deficit arises as a result of a bulk transfer, either into the Fund or out of the Fund, the employer may, at the discretion of the Administering Authority, be required to repay this deficit as a lump sum or, depending on their financial circumstances, through their ongoing contribution rates.

On transfers from one Fund employer to another existing Fund employer, assets equal to 100% of the transferring liabilities will be notionally transferred, unless otherwise agreed.

On transfer from one Fund employer to a new Fund employer, the following principles will apply:

- A fully funded transfer, on the ongoing valuation basis, will be notionally transferred to the new employer, if the new employer is a TAB, unless otherwise agreed; and
- A share of deficit transfer, on the ongoing valuation basis, will be notionally transferred to the new employer for all other types of employer, unless otherwise agreed.

2.2 Interaction with Funding Policy

It is the Fund's policy that each employer is responsible for the funding of all Fund benefits of its own members, including current and previous employees. Whilst employer contributions may be pooled in the interests of stability and administrative ease for the purpose of triennial funding valuations the individual funding position for each employer is tracked by the Actuary at each triennial valuation.

Any transfer of pension rights may have an effect on the valuation position of the employer and an individual contribution rate may be calculated depending on the effect of the transfer.

2.3 Principles for Determining Payment

The Fund will determine the transfer payment and service credits having taken actuarial advice.

The assumptions proposed / accepted by the Actuary are to be, at a minimum, as strong as those set as at the latest formal valuation of the Fund updated for financial conditions on the date of transfer.

For transfers out of the scheme, the transfer amount will be set equal to the value of benefits accrued to the transfer date for transferring members based on the agreed transfer basis, adjusted to take account of any underfunding in the transferring employer's share of the Fund such that the maximum transfer value is not greater than the reserves held for the transferring members. This approach is known as a 'share of fund' or 'share of deficit' approach.

If, as a result of the transfer out, the employing authority within LPF no longer has any active membership, then a cessation valuation may be triggered. If this is the case, the transfer value may be adjusted such that the reserves of the employer, following transfer, are equal to the value of the remaining deferred pensioner and pensioner benefits within the scheme on the appropriate cessation basis as outlined in the Fund's cessation policy.

For transfers in from a funded scheme, the actuary will be instructed to agree terms where the minimum transfer amount from the ceding scheme should be cost neutral to that scheme. This approach is consistent to the calculation of the transfer amount if there was a transfer out of LPF. If the transfer is from an unfunded scheme, the actuary will be instructed to ensure the transfer value is equal to the value of transferring benefits based on the ongoing valuation basis of LPF based on financial conditions at the date of transfer.

There is normally a lag between the date of the actual transfer of staff and the date of payment. During this period, on transfers out, the agreed transfer value will be adjusted by a factor determined by an estimate of the movement in the investments as determined by the asset allocation of the Fund (or sub-Fund if appropriate) and the respective market indices.

This method of rolling up the transfer payment is to be recommended for incoming bulk transfers as well.

3. Process

3.1 Responsibilities of ceding/receiving employers

An employer which is aware of a transfer from or into the Fund is required to:

- advise the Fund, in writing, of the transfer. This communication should indicate where members are transferring to/from and how many members will potentially transfer;
- provide information and data as requested by City of Edinburgh Council and the actuary to the Fund which is relevant, including in particular any changes to the membership which could affect the liabilities (e.g. salary increases and early retirements), contact details for the ceding/receiving scheme, etc.; and
- assist in the administration of option forms to transferring members as and when required.

3.2 Responsibilities of Administering Authority

The Administering Authority will gather information as required, including, but not limited to, the following:

- details of the transfer – where are members transferring to/from, how many members are involved and (where a transfer out to a non-LGPS scheme) if the receiving scheme is broadly comparable to the LGPS;
- complete membership data for the transferring members;
- commission the Fund actuary to carry out bulk transfer negotiations where necessary;

- where applicable, liaise with the employer and ensure they are aware of their responsibilities, in particular for any residual deficit or risk associated with the transfer; and
- ensure that payments or receipts of transfer value payments are carried out on the agreed dates.

3.3 Responsibilities of the Actuary

Following commission of bulk transfer negotiations by the Administering Authority, the Fund Actuary will:

- on notification of the transfer, ensure that the data and information required is collated;
- propose / agree assumptions and transfer values based on the policies set out by Lothian Pension Fund;
- propose / agree service credits in line with relevant legislation and policies; and
- negotiate and agree the final transfer payment date and amount.

Appendix C: Policy on employers leaving the Fund

1. Introduction

This is the policy of Lothian Pension Fund ('the Fund') as regards the treatment of employers of the Fund.

This policy replaces all previous policies on employer termination and is effective from 1 April 2015.

1.1 Scope of Policy

This policy covers employers leaving the Fund in any of the following circumstances:

- when the employing authority is wound up or liquidated;
- when the last active member leaves or retires from an employer;
- when the admission agreement is otherwise terminated by either the employing authority or the admission authority, subject to the notice period specified in the admission agreement;
- in the case of Transferee Admission Bodies, when the contract comes to an end and is not renewed; and
- in the case of scheduled bodies, when the body no longer has an active member contributing to the Fund or through changes in over-riding legislation or Government policy determines that members can no longer contribute to the Local Government Pension Scheme;

1.2 Reviews of Policy

This policy will be reviewed at least every three years following triennial valuations or following changes in the Scheme Regulations relevant to employers leaving the Fund.

2. Principles

2.1 Overriding Principles

If an employer leaves the Fund, or their admission agreement is otherwise terminated, the Administering Authority will instruct the Fund's Actuary to carry out a valuation of that employer's liabilities (a 'cessation valuation').

Payment of any deficit does not guarantee that the assets in the fund will be sufficient for the liabilities in the future: the actual cost of benefits will only be known after the last dependant dies and there is a risk that the amount estimated in the cessation valuation does not cover the actual cost of the liabilities. In this situation, the Fund would seek recourse from the body which acted as guarantor to the employer, or alternatively the body which the employer was aligned.

The basis used to carry out such a valuation will depend on the circumstances of the change. The Fund's general policy is that the valuation will be carried out on a more prudent basis than that used in the ongoing actuarial valuation. However the Fund may take into account the covenant strength of any successor body and/or guarantor which may be in place after the cessation date.

The employer, successor body and/or guarantor may be required to pay additional contribution(s) or capital payments to the Fund.

In normal circumstances, the Actuary will use the following assumptions for the cessation valuation:

- A discount rate equivalent to the gilt yield at the date of the cessation, with no allowance for outperformance of investments;
- An increase in the liabilities by 5% reflecting anticipated additional future improvements to life expectancies (over and above the ongoing valuation assumption); and
- Other assumptions would be consistent with the most recent actuarial valuation.

However, where the employer leaving the Fund is a Transferee Admission Body, the ongoing basis will be used. On joining the Fund, these employers are set up on a fully funded basis with contribution rates calculated based on the duration of the contract in order to reduce the likelihood of a deficit arising on leaving.

If an employer becomes insolvent and it, or its guarantor, is unable to meet any deficit, additional contributions will be required from each remaining employer in the Fund, in proportion to their liabilities. This means that the majority of any deficit will fall on the large employers. However, where it has been established that there is a specific alignment to one or more other employers, then the pension liability will be assigned or apportioned accordingly to those other employer(s).

In the event of a Transferee Admission Body leaving the Fund and being unable to pay additional contributions to the Fund, the employer granting the contract will be liable for the additional contributions or capital payments.

The purpose of a cessation valuation is to determine the level of any surplus or deficit in an employer's share of the Fund as at the date the employer leaves the Fund. Unless the cost of doing so is deemed to outweigh the likely recovery to the Fund, the Fund will pursue an outgoing body (including the liquidator, receiver, administrator or successor body if appropriate) for any deficit. The Fund will also pursue guarantor, for payment where appropriate.

It is the Fund's policy that the determination of any surplus or deficit on termination should aim to minimise, as far as is practicable, the risk that the remaining, unconnected employers in the Fund have to make contributions in future towards meeting the past service liabilities of current and former employees of employers leaving the Fund.

2.2 Principles for Determining Payment of Cessation Debt

City of Edinburgh Council will determine the deficit / surplus attributable to the employer on cessation having taken actuarial advice.

If the employer is in surplus, there is no mechanism by which this surplus can be repaid by the Fund. If an employer is aware that it will be leaving the Fund for any reason in the near future, it should alert the Administering Authority as soon as it is aware and request a valuation as required under the Scheme regulations. If this valuation indicates that a surplus position is likely, then the Actuary will be able to advise the Administering Authority whether a contribution reduction (before the employer ceases) is appropriate. The Administering Authority will monitor potentially affected employers in order to reduce the risk that an irrecoverable surplus is left in the Fund. In particular, the Authority will carry out periodic reviews of Transferee Admission Bodies whose contract is due to end before the next triennial valuation.

If it is determined that there is a deficit and the employer will be required to make a payment to the Fund, the administering authority will advise the employer of the amount required.

The Fund's general policy is for any deficit on cessation to be recovered through a single lump sum payment to the Fund. In exceptional circumstances, the Fund may consider permitting an employer to spread the payment over an agreed period where it considers that this does not pose a material risk to the solvency of the Fund. The Fund may take into account the covenant strength of any successor body and/or guarantor which may be in place after the cessation date. In this instance, interest at a rate advised by the Actuary will be applied to determine the appropriate payments to be made.

Appendix D Charging Policy

This appendix sets out Lothian Pension Fund's policy on meeting the cost of actuarial fees and other service costs which are recharged to employers. It covers the main circumstances where fees are payable, but is not exhaustive.

The Fund will obtain the consent of the employer or member before carrying out any work which is likely to lead to fees being recharged.

1. Costs recharged to Scheme members

The costs of general pension administration are not recharged to members of the pension fund. However costs associated with complex pieces of work, as well as costs of providing certain other confirmation may be recharged. This includes (but is not limited to) the following:

- costs associated with providing valuations under the Family Law (Scotland) Act 1985;
- costs of implementing pension sharing orders;
- costs of providing further cash equivalent transfer values where this information has already been provided once in the last twelve months; and
- costs of appointments with the Fund's independent medical advisers where appointments have been repeatedly missed without good reason, or where habitual requests for assessment are received without new medical evidence.

Details of the costs payable can be found on the Fund's website (www.lpf.org.uk). These costs will increase annually each April by CPI over the 12 months to the previous September.

2. Costs recharged to Scheme employers

Employers should always contact the Fund in the first instance to establish whether fees will be recharged for any administration process or obtaining professional advice, and to obtain an estimate of likely fees.

Actuarial charges will be met by Lothian Pension Fund where the work is common to all or most employers, or where the work is required by the Scheme regulations and the employer has no choice whether the work is carried out.

However, where work is carried out or advice obtained at the request of a single or small number of employers, is not required by other employers, and is not a regulatory requirement, then the charges for that work or advice are generally recharged to the employer(s) concerned.

The schedule below sets out these activities for which fees will be charged to the Fund and those that will be recharged to the commissioning employer.

3. Schedule

3.1 Actuarial Fees

Activities for which Lothian Pension Fund should be charged:

- all matters relating to the triennial actuarial valuation, except additional work done at the direct request of an individual employer;
- interim actuarial valuations if and when the Administering Authority require such valuations;
- actuarial advice regarding questions concerning the interpretation of Scheme Regulations and matters pertaining to the administration of Fund benefits;
- preparation for and attendance at the Fund meetings; and
- any other matters which affect, or are likely to affect all or a significant number of Fund employers.

Activities for which actuarial fees will be recharged to an employer:

- extra, non-standard triennial actuarial valuation work done for and at the direct request of an individual employer;
- a common actuarial service used by most employers is the provision of figures for IAS19/FRS17/FRS102 accounting disclosure purposes. As this information is for the benefit of individual employers and not the Fund itself, the relevant costs are recharged to the individual employers;
- interim valuations where these are not a requirement for all employers but are either: -
    - required by an employer's admission agreement or;
    - not required but specifically requested by the employer concerned;
- calculations etc. in respect of the admission of a new Fund employer;
- Best Value and other outsourcing calculations and consequent interim valuations;
- where an employer has been admitted to the Fund and is required to provide a bond or indemnity to meet any shortfall in funding in the event of the employer ceasing to participate in the Pension Fund, the cost of assessment and subsequent annual reassessment of the value of the bond or indemnity;
- assessing whether a potential/actual contractor's pension arrangement is "broadly comparable" to the Local Government Pension Scheme;
- any other interim valuations for an employer that is required through some action, or failure to act, by that employer;
- bulk transfer work in respect of transfers out of or into the Fund;
- cessation valuations; and
- any other charges specific to one employer, or specific to such a small number of employers that it would be unreasonable to spread the cost between the membership as a whole. Where a number of employers are involved, the charges will be proportioned in light of the circumstances of the case.

3.2 Other charges

In addition to recharging actuarial fees as specified above, certain requests which result in:

- additional administrative work and advice over and above the norm;
- complex calculations;
- specific work for high earners; and
- the requirement for the Fund to seek advice or commission work from other providers e.g. lawyers will be charged to employers on a full cost recovery basis where this work is specific to one employer or specific to such a small number of employers that it would be unreasonable to spread the cost across all employers. Where more than one employer is involved, charges will be proportioned depending on the circumstances of the case.

Activities for which fees will be recharged to an employer:

- disclosure of information relating to Senior Officers and Councillors for inclusion in Local Authority Accounts:
    - provision of Cash Equivalent Transfer Value calculations and appropriate pension benefit calculations;
    - charges applied per case;
- setting up an Admission Agreement with the Fund for new employers joining the Fund;
    - costs to cover legal fees incurred by the Fund in drafting and finalising the Admission Agreement;
    - See note 1 below;
- attendance at meetings and associated work in connection with Employer projects involving transfers of staff (e.g. outsourcing, mergers etc);
    - a charge will be made where the Fund considers the work undertaken to be in excess of normal advice to employers;
    - costs will be based on Fund Officers time plus VAT;
- interest payable on a cessation valuation where the Fund allows payment to be spread over and agreed period; and
    - Interest will be charged at a rate advised by the Fund Actuary

Notes:

1. Any additional costs arising if specialist actuarial, legal etc advice is requested will be charged in full in addition to the figures quoted above.
2. The Fund will act in accordance with relevant procurement guidance in obtaining external professional services.

Appendix 2

2014 Actuarial Valuation and revision of Funding Strategy Statement

Feedback from consultation

Introduction

The latest actuarial valuation of the Lothian Pension Funds was carried out as at 31 March 2014. As part of the valuation process, the Funds' Funding Strategy Statement (FSS) was reviewed and revised.

Indicative valuation results and proposed changes to the FSS were presented at the Fund's annual seminar on 4 December 2014 (slides are available on the Lothian Pension Fund website), and a copy of the draft revised FSS was issued to employers for consultation in January 2015. This revision also took into consideration:

- Revised guidance from CIPFA published in 2012 'Preparing and maintaining a funding strategy statement in the Local Government Pension Scheme 2012'
- Forthcoming changes to legislation, in particular the introduction of a new Local Government Pension Scheme from 1 April 2015.

In January and February 2015, we also held further meetings with some of the smaller employers to discuss a proposed change in contribution strategy affecting such employers.

This document summarises feedback received from employers including the issues discussed at meetings with employers.

Key issues raised by employers

1) Proposed change in contribution strategy for small employers close to exit

A change in contribution strategy has been proposed for certain smaller employers within the Lothian Pension Fund. Community Admission Bodies with fewer than six active members and/or have a future working lifetime (FWL) of under six years were proposed to move to a 'gilts cessation' basis using more prudent assumptions than the ongoing funding basis. This change results in a higher liability figure and increased employer contributions but is intended to smooth the path to cessation so that when the last active member leaves the Fund, any deficit payment calculated on cessation will be lower.

Employers appreciated the need to address these issues and the opportunity to make a planned exit from the Fund. However some employers directly affected by the change commented that the revised contribution rates were a significant increase and had the potential to lead to issues with service provision and/or the continued existence of the organisation. It was also highlighted that some of the organisations had already provided budgetary information to their funders some time prior to the results being provided and that the proposed contribution rates were in excess of those previously budgeted for. The proposed change in investment strategy for such employers (a move to lower-risk assets – index linked government bonds), was queried by some employers as higher potential returns enjoyed through investing in other asset classes cannot be achieved. Other employers queried the timing of the change in contribution strategy, asking why no previous notification of these issues had been communicated.

Response: *As reported at both the 2014 Finance Briefing and Annual Seminar, the Fund has carried out extensive research on the covenant of all employers contributing to the Lothian Pension Fund. In addition monitoring of membership numbers is carried out regularly and we have contacted employers with small numbers of active members on a number of occasions to highlight the risk of cessation. Despite this, many employers have limited understanding of their pension liabilities. The Fund therefore requested the Actuary provide each employer with the value of their liabilities on a cessation basis as at 31 March 2014 as part of the 2014 actuarial valuation.*

Although Lothian Pension Fund is a multi-employer Fund, each employer is responsible for their own pension liabilities, and the Fund has a duty to all employers within the Fund to ensure that liabilities can be paid for by the relevant employer. The Fund appreciates the funding difficulties faced by third-sector bodies and suggested a number of options which could be available to such bodies as a way forward:

- *Obtain a guarantor to improve the covenant which could allow rates to be reviewed*
- *Offer the Fund security over assets to improve the covenant*

The Fund appreciates that options are limited, but is happy to discuss these options further with organisations providing funding/guarantor to employers.

If an employer is able to materially improve the covenant offered to the Fund, then in consultation with the Actuary, the rates and adjustments certificate would be reviewed to ease the pressure on contribution rates in the short term.

Some employers have requested details of options to exit the Fund sooner than might have been expected in order to prevent the build up of further liability. This would have implications for the affected employees which the employers would need to manage. The Fund will discuss options with those employers.

The Fund acknowledges investment in lower-risk asset classes is expected to produce lower returns in the long term. However returns over shorter periods are more difficult to predict and higher-risk asset classes are more volatile. The affected employers are expected to leave the fund in relatively short periods. Adopting a lower-risk investment strategy is consistent with the use of a government bond discount rate in the cessation valuation, reflecting the fact that no further employer contributions are anticipated after the cessation.

2) The salary assumptions used in the valuation

The long-term salary assumption used in the valuation is 5%. Several employers noted that such increases were unrealistic and they did not expect to be able to increase salaries in the near future.

Response: *The salary assumption is one of many used in the valuation process and applies only to active member liabilities.* Lower salary growth rate has been used for the initial years following the valuation, reflecting the current pay restraint in the public and third sectors. *Although recent financial pressures have resulted in fairly flat salaries, the Actuary has advised that historically, following a period of pay restraint salaries do tend to increase again. As a multi-employer Fund, it would be difficult to use bespoke salary assumptions for different employers.*

3) Risk register

In line with CIPFA guidance, an extract from the Funds' Risk Register highlighting those risks of particular relevance to the funding strategy has been included in the Funding Strategy Statement. One employer asked why only an extract was included in the document rather than the entire risk register.

Response: *The Funds' risk register is an active document which is reviewed quarterly and covers all aspects of the Funds' operations, rather than just funding. The register is a tool to manage risks on a proactive basis. Public disclosure of the risk register could jeopardise the effectiveness of the risk management process itself, for example by potentially hindering discussion and recording of risks due to the fact that disclosure could disadvantage the Fund.*

However a summary is reported to the Pensions Committee. Papers for the Pensions Committee are available on the Fund's website.

4) General comments

The FSS was said to be 'understandable and appropriate'.

Employers close to exit who attended the meetings to discuss the change in strategy were appreciative of the opportunity to engage and discuss the relevant issues.

Other comments from employers related to clarity of certain parts of the FSS.

Pensions Committee

2.30 p.m., Wednesday, 25 March 2015

2014 Actuarial Valuation for Lothian Pension Fund

Item number	5.7
Report number	
Executive/routine	
Wards	All

Executive summary

The Lothian Pension Fund is required by law to undertake an actuarial valuation every three years. The pension fund's Actuary assesses the financial health of the pension fund and sets the employer contribution rates required for the next three years. The last actuarial valuation was undertaken as at 31 March 2011.

The actuarial valuation of the Lothian Pension Fund, based on data as at 31 March 2014, has been undertaken.

Links

Coalition pledges	
Council outcomes	CO26
Single Outcome Agreement	

EDINBVRGH
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Report

2014 Actuarial Valuation for Lothian Pension Fund

Recommendations

The Pensions Committee is requested to:

1.1 note the results of the 2014 Actuarial Valuation report for the Lothian Pension Fund; and

1.2 agree the investment of an index-linked government bond portfolio alongside the core investment strategy of Lothian Pension Fund, representing the share of assets for certain employers for whom a different investment strategy is to be implemented.

Background

2.1 The actuarial valuation of the Lothian Pension Fund, based on data as at 31 March 2014, must be completed by 31 March 2015.

2.2 The actuarial valuation of the pension fund has three main purposes:

- To assess whether the funding strategy and assumptions are appropriate;
- To assess the financial health of the pension fund; and
- To set the future rates of contributions payable by the employers.

Main report

3.1 The 2014 Actuarial Valuation report for the Lothian Pension Fund is attached as appendix to this paper.

3.2 The table below summarises the financial position of the Fund at 31 March 2014 in respect of benefits earned by members up to this date.

Past Service Position	**2011**	**2014**
Past Service Liabilities £m	3,619	4,796
Market Value of Assets £m	3,477	4,379
Surplus / (Deficit) £m	(142)	(417)
Funding Level %	**96.1%**	**91.3%**

3.3 The results show that the Fund had not met its objective of holding sufficient assets to meet the estimated current cost of past service benefits at 31 March 2014. The funding level has fallen from 96.1% at the previous valuation at 31 March 2011 to 91.3% at this valuation. This has resulted in the deficit increasing from £142million at 31 March 2011 to £417million at 31 March 2014.

3.4 The chart at Page 8 of Appendix 1 illustrates the various factors that caused the funding position to fall. Since the 2014 actuarial valuation, the investments of the Fund have performed well and employer contributions have been greater than the cost of new benefits being accrued. These have helped to improve the funding level. However, the fall in bond yields as well as the improvements in longevity have caused the funding level to fall.

Actuarial Valuation method and assumptions

3.5 The use of market-related financial assumptions in the actuarial valuation means that the results are likely to be volatile. Bond yields and the financial market's expectation of inflation as at the valuation date are used to value the liabilities. Inflation rates are important as pension liabilities increase with inflation and bond yields are a key determinant of the discount rate.

3.6 The use of market-related financial assumptions is considered to be transparent. However this needs to be balanced with the need for stable employer contributions.

3.7 The value of the liabilities is very sensitive to the financial assumptions. 1% change in the discount rate can change the value of the liabilities by 15-20%. In the actuarial valuation, the Actuary illustrates how the funding level would be affected under different investment market conditions.

3.8 Full details of the funding method and assumptions are provided in Appendix 1. Summaries of the main financial and demographic assumptions adopted for the valuation of members' benefits are shown below.

Financial Assumption	Description	Nominal %p.a.	Real %p.a.
Price Inflation (CPI)	Market expectation of long term future retail prices inflation, as measured by the difference between yields on fixed and index-linked UK Government bonds at the valuation date, less 0.8% p.a.	2.7	-
Pay increases	CPI plus 2.3% p.a.*	5.0	2.3
"Gilt-based" discount rate	Yield on fixed interest (nominal) UK Government Bonds	3.5	0.8
Funding basis discount rate	"Gilt-based" discount rate plus an Asset Outperformance Assumption (AOA) of 1.5% p.a.	5.0	2.3

* 2% p.a. for 2014/15 and 2015/16, reverting to 5.0% p.a. thereafter, plus an allowance for promotional pay increases.

3.9 The demographic assumption to which the valuation results are most sensitive is that relating to the longevity of the Fund's members. The Actuary has increased the expected life expectancy and assumed the following average future life expectancies for members, taking account, of more specific baseline information from the Fund's membership of the Club Vita longevity data pool.

	Actives & Deferreds		Current Pensioners	
Assumed life expectancy at age 65	**Male**	**Female**	**Male**	**Female**
2011 valuation – baseline	19.1	21.8	18.9	21.2
2011 valuation - improvements	22.6	25.4	20.4	22.8
2014 valuation – baseline	19.7	22.4	19.7	21.7
2014 valuation - improvements	24.2	26.3	22.1	23.7

Employer Contribution Rates as at 31 March 2014

3.10 The table below summarises the average employer contribution rate that would be required, based on this triennial valuation date.

Contribution Rates	2011	2014
	% of pay	**% of pay**
Employer Future Service Rate	16.8%	19.8%
Past Service Adjustment (20 year spread)	1.2%	3.3%
Total (Common) Contribution Rate	18.0%	23.1%

3.11 The common contribution rate for the Fund at 31 March 2014 is 23.1% of pay. This comprises the anticipated cost of new benefits being earned by members in future (19.8%) plus the amount needed to recover the past service deficit over a 20 year period (3.3%). This rate, which is an actuarial disclosure requirement, is in addition to the contributions that will be made by members. The common contribution rate is very much a theoretical figure for the Fund as a whole. In practice, each employer in the Fund has its own (or pooled) underlying contribution rate.

3.12 The Fund aims to ensure that the recovery of any past service deficit is achieved irrespective of any fluctuations in future payroll. As a result, contribution rates will continue to be expressed as a percentage of payroll for future service benefits and as a fixed monetary amount for the recovery of past service adjustment.

3.13 The contribution rates to be paid by individual employers from 1 April 2015 are set out in the Rates and Adjustments Certificate in Appendix G (of the Actuary's report which is included as Appendix 1). It should be noted that these are the minimum contribution requirements for each employer.

Bespoke Investment Strategy for Certain Employers

3.14 Committee will recall the inclusion of the potential for investment strategy to be more tailored to specific employers in the Funding Strategy Statement when it was reviewed in 2011.

3.15 One employer, Forth Estuary Transport Association (FETA) has requested a low-risk investment strategy in order to reduce funding volatility. This is linked to the organisational changes at FETA which are covered elsewhere on the Committee's agenda.

3.16 In addition, the change in the funding approach for the closed employers with 4 or fewer members and/or a remaining working lifetime of less than 6 years, proposed that the assets relating to these employers are invested in low-risk investments.

3.17 Therefore, the Committee is asked to agree the investment of the assets relating to these employers in index-linked government bonds. These are expected to be of the order of £40m (the current share of the Fund relating to these employers). These would be held separately to the remaining assets of Lothian Pension Fund which will continue to be invested in line with the previously agreed strategy.

Measures of success

4.1 The funding strategy should ensure that the Fund has sufficient assets to meet pension obligations in the long term. The minimum contribution rates payable by the employer are certified by the Fund's Actuary in accordance with the professional standards of the Institute and Faculty of Actuaries.

Financial impact

5.1 The funding strategy should ensure that the Fund has sufficient assets in the long term to meet its liabilities.

5.2 The results of the actuarial valuation have significant financial impact on the Fund's employers. The actuarial valuation sets the minimum contribution rates payable by the employer over the next 3 years.

Risk, policy, compliance and governance impact

6.1 The Lothian Pension Fund is required by law to undertake an actuarial valuation every three years. Regular actuarial assessment of the Fund manages the risk of not meeting funding objectives.

Equalities impact

7.1 There is no equalities impact.

Sustainability impact

8.1 There is no environmental impact.

Consultation and engagement

9.1 The Consultative Panel for the Lothian Pension Funds, comprising employer and member representatives, is integral to the governance of the Funds. A training event was held for members of the Committee and Consultative Panel in November 2014. This included an explanatory briefing by the Fund's Actuary on the actuarial valuation and coverage of the draft results.

9.2 Formal consultation on the Funding Strategy Statement and the draft valuation results started at the employer seminar in December 2014 with a presentation by the Fund's Actuary.

9.3 Further meetings were held with specific groups of employers in January 2014 to discuss the valuation in greater detail particularly those impacted by the changes to the funding approach. In addition, a number of further one-to-one discussions were held with LPF staff, supplemented by telephone calls and e-mail correspondence.

Background reading / external references

None.

Alastair Maclean

Director of Corporate Governance

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Links

Coalition pledges	
Council outcomes	CO26 - The Council engages with stakeholders and works in partnerships to improve services and deliver agreed
Single Outcome Agreement	
Appendices	Appendix 1: Actuarial Valuation 2014 Lothian Pension Fund

Hymans Robertson LLP has carried out an actuarial valuation of the Lothian Pension Fund ("the Fund") as at 31 March 2014, details of which are set out in the report dated DRAFT ("the Report"), addressed to City of Edinburgh Council ("the Client"). The Report was prepared for the sole use and benefit of our Client and not for any other party; and Hymans Robertson LLP makes no representation or warranties to any third party as to the accuracy or completeness of the Report.

The Report was not prepared for any third party and it will not address the particular interests or concerns of any such third party. The Report is intended to advise our Client on the past service funding position of the Fund at 31 March 2014 and employer contribution rates from April 2015, and should not be considered a substitute for specific advice in relation to other individual circumstances.

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

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

Appendix 1

Lothian Pension Fund
2014 Actuarial Valuation
Valuation Report

HYMANS ROBERTSON

February 2015

Contents

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1 Executive summary

We have carried out an actuarial valuation of the Lothian Pension Fund ('the Fund') as at 31 March 2014. The results are presented in this report and are briefly summarised below.

Funding position

The table below summarises the financial position of the Fund at 31 March 2014 in respect of benefits earned by members up to this date.

Past Service Position	31 March 2011 (£m)	31 March 2014 (£m)
Past Service Liabilities	3,619	4,796
Market Value of Assets	3,477	4,379
Surplus / (Deficit)	(142)	(417)
Funding Level	**96.1%**	**91.3%**

The results show that the Fund had not met its objective of holding sufficient assets to meet the estimated current cost of the past service benefits at 31 March 2014. The funding level has decreased from 96% at the 2011 valuation to 91% at this valuation. This has resulted in the deficit rising from £142m at 31 March 2011 to £417m at 31 March 2014.

The increase in deficit reflects the adverse conditions which the Fund has had to contend with since the previous valuation. In particular, the decrease in the real gilt yield has increased the value placed on the Fund's liabilities. This has been partially offset by better than expected returns on the Fund's assets.

Contribution rates

The table below summarises the average employer contribution rate that would be required, based on this triennial valuation.

Contribution Rates	31 March 2011 (% of pay)	31 March 2014 (% of pay)
Total future service rate (incl. expenses of 0.3% of pay)	**23.4%**	**25.8%**
less employee contribution rate	6.6%	6.0%
Employer future service rate (incl. expenses)	**16.8%**	**19.8%**
plus Past Service Adjustment (20 year spread)	1.2%	3.3%
Employer common contribution rate	**18.0%**	**23.1%**

The increase in the total employer contribution rate is primarily due to the decrease in the real gilt yields which has increased both the employer future service rate and the past service adjustment.

The common contribution rate is a theoretical figure. In practice, each employer that participates in the Fund has its own underlying funding position and circumstances, giving rise to its own contribution rate requirement. The minimum contributions to be paid by each employer from 1 April 2015 to 31 March 2018 are shown in the Rates and Adjustment Certificate in **Appendix G**.

2 Introduction

Purpose

We have carried out an actuarial valuation of the Lothian Pension Fund as at 31 March 2014.

- This valuation report complies with all of the relevant regulations and professional standards, as set out in **section 7**.
- The figures in this report are based on our understanding of the benefit structure of the LGPS as at 31 March 2014, and changes being implemented from April 2015, details of which are provided in **Appendix B**.
- The results of the valuation are dependent on the quality of the data provided to us by the Administering Authority for the specific purpose of this valuation. This data is summarised in **Appendix D**.
- As part of the valuation, assumptions must be made which are discussed in **section 3** as well as in **Appendix E.** Details of our valuation approach is covered in **Appendix C.**
- The valuation results are then covered in **section 4**.
- We look at some of the risks the Fund faces in **section 5** and consider any post valuation events in **Appendix F**.
- The valuation is just one aspect of the operation of the Fund, and related issues are covered in **section 6.**
- In **Appendix G** we then set out the individual employer contribution requirements from 1 April 2015.

Component reports

This document is an "aggregate" report, i.e. it is the culmination of various "component" reports and discussions, in particular:

- The data report dated (18 September 2014) and mentioned in **section 7**;
- The Initial Results report (dated 24 October 2014) which outlined the agreed actuarial assumptions and whole fund results;
- The stabilisation modelling carried out for certain employers, as detailed in our report and presentation to the Administering Authority on 25 October 2013;
- The Funding Strategy Statement, confirming the different contribution rate setting approaches for different types of employer or in different circumstances.

Note that not all of these documents may be in the public domain.

3 Assumptions

Actuarial assumptions

Assumptions must be made about the factors affecting the Fund's finances in the future. Broadly speaking, our assumptions fall into two categories – financial and demographic.

Demographic assumptions typically try to forecast **when** benefits will come into payment and what form these will take. For example, when members will retire (e.g. at their normal retirement age or earlier), how long they will then survive and whether a dependant's pension will be paid.

Financial assumptions typically try to anticipate the **size** of these benefits. For example, how large members' final salaries will be at retirement and how their pensions will increase over time. In addition, the financial assumptions also help us to estimate how much all these benefits will cost the Fund in today's money.

Financial assumptions

A summary of the main financial assumptions adopted for the valuation of members' benefits is shown below.

	31 March 2011		31 March 2014	
Financial assumptions	**Nominal**	**Real**	**Nominal**	**Real**
Discount Rate	5.8%	3.0%	5.0%	2.3%
Salary Increases*	5.1%**	2.3%	5.0%***	2.3%
Price Inflation / Pension Increases	2.8%	-	2.7%	-

* Excluding promotional increases
** 1% p.a. for 2011/12 and 2012/13, reverting to 5.1% p.a. thereafter.
*** 2% p.a. for 2014/15 and 2015/16, reverting to 5.0% p.a. thereafter.

Discount rate

The funding valuation is effectively a planning exercise, to assess the funds needed to meet the benefits as they fall due. In order to place a current value on the future benefit payments from the Fund, an assumption about future investment returns is required in order to "discount" future benefit payments back to the valuation date at a suitable rate.

For a funding valuation such as this, the discount rate is set by taking into account the Fund's current and expected future investment strategy and, in particular, how this strategy is expected to outperform the returns from Government bonds over the long term. The additional margin for returns in excess of that available on Government bonds is called the Asset Outperformance Assumption (AOA).

The selection of an appropriate AOA is a matter of judgement and the degree of risk inherent in the Fund's investment strategy should always be considered as fully as possible.

Although there has been a slight downward shift in the expected returns on risky assets since the 2011 valuation, we believe the expected returns in excess of the returns on government bonds to be broadly unchanged since 2011. Therefore, we are satisfied that an AOA of 1.5% p.a. is a prudent assumption for the purposes of this valuation. This results in a discount rate of 5.0% p.a.

Price inflation / pension increases

As was the case at the 2011 valuation, we expect the average long term difference between RPI and CPI to be 0.8% p.a.

At the previous valuation, the assumption for RPI was derived from market data as the difference between the yield on long-dated fixed interest and index-linked government bonds. At this valuation, we have adopted a similar approach.

Salary increases

The assumption for salary increases is 2% p.a. for 2 years, reverting to the long term assumption of RPI plus 1.5% p.a. thereafter. The approach to set the long term salary growth assumption is consistent with that adopted for the 2011 valuation.

Note that this assumption is made in respect of the general level of salary increases (e.g. as a result of inflation and other macroeconomic factors). We also make a separate allowance for expected pay rises granted in the future as a result of promotion. This assumption takes the form of a set of tables which model the expected promotional pay awards based on each member's age and class. Please see **Appendix E**.

Longevity

The main demographic assumption to which the valuation results are most sensitive is that relating to the longevity of the Fund's members. For this valuation, we have adopted assumptions which give the following sample average future life expectancies for members:

	Actives & Deferreds		Current Pensioners	
Assumed life expectancy at age 65	**Male**	**Female**	**Male**	**Female**
2011 valuation - baseline	19.1	21.8	18.9	21.2
2011 valuation - improvements	22.6	25.4	20.4	22.8
2014 valuation - baseline	19.7	22.4	19.7	21.7
2014 valuation - improvements	24.2	26.3	22.1	23.7

Further details of the longevity assumptions adopted for this valuation can be found in **Appendix E**. Note that the figures for actives and deferreds assume that they are aged 45 at the valuation date.

Assets

We have taken the assets of the Fund into account at their market value as indicated in the audited accounts for the period ended 31 March 2014. We have also included an allowance for the expected future payments in respect of early retirement strain and augmentation costs granted prior to the valuation date in the value of assets, for consistency with the liabilities. We have calculated the total value of these expected future payments to be £1.3m at 31 March 2014.

In our opinion, the basis for placing a value on members' benefits is consistent with that for valuing the assets - both are related to market conditions at the valuation date.

Demographic assumptions

We are in the unique position of having a very large local authority data set from which to derive our other demographic assumptions. We have analysed the trends and patterns that are present in the membership of local authority funds and tailor our demographic assumptions to reflect LGPS experience.

Details of these assumptions are set out in **Appendix E**. Further commentary on these was included in the Initial Results report dated 18 September 2014.

Further comments on the assumptions

As required for Local Government Pension Scheme valuations, our proposed approach to this valuation must include a degree of prudence. This has been achieved by explicitly allowing for a margin of prudence in the AOA.

For the avoidance of doubt, we believe that all other proposed assumptions represent the "best estimate" of future experience. This effectively means that there is a 50% chance that future experience will be better or worse than the chosen assumption.

Taken as a whole, we believe that our proposed assumptions are more prudent than the best estimate. The assessed liability value on a “neutral” best estimate (not prudent) basis would perhaps be 15%-20%, lower than the figures shown here.

4 Results

The Administering Authority has prepared a Funding Strategy Statement which sets out its funding objectives for the Fund. In broad terms, the main ‘past service’ objective is to hold sufficient assets in the Fund to meet the assessed cost of members’ past service benefits and the main ‘future service’ objective is to maintain a relatively stable employer contribution rate. These objectives are potentially conflicting.

Past service

In assessing the extent to which the past service funding objective was met at the valuation date, we have used the actuarial assumptions described in the previous section of this report and funding method described in **Appendix C**. The table below compares the value of the assets and liabilities at 31 March 2014. The 31 March 2011 results are also shown for reference.

The results are presented in the form of a “funding level”; this is the ratio of the market value of assets to the assessed cost of members’ past service benefits (“liabilities”).

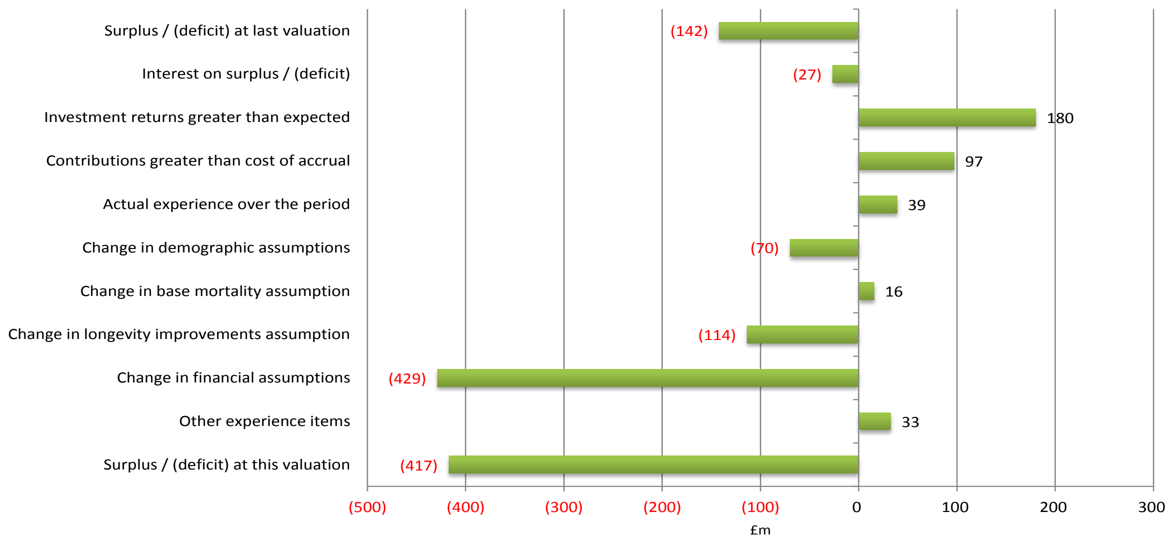
A funding level of 100% would correspond to the funding objective being met at the valuation date.

Valuation Date	31 March 2011	31 March 2014
Past Service Position	***(£m)***	**(£m)**
Past Service Liabilities		
Employees	1,764	2,276
Deferred Pensioners	419	564
Pensioners	1,437	1,956
Total Liabilities	3,619	4,796
Market Value of Assets	3,477	4,379
Surplus / (Deficit)	**(142)**	**(417)**
Funding Level	**96.1%**	**91.3%**

The main funding objective was not met: there was a shortfall of assets to the assessed cost of members’ benefits of £417m.

Summary of changes to the funding position

The chart below illustrates the factors that caused the funding position to deteriorate between 31 March 2011 and 31 March 2014:



Further comments on some of the items in this chart:

- There is an interest cost of £27m. This is broadly three years of compound interest at 5.8% p.a. applied to the previous valuation deficit of £142m.
- Investment returns being higher than expected since 2011 led to a gain of £180m. This is roughly the difference between the actual three-year return (roughly 24%) and expected three-year return (roughly 18%) applied to the whole fund assets from the previous valuation of £3,477m, with a further allowance made for cashflows during the period.
- Employer contributions paid to the Fund since 2011 have been greater than the cost of benefits accrued over this period, leading to a gain of £97m.
- Actual experience over the period relates to the specific elements of member experience we are able to analyse and measure. In particular, the combined effect of early leaver, ill health retirement, salary growth, pension increases, pensioner longevity, cash commutation and early retirement experience since 2011 led to a gain of £39m. Please see the Initial Results document for more detail on the observed membership experience at the 2014 valuation.
- The impact of the change in demographic assumptions has been a loss of around £70m. Underlying this figure, changes to the ill health early retirements assumption have had a positive impact but this has been more than offset by assuming fewer withdrawals than at 2011.
- The change in longevity assumptions (baseline and improvements) has given rise to a loss of £98m. This is mainly due to the change in assumed longevity improvements.
- The change in financial conditions since the previous valuation has led to a loss of £429m. This is due to a decrease in the real discount rate between 2011 and 2014.
- Other experience items, such as changes in the membership data, have served to decrease the deficit at this valuation by around £33m.

Note that the benefit changes that come into effect as at 1 April 2015 do not change the funding position as all past service benefits to 31 March 2014 are protected.

Future service

We have calculated the average long-term contribution rate that the Fund employers would need to pay to meet the estimated cost of members' benefits that will be earned after 31 March 2014 (the 'future service contribution rate'). Again, we have used the assumptions set out in the previous section of this report and the method set out in **Appendix C**. The resulting contribution rate is that which should (if the actuarial assumptions about the future are borne out in practice) ensure that the Administering Authority's main future service funding objective is met. The table below details this future service contribution rate for 31 March 2014 and shows the 31 March 2011 rate for comparison.

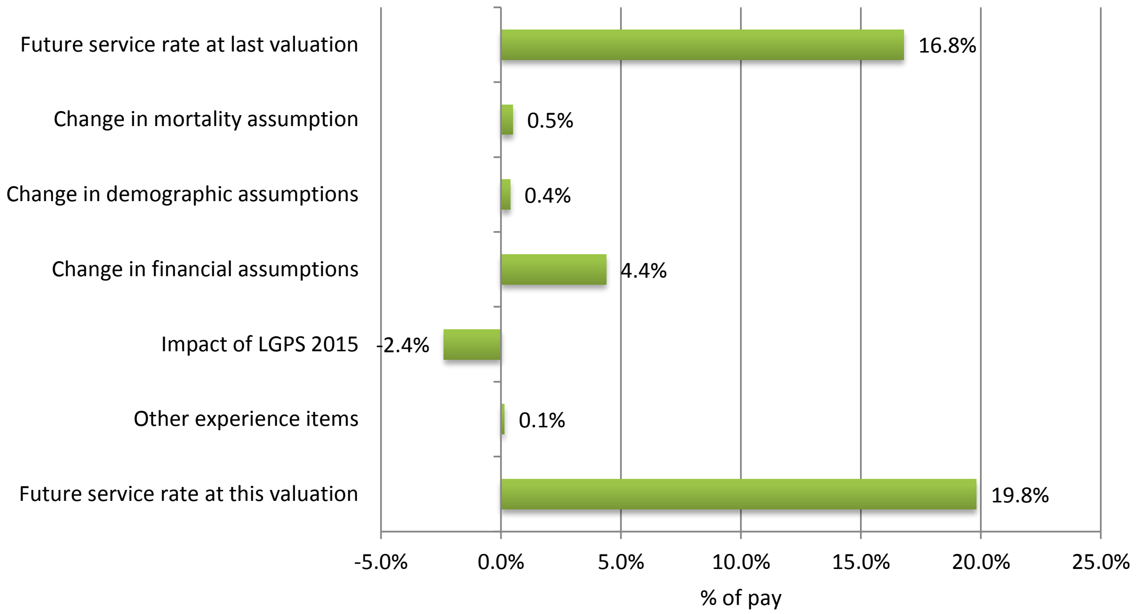
Valuation Date	31 March 2011	31 March 2014
Future service rate	**% of pay**	**% of pay**
Employer future service rate (excl. expenses)	16.5%	19.5%
Expenses	0.3%	0.3%
Total employer future service rate (incl. expenses)	**16.8%**	**19.8%**
Employee contribution rate	6.6%	6.0%

Note that the employee contribution rate includes any additional contributions being paid by employees as at 31 March 2014 into the Fund. This future service contribution rate makes no allowance for the past service deficit in the Fund described above.

The average future service rate for Fund employers is 19.8% of pay. This rate is calculated as at 31 March 2014 and therefore forms part of the total contribution rate payable by employers from 1 April 2015. Note this rate makes an allowance for changes to the benefit structure that takes effect from 1 April 2015. In practice, a future service rate for each employer has been calculated which is based on their particular circumstances and membership profile. The rate above is an average future service rate for the Fund as a whole.

Summary of changes to the future service rate

The chart below illustrates the factors that caused the future service rate to increase between 31 March 2011 and 31 March 2014:



As can be seen from this chart, the factors that have had the biggest impact on the future service rate between 2011 and 2014 are broadly similar to those discussed for the past service position, other than asset returns. In addition to this, the impact of the LGPS 2015 scheme has resulted in a reduction in contribution rate of 2.4% of payroll.

Contribution rates – total contribution rate

The total (or “common”) contribution rate payable is the average future service rate for Fund employers plus an additional amount to recover the deficit and bring the funding level back to 100% over a period of 20 years, as set out in the Funding Strategy Statement. This additional amount is referred to as the past service adjustment.

The common contribution rate based on the funding position as at 31 March 2014 is detailed below along with the results for 31 March 2011:

Valuation Date	31 March 2011	31 March 2014
Total contribution rate	**% of pay**	**% of pay**
Future service rate (incl. expenses)	16.8%	19.8%
Past Service Adjustment (20 year spread)	1.2%	3.3%
Total employer contribution rate	**18.0%**	**23.1%**

This does not represent the rate which any one employer is actually required to pay, nor is it the average of the actual employer rates. The actual employer contributions payable from 1 April 2015 are given in **Appendix G**, and these have been devised in line with the Funding Strategy Statement: see **section 6.**

5 Risk Assessment

The valuation results depend critically on the actuarial assumptions that are made about the future of the Fund. If all of the assumptions made at this valuation were exactly borne out in practice then the results presented in this document would represent the true cost of the Fund as it currently stands at 31 March 2014.

However, no one can predict the future with certainty and it is unlikely that future experience will exactly match all of our assumptions. The future therefore presents a variety of risks to the Fund and these should be considered as part of the valuation process. In particular:

- The main risks to the financial health of the Fund should be **identified**.
- Where possible, the financial significance of these risks should be **quantified**.
- Consideration should be given as to how these risks can then be **controlled** or **mitigated**.
- These risks should then be **monitored** to assess whether any mitigation is actually working.

This section investigates the potential implications of the actuarial assumptions not being borne out in practice.

Set out below is a brief assessment of the main risks and their effect on the valuation results, beginning with a look at the effect of changing the main assumptions and then focusing on the two most significant risks – namely investment risk and longevity risk.

Sensitivity of valuation results to changes in assumptions

The table below gives an indication of the sensitivity of the valuation results to small changes in some of the main assumptions used.

		Impact	
Assumption	**Change**	**Deficit (£m)**	**Future service rate (% of pay)**
Discount rate	Increases by 0.5%	Falls by £428m	Falls by 3.0%
Salary increases	Increases by 0.5%	Rises by £113m	-
Price inflation / pension increases	Increases by 0.5%	Rises by £315m	Rises by 3.0%
Life expectancy	Increases by 1 year	Rises by £144m	Rises by 0.8%

This is not an exhaustive list of the assumptions used in the valuation. For example, changes to the assumed level of withdrawals and ill health retirements will also have an effect on the valuation results. However, the table contains those assumptions that typically are of most interest and have the greatest impact.

Note that the table shows the effect of changes to each assumption in isolation. In reality, it is perfectly possible for the experience of the Fund to deviate from more than one of our assumptions simultaneously and so the precise effect on the funding position is more complex.

Investment risk

Sensitivity of valuation results to market conditions and investment performance

As the assets of the Fund are taken at their market value, volatility in investment performance can have an immediate and tangible effect on the funding level and deficit. This is particularly relevant because the Fund is invested predominantly in riskier assets such as equities and equity-type investments (e.g. property). A rise or fall in the level of equity markets has a direct impact on the financial position of the Fund, which may seem obvious.

Less obvious is the effect of anticipated investment performance on the Fund's liabilities (and future service cost). Here it is the returns available on government bonds that are of crucial importance, as the discount rate that we use to place a value on the Fund's liabilities is based on gilt yields at the valuation date plus a margin of 1.5% p.a.

The table below shows how the funding level (top), deficit (middle, in £m) and total contribution rate (bottom, as % of pay) would vary if investment conditions at 31 March 2014 had been different. The level of the FTSE 100 Price index is taken as a suitable proxy for asset performance whilst the index-linked gilt yield is taken as a yardstick for the valuation of liabilities.

Index Linked Gilt Yield	FTSE 100 Price Index: 6098	6598	7098
-0.20%	89% (524) 22.6%	95% (236) 20.4%	101% 51 18.1%
0.0%	85% (705) 25.2%	91% (417) 23.1%	97% (130) 20.8%
-0.2%	82% (893) 27.9%	88% (606) 25.7%	94% (318) 23.6%

The shaded box contains the results for this valuation. Note that this does not take account of the performance of all asset classes held by the Fund (e.g. overseas equities, property, bonds, cash etc.) but it does serve to highlight, in broad terms, the sensitivity of the valuation results to investment conditions at the valuation date.

Note that the scenarios illustrated above are by no means exhaustive. They should not be taken as the limit of how extreme future investment experience could be. The discount rate assumption adopted at this valuation is expected to be appropriate over the long term. Short term volatility of equity markets does not invalidate this assumption.

Longevity risk

The valuation results are also very sensitive to unexpected changes in future longevity. All else being equal, if longevity improves in the future at a faster pace than allowed for in the valuation assumptions, the funding level will decline and the required employer contribution rates will increase.

Recent medical advances, changes in lifestyle and a greater awareness of health-related matters have resulted in life expectancy amongst pension fund members improving in recent years at a faster pace than was originally foreseen. It is unknown whether and to what extent such improvements will continue in the future.

For the purposes of this valuation, we have selected assumptions that we believe make an appropriate allowance for future improvements in longevity, based on the actual experience of the Fund since the previous valuation.

The table below shows how the valuation results at 31 March 2014 are affected by adopting different longevity assumptions.

	Impact		
Longevity assumption	**Funding level**	**Deficit (£m)**	**Future service rate**
2014 valuation (valuation improvements)	91%	(417)	19.8%
2014 valuation (further improvements)	87%	(627)	20.8%
1 year extra	85%	(777)	21.6%

Full details of the longevity improvements adopted at this valuation are set out in **Appendix E**.

The “further improvements” are a more cautious set of improvements that, in the short term, assume the ‘cohort effect’ of strong improvements in life expectancy currently being observed amongst a generation born around the early and mid-1930s will continue to strengthen for a few more years before tailing off. This is known as “non-peaked”.

The “1 year extra” figures relative to a further year of life expectancies beyond those assumed in “further improvements”.

Again, the range of assumptions shown here is by no means exhaustive and should not be considered as the limits of how extreme future longevity experience could be.

Other risks to consider

The table below summarises the effect that changes in some of the other valuation assumptions and risk factors would have on the funding position. Note that these are probably unlikely to have a large financial impact on the Fund and therefore the analysis is qualitative rather than quantitative.

	Impact	
Factor	**Funding level**	**Future service rate**
Greater level of ill health retirement	Decreases	Marginal
Reduced level of withdrawals	Decreases	Marginal
Rise in average age of employee members	Marginal effect	Increases
Lower take up of 50:50 option	No impact	Increases

One further risk to consider is the possibility of future changes to Regulations that could materially affect the benefits that members become entitled to. It is difficult to predict the nature of any such changes but it is not inconceivable that they could affect not just the cost of benefits earned after the change but could also have a retrospective effect on the past service position (as the move from RPI to CPI-based pension increases already has).

Managing the risks

Whilst there are certain things, such as the performance of investment markets or the life expectancy of members, that are not directly within the control of the pension fund, that does not mean that nothing can be done to understand them further and to mitigate their effect. Although these risks are difficult (or impossible) to eliminate, steps can be taken to manage them.

Ways in which some of these risks can be managed could be:

- Set aside a specific reserve to act as a cushion against adverse future experience (possibly by selecting a set of actuarial assumptions that are deliberately more prudent).
- Take steps internally to monitor the decisions taken by members and employers (e.g. relating to early / ill health retirements or salary increases) in a bid to curtail any adverse impact on the Fund.

- Pooling certain employers together at the valuation and then setting a single (pooled) contribution rate that they will all pay. This can help to stabilise contribution rates (at the expense of cross-subsidy between the employers in the pool during the period between valuations).
- Carrying out a review of the future security of the Fund's employers (i.e. assessing the strength of employer covenants).
- Carry out a bespoke analysis of the longevity of Fund members and monitor how this changes over time, so that the longevity assumptions at the valuation provide as close a fit as possible to the particular experience of the Fund. This is effectively what Club Vita does.
- Undertake an asset-liability modelling exercise that investigates the effect on the Fund of possible investment scenarios that may arise in the future. An assessment can then be made as to whether long term, secure employers in the Fund can stabilise their future contribution rates (thus introducing more certainty into their future budgets) without jeopardising the long-term health of the Fund. This is exactly what our comPASS tool does.
- Purchasing ill health liability insurance to mitigate the risk of an ill health retirement impacting on solvency and funding level of an individual employer where appropriate.
- Monitoring different employer characteristics in order to build up a picture of the risks posed. Examples include membership movements, cash flow positions and employer events such as cessations.

We would be delighted to set out in more detail the risks that affect the Fund and discuss with you possible strategies for managing them.

Stabilisation of contribution rates (comPASS)

There can be occasions when the market-related employer contribution rate is not affordable or achievable in practice in the short term. This can occur in times of tight fiscal control or where budgets have been set in advance of new employer contribution rates being available.

In view of this possibility, the Administering Authority has carried out extensive modelling to explore the long term effect on the Fund of capping future contribution increases (and decreases). By adopting such a strategy, this effectively means that certain employers will pay a more stable contribution rate, i.e. they will pay a rate less than the market-related contribution rate in "bad" times and a rate more than the market-related rate in "good" times.

The comPASS modelling that we carry out makes an explicit allowance for the possible future investment risks that the Fund may encounter over the period of stabilisation. By doing so, the aim is to justify whether or not the long-term health of the Fund will be adversely impacted by the application of a cap on changes to contribution rates.

6 Related issues

The Fund's valuation operates within a broader framework, and this document should therefore be considered alongside the following:

- the Funding Strategy Statement, which in particular highlights how different types of employer in different circumstances have their contributions calculated;
- the Statement of Investment Principles (e.g. the discount rate must be consistent with the Fund's asset strategy);
- the general governance of the Fund, such as meetings of the Pensions Committee, decisions delegated to officers, the Fund's business plan, etc;
- the Fund's risk register;
- the register of Fund employers.

Further recommendations

Valuation frequency

Under the provisions of the LGPS regulations, the next formal valuation of the Fund is due to be carried out as at 31 March 2017. In light of the uncertainty of future financial conditions, we recommend that the financial position of the Fund (and for individual employers in some cases) continues to be monitored by means of interim funding reviews in the period up to this next formal valuation. This will give early warning of changes to funding positions and possible contribution rate changes.

Investment strategy and risk management

We recommend that the Administering Authority continues to regularly review its investment strategy and ongoing risk management programme.

New employers joining the Fund

Any new employers or admission bodies joining the Fund should be referred to the Fund actuary for individual calculation as to the required level of contribution.

Additional payments

Employers may make voluntary additional contributions to recover any shortfall over a shorter period, subject to agreement with the Administering Authority and after receiving the relevant actuarial advice.

Further sums should be paid to the Fund by employers to meet the capital costs of any unreduced early retirements, reduced early retirements before age 60 and/or augmentation (i.e. additional membership or additional pension) using the methods and factors issued by me from time to time or as otherwise agreed.

In addition, payments may be required to be made to the Fund by employers to meet the capital costs of any ill-health retirements that exceed those allowed for within our assumptions.

Cessations and bulk transfers

Any Admission Body who ceases to participate in the Fund should be referred to us in accordance with Regulation 34(1) of the Administration Regulations.

Any bulk movement of scheme members:

- involving 10 or more scheme members being transferred from or to another LGPS fund, or
- involving 2 or more scheme members being transferred from or to a non-LGPS pension arrangement

should be referred to us to consider the impact on the Fund.

7 Reliances and limitations

Scope

This document has been requested by and is provided to City of Edinburgh Council in its capacity as Administering Authority to the Lothian Pension Fund. It has been prepared by Hymans Robertson LLP to fulfil the statutory obligations in accordance with regulation 36 of the Administration Regulations. None of the figures should be used for accounting purposes (e.g. under FRS17, FRS102 or IAS19) or for any other purpose (e.g. a termination valuation under Regulation 34(1)).

This document should not be released or otherwise disclosed to any third party without our prior written consent, in which case it should be released in its entirety. Hymans Robertson LLP accepts no liability to any other party unless we have expressly accepted such liability.

The results of the valuation are dependent on the quality of the data provided to us by the Administering Authority for the specific purpose of this valuation. We have previously issued a separate report confirming that the data provided is fit for the purposes of this valuation and have commented on the quality of the data provided. The data used in our calculations is as per our report of 18 September 2014.

Actuarial Standards

The following Technical Actuarial Standards[1] are applicable in relation to this report and have been complied with where material:

- TAS R – Reporting;
- TAS D – Data;
- TAS M – Modelling; and
- Pensions TAS.

Richard Warden	Steven Scott
Fellow of the Institute and Faculty of Actuaries	Fellow of the Institute and Faculty of Actuaries
DRAFT	DRAFT

[1] Technical Actuarial Standards (TASs) are issued by the Financial Reporting Council (FRC) and set standards for certain items of actuarial work, including the information and advice contained in this report.

Appendix A: About the pension fund

For more details please refer to the Fund's Funding Strategy Statement.

The purpose of the Fund is to provide retirement and death benefits to its members. It is part of the Local Government Pension Scheme (LGPS) and is a multi-employer defined benefit pension scheme.

Defined benefit pension scheme

In a defined benefit scheme such as this, the nature of retirement benefits that members are entitled to is known in advance. For example, it is known that members will receive a pension on retirement that is linked to their salary and pensionable service according to a pre-determined formula.

However, the precise cost to the Fund of providing these benefits is **not** known in advance. The estimated cost of these benefits represents a liability to the Fund and assets must be set aside to meet this. The relationship between the value of the liabilities and the value of the assets must be regularly assessed and monitored to ensure that the Fund can fulfil its core objective of providing its members with the retirement benefits that they have been promised.

Liabilities

The Fund's liabilities are the benefits that will be paid in the future to its members (and their dependants).

The precise timing and amount of these benefit payments will depend on future experience, such as when members will retire, how long they will live for in retirement and what economic conditions will be like both before and after retirement. Because these factors are not known in advance, assumptions must be made about future experience. The valuation of these liabilities must be regularly updated to reflect the degree to which actual experience has been in line with these assumptions.

Assets

The Fund's assets arise from the contributions paid by its members and their employers and the investment returns that they generate. The way these assets are invested is of fundamental importance to the Fund. The selection, monitoring and evolution of the Fund's investment strategy are key responsibilities of the Administering Authority.

As the estimated cost of the Fund's liabilities is regularly re-assessed, this effectively means that the amount of assets required to meet them is a moving target. As a result, at any given time the Fund may be technically in surplus or in deficit.

A contribution strategy must be put in place which ensures that each of the Fund's employers pays money into the Fund at a rate which will target the cost of its share of the liabilities in respect of benefits already earned by members and those that will be earned in the future.

The long-term nature of the Fund

The pension fund is a long-term commitment. Even if it were to stop admitting new members today, it would still be paying out benefits to existing members and dependants for many decades to come. It is therefore essential that the various funding and investment decisions that are taken now recognise this and come together to form a coherent long-term strategy.

In order to assist with these decisions, the Regulations require the Administering Authority to obtain a formal valuation of the Fund every three years. Along with the Funding Strategy Statement, this valuation will help determine the funding objectives that will apply from 1 April 2015.

Appendix B: Summary of the Fund’s benefits

Provided below is a brief summary of the non-discretionary benefits that we have taken into account for active members at this valuation. This should not be taken as a comprehensive statement of the exact benefits to be paid. For further details please see the Regulations.

Provision	Benefit Structure To 31 March 2009	Benefit Structure From 1 April 2009 to 31 March 2015	Benefit Structure From 1 April 2015
Normal retirement age (NRA)	Age 65.	Age 65.	Equal to the individual member’s State Pension Age (minimum 65).
Earliest retirement age (ERA) on which immediate unreduced benefits can be paid on voluntary retirement	As per NRA (age 65). (a) having previously had an NRA of age 60 (or after age 60 on attaining 25 years of scheme membership), due to being a member of the scheme immediately prior to 1 April 1998; or (b) having the potential to satisfy the rule of 85 prior to age 65 (if the sum of age (whole years) and membership (whole years) is 85 or more). The minimum age from which the Rule of 85 applies is age 60. The benefits relating to various segments of scheme membership are protected as follows, which means their benefits are calculated based on the above definitions of earliest retirement age in relation to these protected periods of scheme membership. (a) A member born on 31 March 1960 or earlier – membership up to 31 March 2020 protected; (b) All other members in the scheme immediately prior to 1 December 2006 – membership up to 31 March 2008 protected.		As per NRA (minimum age 65). Protections apply to active members in the scheme for pensions earned up to 1 April 2015, due to: a) Accrued benefits relating to pre April 2015 service at age 65. b) Continued ‘Rule of 85’ protection for qualifying members. c) Members within 10 years of existing NRA at 1 April 2012 – no change to when they can retire and no decrease in pension they receive at existing NRA.
Member contributions	Officers - 6% of pensionable pay Manual Workers – 5% of pensionable pay if has protected lower rates rights or 6% for post 31 March 1998 entrants or former entrants with no protected rights.	Tiered rates (5.5%-12.0%) depending upon level of full-time equivalent pay. A mechanism for sharing any increased scheme costs between employers and scheme members is to be included in the LGPS regulations.	Banded rates varying between 5.5% and 12.0% on five different tranches of actual pay. A mechanism for sharing any increased scheme costs between employers and scheme members will be included in the LGPS regulations in due course. Contribution rates are based on actual pay rather than full-time equivalent pay.
Pensionable pay	All salary, wages, fees and other payments in respect of the employment, excluding non-contractual overtime and some other specified amounts. Some scheme members may be covered by special agreements.		Pay including contractual overtime and additional hours but excluding non-contractual elements.

Provision	Benefit Structure To 31 March 2009	Benefit Structure From 1 April 2009 to 31 March 2015	Benefit Structure From 1 April 2015
Final pay	The pensionable pay in the year up to the date of leaving the scheme. Alternative methods used in some cases, e.g. where there has been a break in service or a drop in pensionable pay. Will be required for the statutory underpin and in respect of the final salary link that may apply in respect of certain members of the CARE scheme who have pre-April 2015 accrual.		N/A
Period of scheme membership	Total years and days of service during which a member contributes to the Fund. Additional periods may be granted (e.g. transfers from other pension arrangements, augmentation, or from April 2009 the award of additional pension). For part time members, the membership is proportionate with regard to their contractual hours and a full time equivalent.		N/A
Normal retirement benefits at NRA	Annual Retirement Pension - 1/80th of final pay for each year of scheme membership. Lump Sum Retirement Grant - 3/80th of final pay for each year of scheme membership. Additional lump sum can be provided by commutation of pension (within overriding limits) on a basis of £12 additional lump sum for each £1 of pension surrendered.	Scheme membership to 31 March 2009: Annual Retirement Pension - 1/80th of final pay for each year of scheme membership. Lump Sum Retirement Grant - 3/80th of final pay for each year of scheme membership. Scheme membership from 1 April 2009: Annual Retirement Pension - 1/60th of final pay for each year of scheme membership. Lump Sum Retirement Grant – none except by commutation of pension.	Scheme membership from 1 April 2015: Annual Retirement Pension - 1/49th of pensionable pay (or assumed pensionable pay) for each year of scheme membership revalued to NRA in line with CPI. Lump Sum Retirement Grant - none except by commutation of pension.

Provision	Benefit Structure To 31 March 2009	Benefit Structure From 1 April 2009 to 31 March 2015	Benefit Structure From 1 April 2015
Option to increase retirement lump sum benefit	At the time that benefits come into payment, members have the option to exchange ('commute') some of the retirement pension into additional lump sum. The terms for the conversion of pension in to lump sum is £12 of lump sum for every £1 of annual pension surrendered.	Scheme membership to 31 March 2009: At the time that benefits come into payment, members have the option to exchange ('commute') some of the retirement pension into additional lump sum. The terms for the conversion of pension in to lump sum is £12 of lump sum for every £1 of annual pension surrendered. Scheme membership from 1 April 2009: No automatic lump sum. Any lump sum is to be provided by commutation of pension. The terms for the conversion of pension in to lump sum is £12 of lump sum for every £1 of annual pension surrendered.	No automatic lump sum. Any lump sum is to be provided by commutation of pension (within overriding HMRC limits). The rule for the conversion of pension to lump sum is £12 of lump sum for every £1 of annual pension surrendered.
Voluntary early retirement benefits (non ill-health)	On retirement after age 60, subject to reduction on account of early payment in some circumstances (in accordance with ERA protections).		On retirement from age 60, subject to reduction on account of early payment in some circumstances (in accordance with ERA protections).
Employer's consent early retirement benefits (non ill-health)	On retirement after age 50 with employer's consent a pension and lump sum based on actual scheme membership completed may be paid.	On retirement after age 55 (or age 50 for active members with certain protections on grounds of redundancy of efficiency) with employer's consent a pension and lump sum based on actual scheme membership completed may be paid.	Benefits paid on redundancy or efficiency grounds (for members aged 55 or over) are paid with no actuarial reduction. Otherwise, benefits are subject to reduction on account of early payment as mentioned in the previous row, unless this is waived by the employer.
	Benefits paid on redundancy or efficiency grounds are paid with no actuarial reduction. Otherwise, benefits are subject to reduction on account of early payment, unless this is waived by the employer.		

Provision	Benefit Structure To 31 March 2009	Benefit Structure From 1 April 2009 to 31 March 2015	Benefit Structure From 1 April 2015
Ill-health benefits	In the event of premature retirement due to permanent ill-health or incapacity, an immediate pension and lump sum are paid based on actual scheme membership plus an enhancement period of scheme membership. The enhancement period is dependent on scheme membership at date of leaving and is seldom more than 6 years 243 days. No reduction is applied due to early payment.	In the event of premature retirement due to permanent ill-health or incapacity and a reduced likelihood of obtaining gainful employment (local government or otherwise) before age 65, an immediate pension and lump sum are due based on actual scheme membership plus an enhanced period of scheme membership. The enhancement period is: 25% of the period to age 65, if there is reasonable prospect of undertaking gainful employment before age 65; or 100% of the period to age 65, if there is no likelihood of undertaking gainful employment prior to age 65.	As a result of permanent ill-health or incapacity and a reduced likelihood of obtaining gainful employment (local government or otherwise) before age 65. Immediate payment of unreduced benefits. Enhanced to scheme membership, dependent on severity of ill health. 100% of prospective pension to age 65 where no likelihood of undertaking any gainful employment prior to age 65. 25% of prospective pension to age 65 where reasonable prospect of undertaking gainful employment before reaching age 65.
Flexible retirement	After 5th April 2006, a member who has attained the age of 50, with his employer's consent, reduces the hours he works, or the grade in which he is employed, may elect in writing to the appropriate Administering Authority that such benefits may, with his employer's consent, be paid to him notwithstanding that he has not retired from that employment. Benefits are paid immediately and subject to actuarial reduction unless the reduction is waived by the employer.	A member who has attained the age of 55 and who, with his employer's consent, reduces the hours he works, or the grade in which he is employed, may make a request in writing to the appropriate Administering Authority to receive **all or part** of his benefits, Benefits are paid immediately and subject to actuarial reduction unless the reduction is waived by the employer.	

Provision	Benefit Structure To 31 March 2009	Benefit Structure From 1 April 2009 to 31 March 2015	Benefit Structure From 1 April 2015
Pension increases	All pensions in payment, deferred pensions and dependant's pensions other than benefits arising from the payment of additional voluntary contributions are increased annually. Pensions are increased partially under the Pensions (Increases) Act 1971 and partially in accordance with statutory requirements (depending on the proportions relating to pre 88 GMP, post 88 GMP and excess over GMP).		
Death after retirement	A spouse's or civil partner's pension of one half of the member's pension (generally post 1 April 1972 service for widowers' pension and post 6 April 1988 for civil partners) is payable; plus If the member dies within five years of retiring and before age 75 the balance of five years' pension payments will be paid in the form of a lump sum; plus Children's pensions may also be payable.	A spouse's, civil partner's or nominated cohabiting partner's pension payable at a rate of 1/160th of the member's total membership multiplied by final pay is payable; plus If the member dies within ten years of retiring and before age 75 the balance of ten years' pension payments will be paid in the form of a lump sum; plus Children's pensions may also be payable.	
Death in service	A lump sum of two times final pay; plus A spouse's or civil partner's pension of one half of the ill-health retirement pension that would have been paid to the scheme member if he had retired on the day of death (generally post 1 April 1972 service for widowers' pension and post 6 April 1988 for civil partners); plus	A lump sum of three times final pay; plus A spouse's, civil partner's or cohabiting partner's pension payable at a rate of 1/160th of the member's total (augmented to age 65) membership, multiplied by final pay; plus Children's pensions may also be payable.	
Leaving service options	If the member has completed two years or more scheme membership, deferred benefits with calculation and payment conditions similar to general retirement provisions ; or A transfer payment to either a new employer's scheme or a suitable insurance policy, equivalent in value to the deferred pension; or If the member has completed less than two years scheme membership, a return of the member's contributions with interest, less a State Scheme premium deduction and less tax at the rate of 20%.		

Provision	Benefit Structure To 31 March 2009	Benefit Structure From 1 April 2009 to 31 March 2015	Benefit Structure From 1 April 2015
State pension scheme	The Fund is contracted-out of the State Second Pension and the benefits payable to each member are guaranteed to be not less than those required to enable the Fund to be contracted-out.		
Assumed pensionable pay	N/A		This applies in cases of reduced contractual pay (CP) resulting from sickness, child related and reserve forces absence. In these circumstances benefits are based on an assumption of what pay would have been had the reduction not occurred.
50/50 option	N/A		Optional arrangement allowing 50% of main benefits to be accrued on a 50% contribution rate.

Note: Certain categories of members of the Fund are entitled to benefits that differ from those summarised above.

Discretionary benefits

The LGPS Regulations give employers a number of discretionary powers. The effect on benefits or contributions as a result of the use of these provisions as currently contained within the Local Government Pension Scheme Regulations has been allowed for in this valuation to the extent that this is reflected in the membership data provided. No allowance has been made for the future use of discretionary powers that will be contained within the scheme from 1 April 2015.

Appendix C: About the valuation

For more details please refer the Fund's Funding Strategy Statement.

It is important to realise that the actual cost of the pension fund (i.e. how much money it will ultimately have to pay out to its members in the form of benefits) is currently unknown. This cost will not be known with certainty until the last benefit is paid to the last pensioner. The core purpose of this valuation is to estimate what this cost will be, so that the Fund can then develop a strategy to meet it.

Such a valuation can only ever be an estimate – as the future cannot be predicted with certainty. However, as actuaries, we can use our understanding of the Fund and the factors that affect it to determine an anticipated cost which is as sensible and realistic as possible. A decision can then be made as to how much is set aside now to meet this anticipated cost. The pace of this funding can vary according to the level of prudence that is built into the valuation method and assumptions.

For this valuation, as for the previous valuation, our calculations identify separately the expected cost of members' benefits in respect of scheme membership completed before the valuation date ("past service") and that which is expected to be completed after the valuation date ("future service").

Past service

The principal measurement here is the comparison at the valuation date of the assets (taken at market value) and the value placed on the Fund's liabilities (calculated using a market-based approach). By maintaining a link to the market in both cases, this helps ensure that the assets and liabilities are valued in a consistent manner. Our calculation of the Fund's liabilities also explicitly allows for expected future pay and pension increases.

The funding level is the ratio of assets to liabilities at the valuation date. A funding level of less/more than 100% implies that there is a deficit/surplus in the Fund at the valuation date.

The funding target is to eliminate any deficit (or surplus) over a specified period and therefore get back to a funding level of 100%. To do so, additional contributions may be required to be paid into the Fund, either via lump sums or by increasing the employer's contribution rate. These additional contributions are known as the past service adjustment.

Future service

In addition to benefits that have already been earned by members prior to the valuation date, employee members will continue to earn new benefits in the future. The cost of these new benefits must be met by both employers and employees. The employers' share of this cost is known as the future service contribution rate.

For the valuation results for the Fund as a whole, we have calculated the future service rate as the cost of benefits being earned by members over the year following the valuation, taking account of expected future salary increases until retirement. If new entrants are admitted to the Fund to the extent that the overall membership profile remains broadly unchanged (and if the actuarial assumptions are unchanged) then the future service rate should be reasonably stable.

This funding method we have used is known as the Projected Unit Method. As well as the whole fund, it is appropriate for individual employers that continue to admit new entrants to the Fund.

However, some participating employers may have a policy of not admitting new entrants. In this case, the membership profile will inevitably begin to age. Under these circumstances, the Projected Unit Method is arguably no longer appropriate and will not promote sufficient stability in the future service rate. For these employers, we will adopt a funding method known as the Attained Age Method, which effectively looks at the cost of benefits that members will earn over the entirety of their remaining working lifetime (rather than just the year following the valuation).

Combining this future service rate with any past service adjustment required to repay a deficit (or reduce a surplus) gives us the total contribution rate. The total rate for the Fund as a whole is known as the common contribution rate. This is really just a notional figure. In practice, each individual employer will have a contribution rate which reflects their own particular circumstances.

The sensitivity of valuation results

The aim of this valuation is not only to determine these important figures but also to demonstrate their sensitivity to a number of key influences. This will promote an understanding of how the expected cost of the Fund may change in response to uncertain future events (e.g. changes in life expectancy or investment returns). Please refer to **section 5** for details of the sensitivity analysis.

Appendix D: Data

This section contains a summary of the membership, investment and accounting data provided by the Administering Authority for the purposes of this valuation (the corresponding membership and investment data from the previous valuation is also shown for reference). For further details of the data, and the checks and amendments performed in the course of this valuation, please refer to our separate report dated 18 September 2014.

Membership data – whole fund

Employee members

	31 March 2011		31 March 2014	
	Number	Pensionable Pay* (£000)	Number	Pensionable Pay* (£000)
Total employee membership	30,031	632,182	31,536	648,929

*actual pay (not full-time equivalent)

Deferred pensioners

	31 March 2011		31 March 2014	
	Number	Deferred pension (£000)	Number	Deferred pension (£000)
Total deferred membership	15,102	27,236	17,094	32,444

The figures above also include any "frozen refunds and undecided leavers" at the valuation date.

Current pensioners, spouses and children

	31 March 2011		31 March 2014	
	Number	Pension (£000)	Number	Pension (£000)
Members	18,250	92,966	20,143	115,476
Dependants	3,511	8,731	3,750	10,645
Children	169	263	162	319
Total pensioner members	**21,930**	**101,960**	**24,055**	**126,440**

Note that the membership numbers in the table above refer to the number of records provided to us and so will include an element of double-counting in respect of any members who are in receipt (or potentially in receipt of) more than one benefit.

Membership Profile	Average Age (years)		FWL (years)	
	2011	2014	2011	2014
Employees	51.0	51.1	8.2	12.0
Deferred Pensioners	49.9	50.3	-	-
Pensioners	66.1	66.6	-	-

The average ages are weighted by liability.

The expected future working lifetime (FWL) indicates the anticipated length of time that the average employee member will remain as a contributor to the Fund. Note that it allows for the possibility of members leaving, retiring early or dying before retirement.

Membership data – individual employers

Employer code	Employer Name	Employees		Deferreds		Pensioners	
		Number	Actual Pay (£000)	Number	Pension (£000)	Number	Pension (£000)
1	Lothian Region Council	0	0	1,146	1,701	5,201	19,932
2	Edinburgh District Council	0	0	495	739	1,564	7,205
3	Midlothian District Council	0	0	51	72	297	1,227
4	West Lothian District Council	0	0	178	261	402	1,565
5	East Lothian District Council	0	0	62	82	311	1,398
6	Leith Nautical College	0	0	0	0	5	28
7	Forth Estuary Transport Authority	59	1,820	32	82	114	688
8	Heriot-Watt University	587	12,060	329	489	508	2,166
9	University of Edinburgh	36	731	123	299	130	675
10	Royal Lyceum Theatre Company Limited	0	0	1	*	4	*
11	Homeless Action Scotland	3	*	11	20	4	*
12	St Joseph's School	0	0	0	0	4	*
13	Castle Rock Housing	0	0	0	0	3	*
14	Tynepark School	0	0	0	0	2	*
15	Newbattle Abbey College	17	282	9	13	17	39
16	Dean Orphanage & Cauvins Trust	4	*	4	*	4	*
17	Donaldson's Trust	31	721	34	90	15	52
18	Scottish Council for Voluntary Organisation	0	0	0	0	9	49
19	Castle Rock Edinvar	0	0	2	*	7	48
20	Family Service Units	0	0	10	34	8	24
21	Audit Scotland	254	9,603	134	480	72	1,436
22	Hanover (Scotland) Housing Association	17	677	1	*	14	196
23	SCRE (Scottish Council for Research in Education)	0	0	13	26	24	138
24	Redhouse Boys Home	0	0	0	0	1	*
25	Wellington School	0	0	0	0	7	17
26	Adult Education Institution	0	0	1	*	2	*
27	Community Learning Scotland	0	0	6	16	12	93
28	Convention of Scottish Local Authorities	61	2,610	38	146	42	775
29	Livingston Development Corporation	0	0	87	241	240	990
30	Queen Margaret University	273	6,389	245	458	176	687
31	Dr Guthrie's School	0	0	2	*	7	16
32	Algrade School	0	0	2	*	4	*
33	Edinburgh Merchant Co	0	0	0	0	1	*
34	St Columba's Hospice	76	1,635	23	49	30	93
35	Lothian Allelon	0	0	3	*	3	*
36	Barony Housing Association Ltd	127	2,386	88	184	40	206
37	Age Scotland	0	0	4	*	9	38
38	Four Square (Scotland)	5	125	46	59	26	108
41	Edinburgh New Town Conservation Committee	0	0	0	0	3	*
42	Nat Joint Council	0	0	0	0	4	*
43	Forth River Purification Board	0	0	9	20	19	134
44	Edinburgh International Festival Society	6	228	11	22	12	57
45	Pilton Youth and Children's Project	2	*	13	38	5	20
46	Museums Galleries Scotland	30	865	37	101	14	102
47	Scottish Council on Disability	0	0	10	20	10	32
48	Mental Welfare Commission for Scotland	1	*	1	*	5	93
49	Lothian Homes Trust	0	0	13	51	4	*
50	Centre for the Moving Image (The)	4	*	6	21	8	52
51	Edinburgh Napier University	980	23,715	696	1,297	455	2,377
52	West Lothian ITEC	0	0	2	*	4	*
53	Edinburgh Cyrenians Trust	9	178	25	54	7	22
54	Edinburgh Old Town Comm	0	0	0	0	1	*
55	Open Door Accommodation Project	4	*	10	36	4	*
56	Victim Support Scotland	2	*	10	24	14	68
57	Lothian Racial Equality Council	0	0	5	9	0	0
59	Penumbra	1	*	3	*	4	*
60	Livingston Vol Org Council	0	0	0	0	0	0

61	Lothian Interpretation & Translating Service Trust	0	0	1	*	0	0
62	Regal Project	0	0	0	0	0	0
64	Citadel Youth Centre	7	199	7	14	3	*
67	B.A.I.T	0	0	1	*	1	*
68	Credit Union Enterprise Services	0	0	2	*	1	*
69	Econ Warmth Ad Project	0	0	0	0	1	*
70	Play and Care Entrust	0	0	2	*	1	*
71	Canongate Youth Project YTS Ltd	0	0	0	0	2	*
72	Family Care	0	0	0	0	1	*
73	Pilton Community Health Project	5	116	7	10	2	*
75	Edinburgh Marketing	0	0	9	24	2	*
76	Bingham & District Older Peoples Project	0	0	0	0	4	*
77	Waverley Care Ltd	41	994	17	25	15	73
78	ELCAP	23	425	48	108	25	82
79	Freespace	9	166	20	42	13	46
80	Lothian Centre for Integrated Living	0	0	15	41	5	14
82	Family Mediation Lothian	0	0	1	*	0	0
84	Haddington & District Day Centre	0	0	0	0	2	*
85	Pilton Opportunities Project	0	0	0	0	1	*
86	Stoneyhill Community Centre	0	0	0	0	1	*
87	Family Advice & Information Resource	7	134	4	*	1	*
88	North Edinburgh Trust	0	0	8	20	4	*
89	North Edinburgh Dementia Care	5	90	0	0	5	11
90	Handicabs (Lothian) Limited	26	429	13	16	7	20
91	EDI Group	10	485	11	36	8	155
95	North Edinburgh Training & Employment Ltd	0	0	1	*	0	0
96	Edinburgh & Lothians Greenspace Trust	0	0	1	*	1	*
97	Craigmillar Auto Resource Centre	0	0	1	*	1	*
98	National Mining Museum Scotland	1	*	4	*	2	*
100	Edinburgh New Town Renewal Trust	0	0	0	0	1	*
101	Jewel & Esk College	0	0	119	253	138	563
102	Edinburgh Telford College	1	*	177	398	138	586
103	Stevenson College	0	0	119	244	105	491
104	Scotland's Rural University College	29	653	31	61	21	103
105	West Lothian College	151	2,879	67	119	63	242
106	Streetwork UK Ltd	3	*	15	44	0	0
107	Pilton Central Association	0	0	0	0	1	*
108	Woman & HIV Aids Network	0	0	1	*	1	*
109	Edinburgh College	678	15,312	34	111	17	104
112	Wester Hailes Representative Council	0	0	7	19	0	0
113	Weslo Housing Management	72	2,180	13	63	22	132
114	Nisus Scotland Ltd	0	0	14	20	3	*
115	Link In	2	*	7	29	0	0
116	Granton Information Centre	3	*	4	*	0	0
117	Scottish Schools Education Research	19	577	1	*	2	*
118	Royal Edinburgh Military Tattoo	22	731	9	14	6	77
119	Family & Community Development West Lothian	12	290	4	*	1	*
121	Edinburgh Development Group	5	97	5	30	2	*
122	Young People Speak Out	0	0	3	*	0	0
123	Scottish Adoption Agency	20	501	5	7	8	54
125	Magic Lantern Van	0	0	1	*	2	*
126	Craigmillar Partnership Initiative	0	0	1	*	2	*
127	Career Development Edinburgh & Lothians	0	0	16	36	19	163
128	Edinburgh Woman's Rape and Sexual Abuse Centre	2	*	7	9	0	0
129	Craigmillar Citizens Participation Project(Festival Society)	0	0	1	*	0	0
130	West Lothian Mobility Initiative	0	0	1	*	0	0
131	West Granton Community Trust	3	*	2	*	0	0
132	Stairway Project	0	0	1	*	0	0

133	Children's Hospice Association Scotland	188	4,505	46	78	21	87
134	Lothian Valuation Joint Board	109	3,143	29	103	49	643
135	Scottish Water	1,144	34,884	617	2,278	1,131	9,793
138	Wester Hailes Partnership Co Ltd	0	0	3	*	0	0
141	Queensferry Churches Care in the Community	4	*	4	*	1	*
142	Lothian Apprenticeship Scheme Trust	0	0	0	0	1	*
143	First Step	11	188	8	9	4	*
146	Lothian Coalition of Disabled People	0	0	0	0	1	*
147	Melville Housing Association	32	1,065	15	51	14	77
148	City of Life Long Learning	0	0	1	*	0	0
149	Access Ability Lothian	0	0	5	5	1	*
151	Almond Housing Association	2	*	0	0	2	*
153	Edinburgh Napier University Ventures Ltd	0	0	4	*	3	*
154	St Andrew's Children's Society Limited	23	618	2	*	4	*
155	Visit Scotland	101	1,679	85	200	19	146
156	Canongate Youth Project	7	178	5	13	2	*
157	West Lothian Leisure	219	2,998	129	121	19	80
158	Royal Society of Edinburgh	33	828	14	22	6	29
159	Edinburgh Leisure	306	5,918	347	508	128	685
160	Edinburgh Business School	12	290	9	15	7	18
161	Festival City Theatres Trust	2	*	2	*	5	26
163	Transnational Construction Project	0	0	0	0	1	*
164	SCRAN	0	0	11	37	1	*
166	Bfriends	0	0	2	*	1	*
168	Children 1st	0	0	3	*	2	*
169	Edinburgh Learning	0	0	1	*	0	0
170	Into Work	9	233	10	11	7	22
171	Edinburgh World Heritage Trust	3	*	1	*	8	74
172	Homes for Life Housing Partnership	5	172	3	*	0	0
173	Pilton Equalities Project	3	*	1	*	2	*
174	Capital City Partnership	17	494	9	32	2	*
175	Edinburgh City Centre Management Trust	0	0	10	63	2	*
177	Scottish Centre for Non-Violence	0	0	2	*	0	0
178	Morrison Facilities Services	2	*	1	*	5	24
179	Mitie Olscot Limited	0	0	0	0	3	*
181	Broomhouse Centre	1	*	0	0	0	0
182	Craigmillar Partnership	0	0	4	*	1	*
183	Young Scot Enterprise	6	218	9	16	0	0
185	Youthlink Scotland	2	*	2	*	1	*
186	Capacity Building Project	0	0	5	16	1	*
187	Stepping Out Project	1	*	0	0	0	0
188	Scotland's Learning Partnership	2	*	3	*	0	0
189	Transport Initiatives Edinburgh Ltd (TIE)	0	0	61	268	18	213
190	Ballast/Wilshire FM	0	0	0	0	1	*
191	Initial Cleaning and Facilities Services	0	0	6	2	8	10
192	ISS UK Ltd	3	*	1	*	8	16
193	Health in Mind	3	*	1	*	3	*
194	Interactive University	0	0	2	*	1	*
195	Keymoves	4	*	1	*	3	*
196	HWU Students Association	32	491	15	30	12	63
197	BAM Construction UK	1	*	0	0	3	*
199	Wester Hailes Land & Property	2	*	0	0	0	0
200	Forth & Oban Ltd	27	383	11	12	12	38
202	The City of Edinburgh Council	12,560	255,354	5,712	10,623	6,331	37,005
203	Midlothian Council	2,829	48,507	1,163	1,755	1,237	6,574
204	West Lothian Council	5,511	101,014	2,025	3,229	2,265	12,134
205	East Lothian Council	3,080	55,918	1,201	1,915	1,420	7,847
208	Edinburgh Convention Bureau	0	0	8	25	1	*

209	SESTRAN	7	238	3	*	2	*
210	Improvement Service	41	1,697	13	15	0	0
211	Scottish Police Services Authority	115	4,108	30	140	14	151
212	Skanska	3	*	1	*	3	*
213	Aspire Housing	0	0	1	*	0	0
214	NSL Services Group	8	141	2	*	1	*
215	Mitie PFI Ltd (West Lothian Council)	0	0	1	*	0	0
216	Andron Contract Services Limited	0	0	0	0	1	*
217	Scottish Legal Complaints Commission (SLCC)	3	*	2	*	1	*
218	Scottish Futures Trust	56	3,684	2	*	0	0
219	Enjoy East Lothian	180	1,432	25	22	7	21
220	Mitie PFI CEC PP2	22	291	4	*	4	*
221	Dawn Group Ltd	10	219	0	0	2	*
222	Compass-Chartwell	8	93	1	*	0	0
223	Children's Hearing Scotland	14	451	2	*	0	0
224	BaxterStorey	9	173	0	0	0	0
898	Lothian & Borders Police Force	880	21,609	461	1,389	603	3,485
899	Lothian & Borders Fire and Rescue Service (Civilians)	139	3,207	68	90	86	620

*****Please note that for compliance with data protection legislation the figures in the table above have been blanked out where the number of members for an employer is less than 5 for any status of membership.

Assets at 31 March 2014

A summary of the Fund's assets (excluding members' money-purchase Additional Voluntary Contributions) as at 31 March 2014 and 31 March 2011 is as follows:

Asset class	Market Value at 31 March 2011 (£000)	Allocation %	Market Value at 31 March 2014 (£000)	Allocation %
UK equities	590,450	17%	200,967	5%
UK fixed interest gilts	4,046	0%	2,574	0%
UK corporate bonds	54,145	2%	128,505	3%
UK index-linked gilts	124,659	4%	156,281	4%
Overseas equities	1,760,928	51%	2,639,642	60%
Overseas bonds	89,842	3%	46,188	1%
Property	332,268	10%	322,037	7%
Private Equity	224,014	6%	604,193	14%
Other Alternatives	160,565	5%	58,539	1%
Cash and net current assets	136,566	4%	218,610	5%
Total	**3,477,483**	100%	**4,377,536**	100%

Note that, for the purposes of determining the funding position at 31 March 2014, the asset value we have used also includes the present value of expected future early retirement strain payments (amounting to £1.3m).

Accounting data – revenue account for the three years to 31 March 2014

Consolidated accounts (£000)	Year to			
	31 March 2012	31 March 2013	31 March 2014	Total
Income				
Employer - normal contributions	134,406	128,709	132,669	395,784
Employer - additional contributions	2,197	183	106	2,486
Employer - early retirement and augmentation strain contributions	7,881	8,929	7,947	24,757
Employee - normal contributions	39,065	38,869	40,207	118,141
Employee - additional contributions	1,514	1,325	1,156	3,995
Transfers In Received (including group and individual)	3,171	4,484	4,280	11,935
Other Income	0	0	0	0
Total Income	**188,234**	**182,499**	**186,364**	**557,097**
Expenditure				
Gross Retirement Pensions	104,279	113,181	120,434	337,894
Lump Sum Retirement Benefits	34,523	33,176	34,942	102,641
Death in Service Lump sum	4,306	5,362	5,331	14,999
Death in Deferment Lump Sum	0	0	0	0
Death in Retirement Lump Sum	0	0	0	0
Gross Refund of Contributions	726	338	421	1,485
Transfers out (including bulk and individual)	5,564	6,152	10,392	22,108
Fees and Expenses	1,802	1,925	1,943	5,670
Total Expenditure	**151,200**	**160,134**	**173,463**	**484,797**
Net Cashflow	**37,034**	**22,365**	**12,901**	**72,300**
Assets at start of year	**3,475,662**	**3,580,623**	**4,094,659**	**3,475,662**
Net cashflow	37,034	22,365	12,901	72,300
Change in value	67,927	491,671	269,976	829,574
Assets at end of year	**3,580,623**	**4,094,659**	**4,377,536**	**4,377,536**
Approximate rate of return on assets	**1.9%**	**13.7%**	**6.6%**	**23.5%**

Note that the figures above are based on the Fund accounts provided to us for the purposes of this valuation, which were fully audited at the time of our valuation calculations.

We are aware that the 2010/11 Fund Account was restated following the completion of the 2011 valuation. The asset value (shown in the top table) as at 31 March 2011, is that used in the 2011 valuation.

The accounting data table shows the restated Fund asset value as at 31 March 2011.

Appendix E: Assumptions

Financial assumptions

Financial assumptions	31 March 2011 (% p.a.)	31 March 2014 (% p.a.)
Discount rate	5.8%	5.0%
Retail Price inflation	2.8%	3.5%
Pay increases*	5.1%**	5.0%***
Pension increases:		
pension in excess of GMP	2.8%	2.7%
post-88 GMP	2.8%	2.7%
pre-88 GMP	0.0%	0.0%
Revaluation of deferred pension	2.8%	2.7%
Revaluation of accrued CARE pension	-	2.7%
Expenses	0.3%	0.3%

* Excluding promotional increases
** 1% p.a. for 2011/12 and 2012/13, reverting to 5.1% p.a. thereafter.
*** 2% p.a. for 2014/15 and 2015/16, reverting to 5.0% p.a. thereafter.

Mortality assumptions

Longevity assumptions	31 March 2014
Longevity - baseline	Vita curves
Longevity - improvements	
CMI Model version used	CMI_2012
Starting rates	CMI calibration based on data from Club Vita using the latest available data as at December 2012.
Long term rate of improvement	Period effects: 1.25% p.a. for men and women. Cohort effects: 0% p.a. for men and for women.
Period of convergence	Period effects: CMI model core values i.e. 10 years for ages 50 and below and 5 years for those aged 95 and above, with linear transition to 20 years for those aged between 60 and 80. Cohort effects: CMI core i.e. 40 years for those born in 1947 or later declining linearly to 5 years for those born in 1912 or earlier.
Proportion of convergence remaining at mid point	50%

The longevity improvement assumption is based on the latest industry standard and combined information from our longevity experts in Club Vita. The start point for the improvements has been based on observed death rates in the Club Vita data bank over the period.

In the short term we have assumed that the ‘cohort effect’ of strong improvements in life expectancy currently being observed amongst a generation born around the early and mid-1930s will start to tail off, resulting in life expectancy increasing less rapidly than has been seen over the last decade or two. This is known as ‘peaked’.

In the long term (post age 70) we have assumed that increases in life expectancy will stabilise at a rate of increase of 1 year per decade for men and women. This is equivalent to assuming that longer term mortality rates will fall at a rate of 1.25% p.a. for men and women.

However, we have assumed that post age 90 improvements in mortality are hard to achieve, declining between ages 90 and 120 so that no improvements are seen at ages 120 and over.

As a member of Club Vita, the longevity assumptions that have been adopted at this valuation are a bespoke set of VitaCurves that are specifically tailored to fit the membership profile of the Fund. These curves are based on the data you have provided us with for the purposes of this valuation. Full details of these are available on request.

Other demographic valuation assumptions

Retirements in ill health	Allowance has been made for ill-health retirements before Normal Pension Age (see table below).
Withdrawals	Allowance has been made for withdrawals from service (see table below).
Family details	A varying proportion of members are assumed to be married (or have an adult dependant) at retirement or on earlier death. For example, at age 60 this is assumed to be 90% for males and 85% for females. Husbands are assumed to be 3 years older than wives.
Commutation	50% of future retirements elect to exchange pension for additional tax free cash up to HMRC limits for service to 1 April 2009 (equivalent 75% for service from 1 April 2009).
50:50 option	10% of members (uniformly distributed across the age, service and salary range) will choose the 50:50 option.

The tables below show details of the assumptions actually used for specimen ages. The promotional pay scale is an annual average for all employees at each age. It is in addition to the allowance for general pay inflation described above. For membership movements, the percentages represent the probability that an individual at each age leaves service within the following twelve months.

Death in Service:

Age	Incidence per 1000 active members per annum			
	Male officers and Post 98	Male Manuals	Female officers and Post 98	Female Manuals
	Death	Death	Death	Death
20	0.26	0.32	0.14	0.17
25	0.26	0.32	0.14	0.17
30	0.31	0.38	0.20	0.26
35	0.36	0.45	0.34	0.43
40	0.61	0.77	0.54	0.68
45	1.02	1.28	0.88	1.11
50	1.63	2.04	1.29	1.62
55	2.55	3.19	1.70	2.13
60	4.59	5.74	2.18	2.72
65	7.65	9.56	2.79	3.49

Ill Health Early Retirements

Tier 1

Age	Incidence for 1000 active members per annum							
	Male Officers & Post 98 Males		Male Manuals		Female Officers & Post 98 Females		Female Manuals	
	Ill Health		Ill Health		Ill Health		Ill Health	
	FT	PT	FT	PT	FT	PT	FT	PT
20	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
25	0.00	0.00	0.76	0.60	0.19	0.15	0.99	0.79
30	0.00	0.00	1.39	1.11	0.25	0.20	1.44	1.15
35	0.19	0.15	2.08	1.66	0.50	0.40	1.98	1.58
40	0.32	0.25	3.02	2.42	0.76	0.60	2.88	2.30
45	0.69	0.55	4.16	3.33	1.01	0.81	3.78	3.02
50	1.76	1.41	6.17	4.94	1.89	1.51	5.04	4.03
55	6.91	5.53	14.61	11.69	7.01	5.61	13.54	10.83
60	12.16	9.73	23.42	18.74	14.86	11.89	23.81	19.05
65	23.10	18.48	45.15	36.12	26.71	21.37	45.15	36.12

Tier 2

Age	Incidence for 1000 active members per annum							
	Male Officers & Post 98 Males		Male Manuals		Female Officers & Post 98 Females		Female Manuals	
	Ill Health		Ill Health		Ill Health		Ill Health	
	FT	PT	FT	PT	FT	PT	FT	PT
20	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
25	0.00	0.00	0.80	0.64	0.20	0.16	1.05	0.84
30	0.00	0.00	1.47	1.18	0.27	0.21	1.53	1.22
35	0.20	0.16	2.21	1.77	0.54	0.43	2.10	1.68
40	0.33	0.27	3.21	2.57	0.80	0.64	3.06	2.45
45	0.74	0.59	4.42	3.53	1.07	0.86	4.02	3.21
50	2.37	1.90	8.31	6.65	2.54	2.03	6.78	5.43
55	5.34	4.27	11.29	9.03	5.42	4.33	10.47	8.37
60	4.58	3.66	8.82	7.05	5.60	4.48	8.96	7.17
65	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

Appendix 1

Withdrawal

Less than 1 year

Age	Incidence for 1000 active members per annum											
	Male Officers Withdrawals		Male Manuals Withdrawals		Female Officers Withdrawals		Female Manuals Withdrawals		Post 98 Males Withdrawals		Post 98 Females Withdrawals	
	FT	PT	FT	PT	FT	PT	FT	PT	FT	PT	FT	PT
20	304.04	506.74	304.04	506.74	288.39	400.55	288.39	400.55	557.41	750.00	384.52	640.87
25	200.83	334.72	200.83	334.72	194.00	269.45	194.00	269.45	368.19	736.38	258.67	431.11
30	142.46	237.40	142.46	237.43	162.58	225.80	162.58	225.80	261.17	522.34	216.77	361.28
35	111.28	185.44	111.28	185.47	140.22	194.75	140.22	194.75	204.02	408.04	186.96	311.60
40	89.55	149.18	89.55	149.25	116.62	161.98	116.62	161.98	164.17	328.34	155.50	259.16
45	73.28	121.99	73.28	122.13	96.01	133.34	96.01	133.34	134.34	268.69	128.01	213.35
50	56.76	94.52	56.76	94.60	73.15	101.60	73.15	101.60	104.06	208.12	97.54	162.56
55	49.18	81.86	49.18	81.97	56.39	78.32	56.39	78.32	90.17	180.34	75.18	125.30
60	29.81	49.62	29.81	49.68	26.21	36.40	26.21	36.40	54.65	109.30	34.94	58.24

Between 1-2 years

Age	Incidence for 1000 active members per annum											
	Male Officers Withdrawals		Male Manuals Withdrawals		Female Officers Withdrawals		Female Manuals Withdrawals		Post 98 Males Withdrawals		Post 98 Females Withdrawals	
	FT	PT	FT	PT	FT	PT	FT	PT	FT	PT	FT	PT
20	152.02	253.37	152.02	253.37	144.20	200.27	144.20	200.27	278.70	557.41	192.26	320.44
25	100.42	167.36	100.42	167.36	97.00	134.72	97.00	134.72	184.10	368.19	129.33	215.56
30	71.23	118.70	71.23	118.71	81.29	112.90	81.29	112.90	130.59	261.17	108.39	180.64
35	55.64	92.72	55.64	92.74	70.11	97.38	70.11	97.38	102.01	204.02	93.48	155.80
40	44.77	74.59	44.77	74.62	58.31	80.99	58.31	80.99	82.09	164.17	77.75	129.58
45	36.64	60.99	36.64	61.07	48.00	66.67	48.00	66.67	67.17	134.34	64.00	106.67
50	28.38	47.26	28.38	47.30	36.58	50.80	36.58	50.80	52.03	104.06	48.77	81.28
55	24.59	40.93	24.59	40.99	28.19	39.16	28.19	39.16	45.08	90.17	37.59	62.65
60	14.90	24.81	14.90	24.84	13.10	18.20	13.10	18.20	27.32	54.65	17.47	29.12

Greater than 2 years

Age	Incidence for 1000 active members per annum											
	Male Officers Withdrawals		Male Manuals Withdrawals		Female Officers Withdrawals		Female Manuals Withdrawals		Post 98 Males Withdrawals		Post 98 Females Withdrawals	
	FT	PT	FT	PT	FT	PT	FT	PT	FT	PT	FT	PT
20	89.89	149.82	89.89	149.82	85.26	118.42	85.26	118.42	164.80	329.60	113.69	189.48
25	59.38	98.96	59.38	98.96	57.36	79.66	57.36	79.66	108.86	217.71	76.48	127.46
30	42.12	70.19	42.12	70.20	48.07	66.76	48.07	66.76	77.22	154.43	64.09	106.81
35	32.90	54.82	32.90	54.84	41.46	57.58	41.46	57.58	60.32	120.64	55.28	92.13
40	26.48	44.10	26.48	44.13	34.48	47.89	34.48	47.89	48.54	97.08	45.97	76.62
45	21.66	36.05	21.66	36.11	28.38	39.42	28.38	39.42	39.72	79.44	37.85	63.08
50	16.78	27.94	16.78	27.97	21.63	30.04	21.63	30.04	30.77	61.53	28.84	48.06
55	14.54	24.19	14.54	24.24	16.67	23.15	16.67	23.15	26.66	53.32	22.23	37.05
60	8.81	14.66	8.81	14.69	7.75	10.76	7.75	10.76	16.16	32.31	10.33	17.22

Promotional salary scale

Age	Promotional Salary Scales							
	Male Officers & Post 98 Males		Male Manuals		Female Officers & Post 98 Females		Female Manuals	
	FT	PT	FT	PT	FT	PT	FT	PT
20	100	100	100	100	100	100	100	100
25	135	116	100	100	118	105	100	100
30	169	134	100	100	137	111	100	100
35	192	146	100	100	151	116	100	100
40	208	153	100	100	163	121	100	100
45	222	154	100	100	166	122	100	100
50	236	154	100	100	166	122	100	100
55	239	154	100	100	166	122	100	100
60	239	154	100	100	166	122	100	100
65	239	154	100	100	166	122	100	100

Appendix F: Events since valuation date

Post-valuation events

These valuation results are in effect a snapshot of the Fund as at 31 March 2014. Since that date, various events have had an effect on the financial position of the Fund. Whilst we have not explicitly altered the valuation results to allow for these events, a short discussion of these "post-valuation events" can still be beneficial in understanding the variability of pension funding.

Investment conditions since 31 March 2014

In the period from the valuation date to 31 January 2015, investment markets moved in the following manner:

- asset returns have been between 13-14%
- long term Government bond yields have fallen by more than long term expected price inflation, which is likely to have increased past service liabilities by around 17-20%

It should be noted that the above is for information only: the figures in this report have all been prepared using membership data, audited asset information and market-based assumptions all as at 31 March 2014. In particular, we do not propose amending any of the contribution rates listed in the Rates & Adjustments Certificate on the basis of these market changes, and all employer contribution rates are based on valuation date market conditions. In addition, these rates are finalised within a risk-measured framework as laid out in the Fund's Funding Strategy Statement (FSS).

Other events

Other than investment conditions changes above, I am not aware of any material changes or events occurring since the valuation date.

Appendix G: Rates and adjustments certificate

In accordance with regulation 32(1) of the Administration Regulations we have made an assessment of the contributions that should be paid into the Fund by participating employers for the period 1 April 2015 to 31 March 2018 in order to maintain the solvency of the Fund.

The method and assumptions used to calculate the contributions set out in the Rates and Adjustments certificate are detailed in the Funding Strategy Statement dated 25 March 2015 and our report on the actuarial valuation dated DRAFT

The required minimum contribution rates are set out in the table below.

Signature:		
Date:	DRAFT	DRAFT
Name:	Richard Warden	Steven Scott
Qualification:	Fellow of the Institute and Faculty of Actuaries	Fellow of the Institute and Faculty of Actuaries
Firm:	Hymans Robertson LLP	Hymans Robertson LLP
	20 Waterloo Street	20 Waterloo Street
	Glasgow	Glasgow
	G2 6DB	G2 6DB

Statement to the rates and adjustments certificate

The Common Rate of Contribution payable by each employing authority under regulation 32(4)(a) of the Administration Regulations for the period 1 April 2015 to 31 March 2018 is 23.1% of pensionable pay (as defined in Appendix B).

Individual Adjustments are required under regulation 32(4)(b) of the Administration Regulations for the period 1 April 2015 to 31 March 2018 resulting in Minimum Total Contribution Rates (expressed as a combination of percentage of pensionable pay and monetary amount) as set out below.

The contributions shown include expenses and the expected cost of lump sum death benefits but exclude early retirement strain and augmentation costs which are payable by Fund employers in addition.

Employer code	Employer Name	Contribution Rate paid in 2014/15		Minimum Contributions for the year ending 31 March 2015		31 March 2016		31 March 2017	
		% Payroll	(£000)	% Payroll	(£000)	% Payroll	(£000)	% Payroll	(£000)
Councils / Large Scheduled Bodies									
202	The City of Edinburgh Council	17.2%	10,113.3	20.1%	3064.3	20.1%	3064.3	20.1%	3064.3
203	Midlothian Council	17.2%	1,629.1	20.2%	339.5	20.2%	339.5	20.2%	339.5
204	West Lothian Council	16.9%	3,270.6	20.0%	404.1	20.0%	404.1	20.0%	404.1
205	East Lothian Council	16.6%	2,725.0	20.4%	503.3	20.4%	503.3	20.4%	503.3
898	Police Service of Scotland	16.3%	-	18.3%	-	18.3%	-	18.3%	-
899	Scottish Fire and Rescue Service	17.1%	64.6	19.0%	-	19.0%	-	19.0%	-
135	Scottish Water	16.6%	1,637.2	19.2%	907.0	19.2%	907.0	19.2%	907.0
Colleges / Universities									
8	Heriot-Watt University	18.0%	616.4	20.6%	385.9	20.6%	385.9	20.6%	385.9
15	Newbattle College	18.9%	-	18.9%	-	18.9%	-	18.9%	-
30	Queen Margaret University	16.0%	153.3	18.5%	31.9	18.5%	31.9	18.5%	31.9
51	Edinburgh Napier University	15.8%	705.2	18.7%	166.0	18.7%	166.0	18.7%	166.0
105	West Lothian College	16.0%	51.4	18.3%	-	18.3%	-	18.3%	-
109	Edinburgh College	15.8%	414.9	17.5%	229.9	17.5%	229.9	17.5%	229.9
Other Large Employers									
21	Audit Scotland	14.4%	343.3	18.2%	13.1	17.2%	76.8	17.2%	76.8
28	Convention of Scottish Local Authorities	15.5%	269.2	16.6%	242.9	16.6%	243.5	16.6%	244.1
36	Barony Housing Association Ltd	16.8%	11.3	18.5%	10.5	17.3%	-	17.3%	-
134	Lothian Valuation Joint Board	17.1%	129.3	17.2%	27.2	20.9%	3.1	20.9%	3.1
155	Visit Scotland	14.1%	66.3	18.6%	119.1	15.2%	75.5	15.2%	75.5
157	West Lothian Leisure	13.1%	40.6	17.8%	81.0	14.7%	-	14.7%	-
Employers with individual rates									
91	EDI Group	15.8%	21.2	18.2%	9.6	18.2%	9.6	18.2%	9.6
133	Children's Hospice Association Scotland	14.7%	-	14.7%	-	14.7%	-	14.7%	-
209	SESTRAN	16.1%	16.6	18.4%	11.1	18.4%	11.1	18.4%	11.1
210	Improvement Service	14.9%	51.1	17.2%	11.7	17.2%	11.7	17.2%	11.7
211	Scottish Police Authority	15.1%	274.0	18.5%	132.7	18.5%	132.7	18.5%	132.7
218	Scottish Futures Trust	12.9%	134.7	-	-	-	-	-	-
219	Enjoy East Lothian	13.6%	-	16.6%	-	16.6%	-	16.6%	-
223	Children's Hearing Scotland	19.1%	-	13.6%	-	13.6%	-	13.6%	-
7	Forth Estuary Transport Authority	17.8%	113.0	21.2%	84.7	21.2%	117.8	21.2%	151.0
9	University of Edinburgh (E.C.A.)	17.3%	123.7	24.9%	174.2	24.9%	280.5	24.9%	386.8
104	SRUC	19.9%	5.5	25.1%	7.9	25.1%	44.2	25.1%	80.5
159	Edinburgh Leisure	16.9%	-	17.4%	-	18.0%	-	18.5%	-
178	Morrison Facilities Services	22.1%	16.3	28.9%	5.2	21.0%	-	0.0%	-
192	ISS UK Ltd	19.8%	0.0	13.2%	-	6.6%	-	0.0%	-
197	BAM Construction UK	23.3%	4.0	28.6%	-	14.3%	-	0.0%	-
200	Forth & Oban Ltd	16.5%	18.7	19.2%	-	17.0%	-	14.8%	-
212	Skanska	19.7%	-	26.8%	3.4	26.8%	10.8	26.8%	18.1
214	NSL Services Group	18.0%	4.8	14.3%	-	7.1%	-	0.0%	-
220	Mitie PFI CEC PP2	21.0%	0.8	22.1%	-	23.0%	-	23.9%	-
221	Dawn Group Ltd	14.5%	14.3	16.7%	2.1	14.2%	-	10.8%	-
222	Compass-Chartwell	19.8%	-	18.1%	-	16.5%	-	14.8%	-
224	BaxterStorey	23.5%	-	21.5%	-	19.5%	-	17.4%	-

Employer code	Employer Name	Contribution Rate paid in 2014/15 % Payroll	(£)	Minimum Contributions for the year ending 31 March 2015 % Payroll	(£)	31 March 2016 % Payroll	(£)	31 March 2017 % Payroll	(£)
Small closed CABS with individual rates									
11	Homeless Action Scotland	19.4%	9.5	35.1%	15.8	35.1%	36.5	35.1%	57.3
16	Dean Orphanage & Cauvins Trust	19.4%	11.1	37.1%	18.6	37.1%	47.0	37.1%	75.4
45	Pilton Youth and Children's Project	19.4%	2.9	34.1%	12.8	34.1%	30.1	34.1%	47.5
48	Mental Welfare Commission for Scotland	19.4%	12.0	38.0%	237.4	38.0%	237.4	38.0%	237.4
50	Centre for the Moving Image (The)	19.4%	9.1	35.8%	24.0	35.8%	61.0	35.8%	98.0
55	Open Door Accommodation Project	19.4%	7.9	36.3%	4.2	36.3%	17.7	36.3%	31.2
56	Victim Support Scotland	19.4%	12.2	39.2%	55.0	39.2%	125.6	39.2%	196.3
59	Penumbra	19.4%	3.4	43.6%	51.5	43.6%	116.1	43.6%	180.8
98	Scottish Mining Museum	19.4%	4.6	37.5%	56.7	37.5%	56.7	37.5%	56.7
106	Streetwork UK Ltd	19.4%	8.2	35.9%	2.6	35.9%	12.9	35.9%	23.1
115	Link In	19.4%	5.7	33.1%	4.9	33.1%	11.2	33.1%	17.5
116	Granton Information Centre	19.4%	5.9	33.8%	-	36.6%	4.5	36.6%	11.5
128	Edinburgh Woman's Rape and Sexual Abuse Centre	19.4%	3.1	35.8%	5.3	35.8%	10.8	35.8%	16.3
131	West Granton Community Centre	19.4%	3.0	34.7%	-	37.7%	3.0	37.7%	7.5
141	Queensferry Churches Care in the Community	17.1%	3.1	35.9%	-	36.7%	5.0	36.7%	10.3
151	Almond Housing Association	19.4%	5.1	40.6%	154.5	40.6%	154.5	40.6%	154.5
161	Festival City Theatres Trust	19.4%	3.2	36.3%	8.7	36.3%	24.4	36.3%	40.0
171	Edinburgh World Heritage Trust	19.4%	4.4	38.3%	48.8	38.3%	108.3	38.3%	167.7
173	Pilton Equalities Project	19.4%	6.0	33.4%	-	37.1%	2.7	37.1%	8.7
181	Broomhouse Centre	19.4%	2.2	37.3%	11.1	37.3%	11.1	37.3%	11.1
185	Youthlink Scotland	19.4%	4.6	36.7%	2.5	36.7%	9.9	36.7%	17.2
187	Stepping Out Project	19.4%	1.0	28.0%	-	32.1%	-	36.2%	-
188	Scotland's Learning Partnership	17.1%	4.8	34.7%	1.3	34.7%	14.9	34.7%	28.6
193	Health in Mind	19.4%	8.0	36.1%	6.5	36.1%	19.7	36.1%	32.8
195	Keymoves	19.4%	6.8	35.8%	-	38.8%	8.3	38.8%	20.1
199	Wester Hailes Land & Property	19.4%	4.5	31.8%	-	33.2%	6.3	33.2%	14.0
217	Scottish Legal Complaints Commission (SLCC)	14.5%	-	25.5%	-	33.3%	3.0	33.3%	13.4
Small Community Admission Bodies									
22	Hanover (Scotland) Housing Association	17.1%	5.9	20.4%	142.1	20.4%	142.1	20.4%	142.1
46	Museums Galleries Scotland	17.1%	40.0	16.8%	23.4	16.8%	23.4	16.8%	23.4
64	Citadel Youth Centre	17.1%	12.1	15.2%	8.6	15.2%	8.6	15.2%	8.6
77	Waverley Care Ltd	17.1%	38.0	18.4%	11.0	18.4%	11.0	18.4%	11.0
87	Family Advice & Information Resource	17.1%	6.1	18.0%	2.0	18.0%	2.0	18.0%	2.0
89	North Edinburgh Dementia Care	17.1%	4.4	19.5%	-	19.5%	-	19.5%	-
90	Handicabs (Lothian) Limited	17.1%	24.9	19.5%	-	19.5%	-	19.5%	-
113	Weslo Housing Management	17.1%	91.5	19.5%	-	19.5%	-	19.5%	-
117	Scottish Schools Education Research	17.1%	15.7	19.5%	-	19.5%	-	19.5%	-
118	Royal Edinburgh Military Tattoo	17.1%	25.6	18.2%	9.5	18.2%	9.5	18.2%	9.5
121	Edinburgh Development Group	17.1%	7.3	19.2%	0.3	19.2%	0.3	19.2%	0.3
123	Scottish Adoption Agency	17.1%	21.6	19.5%	-	19.5%	-	19.5%	-
143	First Step	17.1%	8.3	17.1%	4.5	17.1%	4.5	17.1%	4.5
147	Melville Housing Association	17.1%	57.6	19.5%	-	19.5%	-	19.5%	-
154	St Andrew's Children's Society Limited	17.1%	27.8	19.5%	-	19.5%	-	19.5%	-
156	Canongate Youth Project	17.1%	11.4	18.2%	2.3	18.2%	2.3	18.2%	2.3
158	Royal Society of Edinburgh	17.1%	39.3	18.6%	7.5	18.6%	7.5	18.6%	7.5
172	Homes for Life Housing Partnership	17.1%	7.1	19.5%	-	19.5%	-	19.5%	-
174	Capital City Partnership	17.1%	22.2	19.5%	-	19.5%	-	19.5%	-
196	HWU Students Association	17.1%	23.2	15.2%	21.1	15.2%	21.1	15.2%	21.1
119	Family and Community Development West Lothian	17.1%	10.6	19.5%	-	19.5%	-	19.5%	-
17	Donaldson's Trust	17.1%	60.2	22.3%	-	22.3%	-	22.3%	-
34	St Columba's Hospice	17.1%	58.8	22.3%	-	22.3%	-	22.3%	-
38	Four Square (Scotland)	19.4%	17.5	22.3%	-	22.3%	-	22.3%	-
44	Edinburgh International Festival Society	19.4%	11.7	22.3%	-	22.3%	-	22.3%	-
53	Edinburgh Cyrenians Trust	19.4%	15.8	22.3%	-	22.3%	-	22.3%	-
73	Pilton Community Health Project	17.1%	9.4	22.3%	-	22.3%	-	22.3%	-
78	ELCAP	19.4%	38.1	22.3%	-	22.3%	-	22.3%	-
79	Freespace	19.4%	13.7	22.3%	-	22.3%	-	22.3%	-
160	Edinburgh Business School	19.4%	15.8	21.7%	1.8	21.7%	1.8	21.7%	1.8
170	Into Work	19.4%	21.5	22.3%	-	22.3%	-	22.3%	-
183	Young Scot Enterprise	19.4%	14.9	22.3%	-	22.3%	-	22.3%	-

Employer code	Employer Name
Former Employers with no active members	
13	Castle Rock Housing
18	Scottish Council for Voluntary Organisation
19	Castle Rock Edinvar
20	Family Service Units
23	SCRE (Scottish Council for Research in Education)
26	Adult Education Institution
27	Community Learning Scotland
33	Edinburgh Merchant Co
35	Lothian Allelon
37	Age Scotland
40	Nat Joint Council
41	Forth River Purification Board
45	Scottish Council on Disability
47	Lothian Homes Trust
55	Lothian Racial Equality Council
57	Lothian Interpretation & Translating Service Trust
60	Credit Union Enterprise Services
61	Econ Warmth Ad Project
62	Play and Care Entrust
64	Family Care
104	Young People Speak Out
113	Stairway Project
119	Lothian Apprenticeship Scheme Trust
121	Lothian Coalition of Disabled People
136	SCRAN
137	Bfriends
138	Children 1st
146	Scottish Centre for Non-Violence
161	Interactive University

Notes:

1 Contributions expressed as a percentage should be paid into Lothian Pension Fund ('the Fund') at a frequency in accordance with the requirements of the Regulations.

2 Further sums should be paid to the Fund to meet the costs of any non-ill health early retirements and/or augmentation (i.e. additional pension) using methods and factors issued by me from time to time, or GAD guidance if I consider it to be appropriate.

3 In addition, further sums may be required to be paid to the Fund by employers to meet the capital costs of any ill-health retirements that exceed those included within my assumptions.

4 The certified contribution rates represent the minimum level of contributions to be paid. Employing authorities may pay further amounts at any time, and future periodic contributions may be adjusted on a basis approved by the Fund actuary.

Pensions Committee

2.30 p.m., Wednesday, 25 March 2015

2014 Actuarial Valuation for Lothian Buses Pension Fund

Item number	5.8
Report number	
Executive/routine	
Wards	All

Executive summary

The Lothian Buses Pension Fund is required by law to undertake an actuarial valuation every three years. The pension fund's Actuary assesses the financial health of the pension fund and sets the employer contribution rates required for the next three years.

This report presents the results of the actuarial valuation of the Lothian Buses Pension Fund as at 31 March 2014.

Links

Coalition pledges	
Council outcomes	CO26
Single Outcome Agreement	

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Report

2014 Actuarial Valuation for Lothian Buses Pension Fund

Recommendations

1.1 Committee is requested to note the 2014 actuarial valuation for the Lothian Buses Pension Fund.

Background

2.1 The Lothian Buses Pension Fund was established in 1986 under The Local Government Superannuation (Funds) (Scotland) Regulations 1986 (SSI 115/1986).

2.2 The Lothian Buses Pension Fund is required by law to undertake an actuarial valuation every three years. Based on data as at 31 March 2014, this actuarial valuation must be completed by 31 March 2015.

2.3 The actuarial valuation of the pension fund has 3 main purposes:

(a) To assess whether the funding strategy and assumptions are appropriate;
(b) To assess the financial health of the pension fund; and
(c) To set the future rates of contributions payable by the employer.

Main report

3.1 A copy of the actuarial valuation of the Lothian Buses Pension Fund as at 31 March 2014 is attached in Appendix 1.

Liabilities and Funding Level as at 31 March 2014

3.2 Historically the funding position of the Lothian Buses Pension Fund has been assessed on an ongoing basis, using a discount rate allowing for investment returns in excess of government bond yields. The table below summarises the financial position of the Fund at 31 March 2014 in respect of benefits earned by members up to this date on this basis.

	2011	**2014**
Past Service Liabilities £m	229	289
Market Value of Assets £m	257	337
Surplus / (Deficit) £m	28	48
Funding Level %	**112.4%**	**116.7%**

3.3 On the ongoing basis, the funding level has risen from 112.4% at the previous valuation at 31 March 2011 to 116.7% at this valuation. This has resulted in the surplus of £28million at 31 March 2011 increasing to a surplus of £48million at

31 March 2014. The improvement of the funding position on this basis reflects the favourable conditions since the previous valuation. In particular, investment returns for the three years to 31 March 2014 were higher than anticipated.

3.4 The chart at Page 7 of Appendix 1 illustrates the various factors that caused the funding position to improve between 31 March 2011 and 31 March 2014 and the extent of this influence.

3.5 As the Fund has been closed to new entrants since 1 January 2008, inevitably the liabilities will gradually mature. In this context, the funding level has also been measured on a more prudent basis, discounting the liabilities using government bond (gilts) yields. This increases the liabilities by £93million and reduces the funding level to 88.2%. The results are as follows:

Funding position as a 31 March 2014	**Ongoing basis**	**Gilts basis**
Past Service Liabilities £m	289	382
Total – Assets £m	337	337
Surplus / (Deficit) £m	48	(45)
Funding Level %	**116.7%**	**88.2%**

Contribution Rates

3.6 On an ongoing basis, the theoretical contribution rates calculated by the actuary are shown in the table below. The employer has been paying 20.5% of payroll, higher than indicated at the previous valuation.

Contribution rates (% of pay)	**31 March 2011**	**31 March 2014**	**31 March 2014**
	Ongoing		Gilts
Employer future service rate	19.9%	24.1%	34.2%
Past service adjustment [1]	-9.0%	-13.0%	11.0%
Total employer contribution rate	**10.9%**	**11.1%**	**45.3%**

[1] Spread over Future Working Lifetime

3.7 In respect of the minimum contributions payable by the company, the actuary has certified the following minimum contribution rates. The rates increase over the next 3 years from the current rate of 20.5% to the future service rate (24.1%) on an ongoing basis, as shown below.

Period	**Employer Minimum Contribution Rate**
1 April 2015 – 31 December 2015	21.7% of payroll
1 January 2016 – 31 December 2016	22.9% of payroll
1 January 2017 – 31 December 2017	24.1% of payroll
1 January 2018 – 31 March 2018	24.1% of payroll

Actuarial Valuation method and assumptions

3.8 The use of market-related financial assumptions in the actuarial valuation means that the results are likely to be volatile. Bond yields and the financial market's expectation of inflation as at the valuation date are used to value the liabilities. Inflation rates are important as pension liabilities increase with inflation and bond yields are a key determinant of the discount rate. The use of market-related financial assumptions is considered to be transparent. However this needs to be balanced with the need for stable employer contributions.

- The value of the liabilities is very sensitive to the financial assumptions. 1% change in the discount rate can change the value of the liabilities by 15-20%. In the actuarial valuation, the Actuary illustrates how the funding level would be affected under different investment market conditions.
- Full details of the funding method and assumptions are provided in Appendix 1. Summarises of the main financial and demographic assumptions adopted for the valuation of members' benefits are shown below.

Financial Assumption	**Description**	**Nominal**	**Real**
Price Inflation (CPI)	Market expectation of long term future retail prices inflation, as measured by the difference on fixed and index-linked Government bonds at the valuation date, less 0.8% p.a.	2.7%	-
Pay increases	RPI plus 1.5% p.a.*	5.0%*	2.3%*
"Gilt-based" discount rate	Yield on fixed interest (nominal) Government Bonds	3.5%	0.8%
Funding basis (ongoing) discount rate	"Gilt-based" discount rate plus an Asset Outperformance Assumption (AOA) of 1.5% p.a.	5.0%	2.3%

* Nominal 2.0% p.a. for 2014/15 and 2015/16, reverting to 5.0% p.a. thereafter.

3.9 The demographic assumption to which the results are most sensitive is that relating to the longevity of the Fund's members. The actuary has increased the expected life expectancy. The assumed average future life expectancies are shown below:

	Actives & Deferreds		**Current Pensioners**	
Assumed life expectancy at age 65	**Male**	**Female**	**Male**	**Female**
2011 valuation - baseline	18.3	21.3	17.0	20.1
2011 valuation - improvements	21.7	24.8	18.4	21.6
2014 valuation – baseline	19.1	22.0	18.1	20.7
2014 valuation – improvements	23.5	25.9	20.4	22.6

Admission Agreement and Shareholder Guarantee

3.10 An updated admission agreement to reflect regulatory requirements of the Local Government Pension Scheme and to affirm the guarantor obligations of the company's shareholders in respect of pension liabilities is being progressed.

Maturity of the Fund and Investment Strategy Review

3.11 Given the inevitable maturing of the Fund's liability over time, the investment strategy will be reviewed over the coming months. The review will ensure that the risks inherent in the investment strategy are appropriate including volatility of the funding level and employer contribution rate, as well as the potential impact on the company balance sheet. It will also analyse cashflow for the Fund.

- Initial meeting has been held with Lothian Buses plc, and it has been agreed that given the current funding position and the shareholder guarantee, the review will focus on a gradual reduction in investment risk.
- Conclusions of the review will be reported to Pensions Committee in due course.

Funding Strategy Statement

3.12 A revised Funding Strategy Statement for the Lothian Pension Fund, incorporating the Lothian Buses Pension Fund, is reported separately on this agenda.

Conclusions

3.13 The Actuarial Valuation for the Lothian Buses Pension Fund as at 31 March 2014 has been completed. The funding level on an ongoing basis as at 31 March 2014 was 116.7%.

3.14 Minimum contributions from the employer will increase to 24.1% over the next three years.

3.15 The investment strategy of the Lothian Buses Pension Fund will be reviewed in the coming months, with conclusions reported to Committee.

Measures of success

4.1 The funding strategy should ensure that the Fund has sufficient assets to meet pension obligations in the long term. The minimum contribution rates payable by the employer are certified by the Fund's Actuary in accordance with the professional standards of the Institute and Faculty of Actuaries.

Financial impact

5.1 The actuarial valuation sets the contribution rates payable by the employer over the next three years. The minimum employer contribution rates payable by company are as stated. The company has confirmed its acceptance of these rates.

Risk, policy, compliance and governance impact

6.1 The Lothian Buses Pension Fund is required by law to undertake an actuarial valuation every three years. Regular actuarial assessment of the Fund reduces the risk of not meeting funding objectives.

6.2 The Lothian Buses admission agreement is being updated to reflect regulatory requirements of the Local Government Pension Scheme and to affirm the guarantor obligations of the company's shareholders in respect of pension liabilities

Equalities impact

7.1 There are no adverse equalities impacts arising from this report.

Sustainability impact

8.1 There are no adverse sustainability impacts arising from this report.

Consultation and engagement

9.1 The Consultative Panel for the Lothian Pension Funds, comprising employer and member representatives, is integral to the governance of the Funds. Appropriate liaison and consultation with representatives of Lothian Buses plc has been undertaken. A briefing has also been held for the member representative from Lothian Buses from the Consultative Panel.

Background reading / external references

None.

Alastair Maclean

Director of Corporate Governance

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Links

Coalition pledges	
Council outcomes	CO26 - The Council engages with stakeholders and works in partnerships to improve services and deliver agreed objectives.
Single Outcome Agreement	
Appendices	Appendix 1 - Actuarial Valuation 2014 Lothian Buses Pension Fund

Appendix 1

Lothian Buses Pension Fund
Actuarial Valuation
Valuation Report

HYMANS ROBERTSON

Contents

1 Executive summary

We have carried out an actuarial valuation of the Lothian Buses Pension Fund ('the Fund') as at 31 March 2014. The results are presented in this report and are briefly summarised below.

Funding position

The table below summarises the financial position of the Fund at 31 March 2014 in respect of benefits earned by members up to this date, on both the ongoing and gilts bases.

Past Service Position	31 March 2011 Ongoing (£m)	31 March 2014 Ongoing (£m)	31 March 2014 Gilts (£m)
Past Service Liabilities	229	289	382
Market Value of Assets	257	337	337
Surplus / (Deficit)	28	48	(45)
Funding Level	**112.4%**	**116.7%**	**88.2%**

The results show that, on the ongoing basis, the Fund met its objective of holding sufficient assets to meet the estimated current cost of past service liabilities at 31 March 2014. The funding level has risen from 112% at the previous valuation to 117% at this valuation.

The improvement of the funding position reflects favourable fund performance since the previous valuation. Investment returns for the 3 years to 31 March 2014 were better than anticipated. This has been partially offset by a decrease in the real gilt yield, which has increased the value placed on the Fund's liabilities.

On the gilts basis, the value of the Fund's past service liabilities is greater than the assets held, leading to a deficit of £45m (and a funding level of 88%) as at 31 March 2014. The gilts position reflects the ultimate funding objective, i.e. the assets the Fund should hold at the point when the last active member leaves the Fund.

Contribution rates

The table below summarises the theoretical contribution rate that would be required, based on this triennial valuation, on both the ongoing and gilts bases.

Contribution Rates	31 March 2011 Ongoing (% of pay)	31 March 2014 Ongoing (% of pay)	31 March 2014 Gilts (% of pay)
Total future service rate (incl. expenses of 0.3% of pay)	**26.7%**	**30.9%**	**41.0%**
less employee contribution rate	6.8%	6.8%	6.8%
Employer future service rate (incl. expenses)	**19.9%**	**24.1%**	**34.2%**
plus Past Service Adjustment (spread over FWL*)	-9.0%	-13.0%	11.0%
Employer common contribution rate	**10.9%**	**11.1%**	**45.2%**

*11.7 years in 2014, 9.0 years in 2011.

The common contribution rate is a theoretical figure. The minimum contributions to be paid by the employer from 1 April 2015 to 31 March 2018 are shown below, and in the Rates and Adjustments certificate in **Appendix G**;

Period	Employer Minimum Contribution Rate
1 April 2015 to 31 December 2015	21.7%
1 January 2016 to 31 December 2016	22.9%
1 January 2017 to 31 December 2017	24.1%
1 January 2018 to 31 March 2018	24.1%

2 Introduction

Purpose

We have carried out an actuarial valuation of the Lothian Buses Pension Fund as at 31 March 2014.

- This valuation report complies with all of the relevant regulations and professional standards, as set out in **section 7**.
- The figures in this report are based on our understanding of the benefit structure of the LGPS as at 31 March 2014, and changes being implemented from April 2015, details of which are provided in **Appendix B**.
- The results of the valuation are dependent on the quality of the data provided to us by the Administering Authority for the specific purpose of this valuation. This data is summarised in **Appendix D**.
- As part of the valuation, assumptions must be made which are discussed in **section 3** as well as in **Appendix E.** Details of our valuation approach is covered in **Appendix C.**
- The valuation results are then covered in **section 4**.
- We look at some of the risks the Fund faces in **section 5** and consider any post valuation events in **Appendix F**.
- The valuation is just one aspect of the operation of the Fund, and related issues are covered in **section 6.**
- In **Appendix G** we then set out the individual employer contribution requirements from 1 April 2015.

Component reports

This document is an "aggregate" report, i.e. it is the culmination of various "component" reports and discussions, in particular:

- The data report (dated 23 July 2014 and mentioned in **section 7**);
- The Initial results report (dated 1 August 2014) which outlined the preliminary assumption proposals and results;
- The formal agreement by the Administering Authority of the 2014 valuation assumptions, via email on 27 June 2014;
- The Funding Strategy Statement, confirming the contribution rate setting approach.

Note that not all of these documents may be in the public domain.

3 Assumptions

Actuarial assumptions

Assumptions must be made about the factors affecting the Fund's finances in the future. Broadly speaking, our assumptions fall into two categories – financial and demographic.

Demographic assumptions typically try to forecast **when** benefits will come into payment and what form these will take. For example, when members will retire (e.g. at their normal retirement age or earlier), how long they will then survive and whether a dependant's pension will be paid.

Financial assumptions typically try to anticipate the **size** of these benefits. For example, how large members' final salaries will be at retirement and how their pensions will increase over time. In addition, the financial assumptions also help us to estimate how much all these benefits will cost the Fund in today's money.

Financial assumptions

A summary of the main financial assumptions adopted for the valuation of members' benefits is shown below.

	31 March 2011		31 March 2014	
Financial assumptions	**Nominal**	**Real**	**Nominal**	**Real**
Discount Rate	5.8%	3.0%	5.0%	2.3%
Salary Increases*	5.1%**	2.3%	5.0%***	2.3%
Price Inflation / Pension Increases	2.8%	-	2.7%	-

**Excluding promotional increases*

*** 2.4% p.a. for 2011/12, 3.1% p.a. 2012/13, reverting to 5.1% p.a. thereafter*

**** 2% p.a. for 2014/15 and 2015/16, reverting to 5.0% p.a. thereafter.*

Discount rate

The funding valuation is effectively a planning exercise, to assess the funds needed to meet the benefits as they fall due. In order to place a current value on the future benefit payments from the Fund, an assumption about future investment returns is required in order to "discount" future benefit payments back to the valuation date at a suitable rate.

For a funding valuation such as this, the discount rate is set by taking into account the Fund's current and expected future investment strategy and, in particular, how this strategy is expected to outperform the returns from Government bonds over the long term. The additional margin for returns in excess of that available on Government bonds is called the Asset Outperformance Assumption (AOA).

The selection of an appropriate AOA is a matter of judgement and the degree of risk inherent in the Fund's investment strategy should always be considered as fully as possible.

Although there has been a slight downward shift in the expected returns on risky assets since the 2011 valuation, we believe the expected returns in excess of the returns on government bonds to be broadly unchanged since 2011. Therefore, we are satisfied that an AOA of 1.5% p.a. is a prudent assumption for the purposes of this valuation. This results in a discount rate of 5.0% p.a.

The 'gilts' figures shown in this report are based on a discount rate of 3.5% p.a., i.e. the yield available on Government bonds without allowance for an AOA.

Price inflation / pension increases

As was the case at the 2011 valuation, we expect the average long term difference between RPI and CPI to be 0.8% p.a.

At the previous valuation, the assumption for RPI was derived from market data as the difference between the yield on long-dated fixed interest and index-linked government bonds. At this valuation, we have adopted a similar approach.

Salary increases

The assumption for salary increases is 2% p.a. for 2 years, reverting to the long term assumption of RPI plus 1.5% p.a. thereafter. The approach to set the long term salary growth assumption is consistent with that adopted for the 2011 valuation.

Note that this assumption is made in respect of the general level of salary increases (e.g. as a result of inflation and other macroeconomic factors). We also make a separate allowance for an expected pay rise granted in the future as a result of promotion. This assumption takes the form of a set of tables which model the expected promotional pay awards based on each member's age and class. Please see **Appendix E**.

Longevity

The main demographic assumption to which the valuation results are most sensitive is that relating to the longevity of the Fund's members. For this valuation, we have adopted assumptions which give the following sample average future life expectancies for members:

	Actives & Deferreds		Current Pensioners	
Assumed life expectancy at age 65	**Male**	**Female**	**Male**	**Female**
2011 valuation - baseline	18.3	21.3	17.0	20.1
2011 valuation - improvements	21.7	24.8	18.4	21.6
2014 valuation - baseline	19.1	22.0	18.1	20.7
2014 valuation - improvements	23.5	25.9	20.4	22.6

Further details of the longevity assumptions adopted for this valuation can be found in **Appendix E**. Note that the figures for actives and deferreds assume that they are aged 45 at the valuation date.

Assets

We have taken the assets of the Fund into account at their market value as indicated in the audited accounts for the period ended 31 March 2014.

In our opinion, the basis for placing a value on members' benefits is consistent with that for valuing the assets - both are related to market conditions at the valuation date.

Demographic assumptions

We are in the unique position of having a very large local authority data set from which to derive our other demographic assumptions. We have analysed the trends and patterns that are present in the membership of local authority funds and tailored our demographic assumptions to reflect LGPS experience.

Details of these assumptions are set out in **Appendix E**. Further commentary on these was included in the Initial Results report dated 1 August 2014.

Further comments on the assumptions

As required for Local Government Pension Scheme valuations, our proposed approach to this valuation must include a degree of prudence. This has been achieved by explicitly allowing for a margin of prudence in the AOA.

For the avoidance of doubt, we believe that all other proposed assumptions represent the “best estimate” of future experience. This effectively means that there is a 50% chance that future experience will be better or worse than the chosen assumption.

Taken as a whole, we believe that our proposed assumptions are more prudent than the best estimate. The assessed liability value on a “neutral” best estimate (not prudent) basis would perhaps be 15%-20% lower than the figures shown here.

4 Results

The Administering Authority has prepared a Funding Strategy Statement which sets out its funding objectives for the Fund. In broad terms, the main ‘past service’ objective is to hold sufficient assets in the Fund to meet the assessed cost of members’ past service benefits and the main ‘future service’ objective is to maintain a relatively stable contribution rate. These objectives are potentially conflicting.

Past service

In assessing the extent to which the past service funding objective was met at the valuation date, we have used the actuarial assumptions described in the previous section of this report and funding method described in **Appendix C**. The table below compares the value of the assets and liabilities at 31 March 2014. The 31 March 2011 results are also shown for reference.

The results are presented in the form of a “funding level”, this is the ratio of the market value of assets to the assessed cost of members’ past service benefits (“liabilities”).

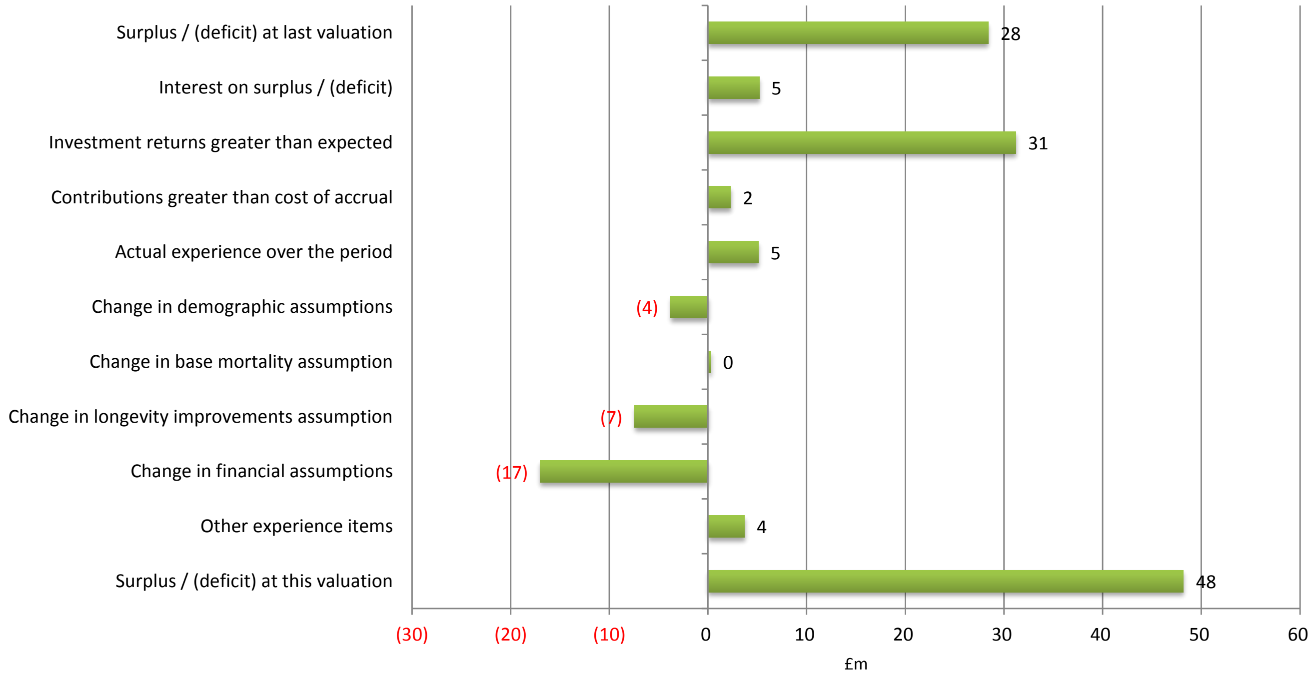
A funding level of 100% would correspond to the funding objective being met at the valuation date.

Valuation Date	31 March 2011	31 March 2014
Past Service Position	***(£m)***	**(£m)**
Past Service Liabilities		
Employees	110	139
Deferred Pensioners	33	41
Pensioners	86	109
Total Liabilities	229	289
Market Value of Assets	257	337
Surplus / (Deficit)	**28**	**48**
Funding Level	**112.4%**	**116.7%**

The main funding objective was met: there was a surplus of assets to the assessed cost of members’ benefits of £48m.

Summary of changes to the funding position

The chart below illustrates the factors that caused the funding position to improve between 31 March 2011 and 31 March 2014:



Further comments on some of the items in this chart:

- There was interest of £5m. This is broadly three years of compound interest at 5.8% p.a. applied to the previous valuation surplus of £28m.
- Investment returns being higher than expected since 2011 led to a gain of £31m. This is the difference between the actual three-year return (roughly 31%) and expected three-year return (roughly 18%) applied to the assets from the previous valuation of £257m, with a further allowance made for cashflows during the period.
- Contributions paid to the fund since 2011 have been greater than the cost of benefits accrued over this period, leading to a gain of £2m.
- Actual experience over the period relates to the specific elements of member experience we are able to analyse and measure. In particular, the combined effect of early leaver, ill health retirement, salary growth, pension increases, pensioner longevity, cash commutation and early retirement experience since 2011 led to a gain of £5m. Please see the Initial Results document for more detail on the observed membership experience at the 2014 valuation.
- The impact of the change in demographic assumptions has been a loss of around £4m. Underlying this figure, changes to the ill health early retirements assumption have had a positive impact but this has been more than offset by assuming fewer withdrawals than at 2011.
- The change in longevity assumptions (baseline and improvements) has given rise to a loss of £7m. This is mainly due to the change in assumed longevity improvements.
- The change in financial conditions since the previous valuation has led to a loss of £17m. This is due to a decrease in the real discount rate between 2011 and 2014.
- Other experience items, such as changes in the membership data, have served to increase the surplus at this valuation by around £4m.

Note that the benefit changes that come into effect as at 1 April 2015 do not change the funding position as all past service benefits to 31 March 2014 are protected.

Future service

We have calculated the average long-term contribution rate that would need to be paid to meet the estimated cost of members' benefits that will be earned after 31 March 2014 (the 'future service contribution rate'). Again, we have used the assumptions set out in the previous section of this report and the method set out in **Appendix C**. The resulting contribution rate is that which should (if the actuarial assumptions about the future are borne out in practice) ensure that the Administering Authority's main future service funding objective is met. The table below details this future service contribution rate for 31 March 2014 and shows the 31 March 2011 rate for comparison.

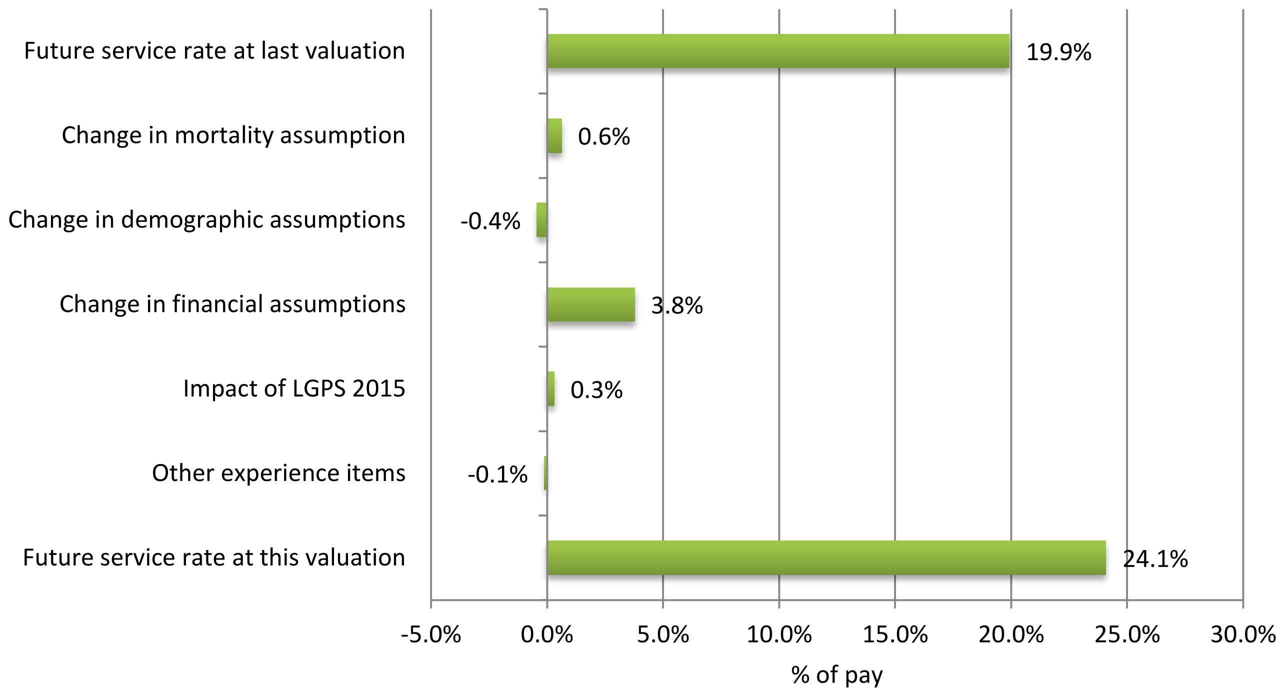
Valuation Date	31 March 2011	31 March 2014
Future service rate	**% of pay**	**% of pay**
Employer future service rate (excl. expenses)	19.6%	23.8%
Expenses	0.3%	0.3%
Total employer future service rate (incl. expenses)	**19.9%**	**24.1%**
Employee contribution rate	6.8%	6.8%

Note that the employee contribution rate includes any additional contributions being paid by employees as at 31 March 2014 into the Fund. This future service contribution rate makes no allowance for the past service deficit in the Fund described above.

The future service contribution rate for the employer is 24.1% of pay. This is the theoretical future contribution rate payable over the long term by the employer to meet the cost of benefits earned by members after the valuation date. Note this rate makes an allowance for changes to the benefit structure that takes effect from 1 April 2015.

Summary of changes to the future service rate

The chart below illustrates the factors that caused the future service rate to increase between 31 March 2011 and 31 March 2014:



As can be seen from this chart, the factors that have had the biggest impact on the future service rate between 2011 and 2014 are broadly similar to those discussed for the past service position, other than asset returns.

In addition to this, the impact of the LGPS 2015 scheme has resulted in an increase in contribution rate of 0.3% of payroll.

Total 'theoretical' contribution rate

The table below shows the total contribution rate. This consists of the future service rate plus an additional amount to recover any deficit (or 'refund' any surplus) and bring the funding level back to 100% over an appropriate period. This additional amount is referred to as the past service adjustment. The deficit recovery period has been set equal to the employer's Future Working Lifetime (FWL).

The common contribution rate based on the funding position as at 31 March 2014 is detailed below along with the results for 31 March 2011:

Valuation Date	31 March 2011	31 March 2014
Total contribution rate	**% of pay**	**% of pay**
Future service rate (incl. expenses)	19.9%	24.1%
Past Service Adjustment (spread over FWL*)	-9.0%	-13.0%
Total employer contribution rate	**10.9%**	**11.1%**

*11.7 years in 2014, 9.0 years in 2011

Contribution rates from 1 April 2015

As the Fund is closed to new entrants, the ultimate funding objective is to be fully funded on the 'gilts' basis by the time the employer ceases participation in the Fund. In recognition of this, and the ever reducing period of time until the eventual cessation event, the employer has agreed to pay a contribution rate in excess of the calculated 'theoretical' contribution rate shown above.

Further information in respect of the 'gilts' funding position is shown below.

Valuation results at 31 March 2014 on a gilts basis

The current investment strategy of the Fund includes a high proportion of equity-type assets (such as equities and property). In the long term, it is expected that such assets will outperform gilts, which are generally considered to be a closer match to the future benefit outflows from the Fund. The scale of this outperformance is a matter of judgement based on available evidence. In deriving the discount rate for the purposes of this valuation, we have assumed that the assets held by the Fund will outperform index-linked gilts by 1.5% per annum. We consider this to be a prudent assumption.

As the Fund continues to mature and move closer to the eventual cessation event, a predominantly equity-based asset strategy becomes less suitable and 'matching' assets (such as bonds) can be used to reduce funding level volatility. Such future changes to the investment strategy would necessitate a revision to the funding strategy to reflect the revised expectation of future asset return. This will be considered further at the 2017 (and future) valuations.

For information only, the following table summarises the effect on the valuation results if no advance credit is taken for additional outperformance above gilt returns (i.e. if a 'gilts basis' was used to value the liabilities).

Valuation Date	31 March 2014
Past Service Position	**(£m)**
Total Liabilities (gilts)	382
Market Value of Assets	337
Surplus / (Deficit)	**(45)**
Funding Level	**88%**

On this basis, the Administering Authority would need assets of some £382m to fully fund the liabilities at the valuation date. Given the actual market value of the Fund's assets, this would result in a funding shortfall of £45m. Note that this gilts basis allows for projected salary growth for active members, but does not include the salary restrictions for the two years that features in the ongoing funding basis.

At present, allowance for administration expenses is made by adding on an amount to the regular contribution rate (currently 0.3% of pay). In time, as the Fund matures and the active membership (and payroll) naturally falls, it may be appropriate to capitalise the expected future administration expenses in the valuation position (i.e. recognise the present value of expected future expenses in the past service liabilities). No allowance for this has been made in the gilts figures shown.

The table below summarises the 'theoretical' contribution rate that would be payable from 1 April 2015 under a gilts based funding strategy,

Contribution Rates	31 March 2014 Gilts (% of pay)
Total future service rate (incl. expenses of 0.3% of pay)	**41.0%**
less employee contribution rate	6.8%
Employer future service rate (incl. expenses)	**34.2%**
plus Past Service Adjustment (spread over FWL*)	11.0%
Employer common contribution rate	**45.2%**

*11.7 years in 2014

It is also worth noting that sufficient assets exist at the valuation date to effectively 'fully fund' the deferred and pensioner liabilities described above, while continuing to fund the active liabilities on the ongoing (valuation) basis. The following table summarises the funding position based on the ongoing liability valuation for active members and the gilts liability valuation for deferred and pensioner members.

Valuation Date	31 March 2014
Past Service Position	**(£m)**
Past Service Liabilities	
Actives (ongoing basis)	139
Deferred Pensioners (gilts basis)	57
Pensioners (gilts basis)	128
Total Liabilities	324
Market Value of Assets	337
Surplus / (Deficit)	**13**
Funding Level	**104%**

Contribution rates payable

At the 2014 valuation, the 'theoretical' common contribution rate payable is 11.1% on the ongoing basis (and 45.2% on the gilts basis). This means that, in order for the Fund to be 100% funded on the ongoing basis at the end of the deficit recovery period (11.7 years at the 2014 valuation), a rate of 11.1% should be paid over this period based on the ongoing valuation assumptions (or a rate of 45.2% should be paid to be 100% funded on the gilts basis at the end of the recovery period).

The ongoing 'theoretical' rate effectively allows for the surplus to be refunded to the employer over the deficit spread period, by way of a regular reduction to the rate payable in respect of future benefit accrual.

The employer has agreed to pay contributions in excess of this amount for the period 1 April 2015 to 31 March 2018. This is in recognition of the likely need for future changes to the investment and funding strategy in the future as the Fund matures. Taking account of the alternative 'gilts' funding positions shown in the tables above, the following rates have been agreed;

Period	Employer Minimum Contribution Rate
1 April 2015 to 31 December 2015	21.7%
1 January 2016 to 31 December 2016	22.9%
1 January 2017 to 31 December 2017	24.1%
1 January 2018 to 31 March 2018	24.1%

The Rates and Adjustments certificate is provided in **Appendix G**.

5 Risk Assessment

The valuation results depend critically on the actuarial assumptions that are made about the future of the Fund. If all of the assumptions made at this valuation were exactly borne out in practice then the results presented in this document would represent the true cost of the Fund as it currently stands at 31 March 2014.

However, no one can predict the future with certainty and it is unlikely that future experience will exactly match all of our assumptions. The future therefore presents a variety of risks to the Fund and these should be considered as part of the valuation process. In particular:

- The main risks to the financial health of the Fund should be **identified**.
- Where possible, the financial significance of these risks should be **quantified**.
- Consideration should be given as to how these risks can then be **controlled** or **mitigated**.
- These risks should then be **monitored** to assess whether any mitigation is actually working.

This section investigates the potential implications of the actuarial assumptions not being borne out in practice.

Set out below is a brief assessment of the main risks and their effect on the valuation results, beginning with a look at the effect of changing the main assumptions and then focusing on the two most significant risks – namely investment risk and longevity risk.

Sensitivity of valuation results to changes in assumptions

The table below gives an indication of the sensitivity of the valuation results to small changes in some of the main assumptions used.

		Impact	
Assumption	**Change**	**Surplus (£m)**	**Future service rate (% of pay)**
Discount rate	Increases by 0.5%	Increases by £31m	Falls by 3.5%
Salary increases	Increases by 0.5%	Falls by £8m	-
Price inflation / pension increases	Increases by 0.5%	Falls by £23m	Rises by 3.5%
Life expectancy	Increases by 1 year	Falls by £9m	Rises by 0.9%

This is not an exhaustive list of the assumptions used in the valuation. For example, changes to the assumed level of withdrawals and ill health retirements will also have an effect on the valuation results. However, the table contains those assumptions that typically are of most interest and have the greatest impact.

Note that the table shows the effect of changes to each assumption in isolation. In reality, it is perfectly possible for the experience of the Fund to deviate from more than one of our assumptions simultaneously and so the precise effect on the funding position is more complex.

Investment risk

Sensitivity of valuation results to market conditions and investment performance

As the assets of the Fund are taken at their market value, volatility in investment performance can have an immediate and tangible effect on the funding level and deficit. This is particularly relevant because the Fund is invested predominantly in riskier assets such as equities and equity-type investments (e.g. property). A rise or fall in the level of equity markets has a direct impact on the financial position of the Fund, which may seem obvious.

Less obvious is the effect of anticipated investment performance on the Fund's liabilities (and future service cost). Here it is the returns available on government bonds that are of crucial importance, as the discount rate that we use to place a value on the Fund's liabilities is based on gilt yields at the valuation date plus a margin of 1.5% p.a.

The table below shows how the funding level (top), deficit (middle, in £m) and total contribution rate (bottom, as % of pay) would vary if investment conditions at 31 March 2014 had been different. The level of the FTSE 100 Price index is taken as a suitable proxy for asset performance whilst the index-linked gilt yield is taken as a yardstick for the valuation of liabilities.

Index Linked Gilt Yield		FTSE 100 Price Index: 6098	FTSE 100 Price Index: 6598	FTSE 100 Price Index: 7098
	-0.20%	114% 39 12.3%	121% 59 6.9%	128% 79 1.6%
	0.0%	110% 28 14.5%	117% 48 11.1%	124% 68 0.9%
	-0.2%	106% 17 21.3%	112% 37 16.1%	119% 57 10.9%

The shaded box contains the results for this valuation. Note that this does not take account of the performance of all asset classes held by the Fund (e.g. overseas equities, property, bonds, cash etc.) but it does serve to highlight, in broad terms, the sensitivity of the valuation results to investment conditions at the valuation date.

Note that the scenarios illustrated above are by no means exhaustive. They should not be taken as the limit of how extreme future investment experience could be. The discount rate assumption adopted at this valuation is expected to be appropriate over the long term. Short term volatility of equity markets does not invalidate this assumption.

Longevity risk

The valuation results are also very sensitive to unexpected changes in future longevity. All else being equal, if longevity improves in the future at a faster pace than allowed for in the valuation assumptions, the funding level will decline and the required employer contribution rates will increase.

Recent medical advances, changes in lifestyle and a greater awareness of health-related matters have resulted in life expectancy amongst pension fund members improving in recent years at a faster pace than was originally foreseen. It is unknown whether and to what extent such improvements will continue in the future.

For the purposes of this valuation, we have selected assumptions that we believe make an appropriate allowance for future improvements in longevity, based on the actual experience of the Fund since the previous valuation.

The table below shows how the valuation results at 31 March 2014 are affected by adopting different longevity assumptions.

	Impact		
Longevity assumption	**Funding level**	**Surplus (£m)**	**Future service rate**
2014 valuation (valuation improvements)	117%	48	24.1%
2014 valuation (further improvements)	111%	34	26.3%
1 year extra	108%	25	27.3%

Full details of the longevity improvements adopted at this valuation are set out in **Appendix E.**

The "further improvements" are a more cautious set of improvements that, in the short term, assume the 'cohort effect' of strong improvements in life expectancy currently being observed amongst a generation born around the early and mid 1930s will continue to strengthen for a few more years before tailing off. This is known as "non-peaked".

The "1 year extra" figures are relative to a further year of life expectancies beyond those assumed in "further improvements".

Again, the range of assumptions shown here is by no means exhaustive and should not be considered as the limits of how extreme future longevity experience could be.

Other risks to consider

The table below summarises the effect that changes in some of the other valuation assumptions and risk factors would have on the funding position. Note that these are probably unlikely to have a large financial impact on the Fund and therefore the analysis is qualitative rather than quantitative.

	Impact	
Factor	**Funding level**	**Future service rate**
Greater level of ill health retirement	Decreases	Increases
Reduced level of withdrawals	Decreases	No Impact
Rise in average age of employee members	Marginal effect	No Impact

One further risk to consider is the possibility of future changes to Regulations that could materially affect the benefits that members become entitled to. It is difficult to predict the nature of any such changes but it is not inconceivable that they could affect not just the cost of benefits earned after the change but could also have a retrospective effect on the past service position (as the move from RPI to CPI-based pension increases already has).

Managing the risks

Whilst there are certain things, such as the performance of investment markets or the life expectancy of members, that are not directly within the control of the pension fund, that does not mean that nothing can be done to understand them further and to mitigate their effect. Although these risks are difficult (or impossible) to eliminate, steps can be taken to manage them.

Ways in which some of these risks can be managed could be:

- Set aside a specific reserve to act as a cushion against adverse future experience (possibly by selecting a set of actuarial assumptions that are deliberately more prudent).
- Take steps internally to monitor the decisions taken by members (e.g. relating to early / ill health retirements or salary increases) in a bid to curtail any adverse impact on the Fund.
- Carrying out regular reviews of the future security of the employer (i.e. assessing the strength of the employer covenants).

- Carry out a bespoke analysis of the longevity of Fund members and monitor how this changes over time, so that the longevity assumptions at the valuation provide as close a fit as possible to the particular experience of the Fund. This is effectively what Club Vita does.
- Undertake an asset-liability modelling exercise that investigates the effect on the Fund of possible investment scenarios that may arise in the future.
- Purchasing ill health liability insurance to mitigate the risk of an ill health retirement impacting on solvency and funding level of the employer where appropriate.
- Monitoring the Fund’s characteristics in order to build up a picture of the risks posed. Examples include membership movements and cash flow positions.

We would be delighted to set out in more detail the risks that affect the Fund and discuss with you possible strategies for managing them.

6 Related issues

The Fund's valuation operates within a broader framework, and this document should therefore be considered alongside the following:

- the Funding Strategy Statement, which in particular highlights how the employer's contributions are calculated;
- the Statement of Investment Principles (e.g. the discount rate must be consistent with the Fund's asset strategy);
- the general governance of the Fund, such as meetings of the Pensions Committee, decisions delegated to officers, the Fund's business plan, etc; and
- the Fund's risk register.

Further recommendations

Valuation frequency

Under the provisions of the LGPS regulations, the next formal valuation of the Fund is due to be carried out as at 31 March 2017. In light of the uncertainty of future financial conditions, we recommend that the financial position of the Fund continues to be monitored by means of interim funding reviews in the period up to this next formal valuation. This will give early warning of changes to funding positions and possible contribution rate changes.

Investment strategy and risk management

We recommend that the Administering Authority continues to regularly review its investment strategy and ongoing risk management programme.

Additional payments

The employer may make voluntary additional contributions to recover any shortfall over a shorter period, subject to agreement with the Administering Authority and after receiving the relevant actuarial advice.

Further sums should be paid to the Fund to meet the capital costs of any unreduced early retirements, reduced early retirements before age 60 and/or augmentation (i.e. additional membership or additional pension) using the methods and factors issued by me from time to time or as otherwise agreed.

In addition, payments may be required to be made to the Fund to meet the capital costs of any ill-health retirements that exceed those allowed for within our assumptions.

7 Reliances and limitations

Scope

This document has been requested by and is provided to City of Edinburgh Council in its capacity as Administering Authority to the Lothian Buses Pension Fund. It has been prepared by Hymans Robertson LLP to fulfil the statutory obligations in accordance with regulation 36 of the Administration Regulations. None of the figures should be used for accounting purposes (e.g. under FRS17, FRS102 or IAS19) or for any other purpose (e.g. a termination valuation under Regulation 38(1)).

This document should not be released or otherwise disclosed to any third party without our prior written consent, in which case it should be released in its entirety. Hymans Robertson LLP accepts no liability to any other party unless we have expressly accepted such liability.

The results of the valuation are dependent on the quality of the data provided to us by the Administering Authority for the specific purpose of this valuation. We have previously issued a separate report confirming that the data provided is fit for the purposes of this valuation and have commented on the quality of the data provided. The data used in our calculations is as per our report of 23 July 2014.

Actuarial Standards

The following Technical Actuarial Standards[1] are applicable in relation to this report and have been complied with where material:

- TAS R – Reporting;
- TAS D – Data;
- TAS M – Modelling; and
- Pensions TAS.

Richard Warden

Fellow of the Institute and Faculty of Actuaries

25 March 2015

Steven Scott

Fellow of the Institute and Faculty of Actuaries

25 March 2015

[1] Technical Actuarial Standards (TASs) are issued by the Financial Reporting Council (FRC) and set standards for certain items of actuarial work, including the information and advice contained in this report.

Appendix A: About the pension fund

For more details please refer to the Fund's Funding Strategy Statement.

The purpose of the Fund is to provide retirement and death benefits to its members. It is part of the Local Government Pension Scheme (LGPS) and is a multi-employer defined benefit pension scheme.

Defined benefit pension scheme

In a defined benefit scheme such as this, the nature of retirement benefits that members are entitled to is known in advance. For example, it is known that members will receive a pension on retirement that is linked to their salary and pensionable service according to a pre-determined formula.

However, the precise cost to the Fund of providing these benefits is **not** known in advance. The estimated cost of these benefits represents a liability to the Fund and assets must be set aside to meet this. The relationship between the value of the liabilities and the value of the assets must be regularly assessed and monitored to ensure that the Fund can fulfil its core objective of providing its members with the retirement benefits that they have been promised.

Liabilities

The Fund's liabilities are the benefits that will be paid in the future to its members (and their dependants).

The precise timing and amount of these benefit payments will depend on future experience, such as when members will retire, how long they will live for in retirement and what economic conditions will be like both before and after retirement. Because these factors are not known in advance, assumptions must be made about future experience. The valuation of these liabilities must be regularly updated to reflect the degree to which actual experience has been in line with these assumptions.

Assets

The Fund's assets arise from the contributions paid by its members and the investment returns that they generate. The way these assets are invested is of fundamental importance to the Fund. The selection, monitoring and evolution of the Fund's investment strategy are key responsibilities of the Administering Authority.

As the estimated cost of the Fund's, liabilities is regularly re-assessed this effectively means that the amount of assets required to meet them is a moving target. As a result, at any given time the Fund may be technically in surplus or in deficit.

A contribution strategy must be put in place which ensures that the employer pays money into the Fund at a rate which will target the cost of the liabilities in respect of benefits already earned by the members and those that will be earned in the future.

The long-term nature of the Fund

The pension fund is a long-term commitment. Even though the Fund is no longer admitting new entrants, it will still be paying out benefits to existing members and dependants for many decades to come. It is therefore essential that the various funding and investment decisions that are taken now recognise this and come together to form a coherent long-term strategy.

In order to assist with these decisions, the Regulations require the Administering Authority to obtain a formal valuation of the Fund every three years. Along with the Funding Strategy Statement, this valuation will help determine the funding objectives that will apply from 1 April 2015.

Appendix B: Summary of the Fund's benefits

Provided below is a brief summary of the non-discretionary benefits that we have taken into account for active members at this valuation. This should not be taken as a comprehensive statement of the exact benefits to be paid. For further details please see the Regulations.

<table>
<tr><th>Provision</th><th>Benefit Structure To 31 March 2009</th><th>Benefit Structure From 1 April 2009 to 31 March 2015</th><th>Benefit Structure From 1 April 2015</th></tr>
<tr><td>Normal retirement age (NRA)</td><td>Age 65.</td><td>Age 65.</td><td>Equal to the individual member's State Pension Age (minimum 65).</td></tr>
<tr><td>Earliest retirement age (ERA) on which immediate unreduced benefits can be paid on voluntary retirement</td><td colspan="2">As per NRA (age 65).

(a) having previously had an NRA of age 60 (or after age 60 on attaining 25 years of scheme membership), due to being a member of the scheme immediately prior to 1 April 1998; or

(b) having the potential to satisfy the rule of 85 prior to age 65 (if the sum of age (whole years) and membership (whole years) is 85 or more). The minimum age from which the Rule of 85 applies is age 60.

The benefits relating to various segments of scheme membership are protected as follows, which means their benefits are calculated based on the above definitions of earliest retirement age in relation to these protected periods of scheme membership.

(a) A member born on 31 March 1960 or earlier – membership up to 31 March 2020 protected;

(b) All other members in the scheme immediately prior to 1 December 2006 – membership up to 31 March 2008 protected.</td><td>As per NRA (minimum age 65).

Protections apply to active members in the scheme for pensions earned up to 1 April 2015, due to:

a) Accrued benefits relating to pre April 2015 service at age 65.

b) Continued 'Rule of 85' protection for qualifying members.

c) Members within 10 years of existing NRA at 1 April 2012 – no change to when they can retire and no decrease in pension they receive at existing NRA.</td></tr>
<tr><td>Member contributions</td><td>Officers - 6% of pensionable pay

Manual Workers – 5% of pensionable pay if has protected lower rates rights or 6% for post 31 March 1998 entrants or former entrants with no protected rights.</td><td>Tiered rates (5.5%-12.0%) depending upon level of full-time equivalent pay. A mechanism for sharing any increased scheme costs between employers and scheme members is to be included in the LGPS regulations.</td><td>Banded rates varying between 5.5% and 12.0% on five different tranches of actual pay. A mechanism for sharing any increased scheme costs between employers and scheme members will be included in the LGPS regulations in due course.

Contribution rates are based on actual pay rather than full-time equivalent pay.</td></tr>
<tr><td>Pensionable pay</td><td colspan="2">All salary, wages, fees and other payments in respect of the employment, excluding non-contractual overtime and some other specified amounts.

Some scheme members may be covered by special agreements.</td><td>Pay including contractual overtime and additional hours but excluding non-contractual elements.</td></tr>
</table>

Provision	Benefit Structure To 31 March 2009	Benefit Structure From 1 April 2009 to 31 March 2015	Benefit Structure From 1 April 2015
Final pay	The pensionable pay in the year up to the date of leaving the scheme. Alternative methods used in some cases, e.g. where there has been a break in service or a drop in pensionable pay. Will be required for the statutory underpin and in respect of the final salary link that may apply in respect of certain members of the CARE scheme who have pre-April 2015 accrual.		N/A
Period of scheme membership	Total years and days of service during which a member contributes to the Fund. Additional periods may be granted (e.g. transfers from other pension arrangements, augmentation, or from April 2009 the award of additional pension). For part time members, the membership is proportionate with regard to their contractual hours and a full time equivalent.		N/A
Normal retirement benefits at NRA	Annual Retirement Pension - 1/80th of final pay for each year of scheme membership. Lump Sum Retirement Grant - 3/80th of final pay for each year of scheme membership. Additional lump sum can be provided by commutation of pension (within overriding limits) on a basis of £12 additional lump sum for each £1 of pension surrendered.	Scheme membership to 31 March 2009: Annual Retirement Pension - 1/80th of final pay for each year of scheme membership. Lump Sum Retirement Grant - 3/80th of final pay for each year of scheme membership. Scheme membership from 1 April 2009: Annual Retirement Pension - 1/60th of final pay for each year of scheme membership. Lump Sum Retirement Grant – none except by commutation of pension.	Scheme membership from 1 April 2015: Annual Retirement Pension - 1/49th of pensionable pay (or assumed pensionable pay) for each year of scheme membership revalued to NRA in line with CPI. Lump Sum Retirement Grant - none except by commutation of pension.

Provision	Benefit Structure To 31 March 2009	Benefit Structure From 1 April 2009 to 31 March 2015	Benefit Structure From 1 April 2015
Option to increase retirement lump sum benefit	At the time that benefits come into payment, members have the option to exchange ('commute') some of the retirement pension into additional lump sum. The terms for the conversion of pension in to lump sum is £12 of lump sum for every £1 of annual pension surrendered.	Scheme membership to 31 March 2009: At the time that benefits come into payment, members have the option to exchange ('commute') some of the retirement pension into additional lump sum. The terms for the conversion of pension in to lump sum is £12 of lump sum for every £1 of annual pension surrendered. Scheme membership from 1 April 2009: No automatic lump sum. Any lump sum is to be provided by commutation of pension. The terms for the conversion of pension in to lump sum is £12 of lump sum for every £1 of annual pension surrendered.	No automatic lump sum. Any lump sum is to be provided by commutation of pension (within overriding HMRC limits). The rule for the conversion of pension to lump sum is £12 of lump sum for every £1 of annual pension surrendered.
Voluntary early retirement benefits (non ill-health)	On retirement after age 60, subject to reduction on account of early payment in some circumstances (in accordance with ERA protections).		On retirement from age 60, subject to reduction on account of early payment in some circumstances (in accordance with ERA protections).
Employer's consent early retirement benefits (non ill-health)	On retirement after age 50 with employer's consent a pension and lump sum based on actual scheme membership completed may be paid.	On retirement after age 55 (or age 50 for active members with certain protections on grounds of redundancy of efficiency) with employer's consent a pension and lump sum based on actual scheme membership completed may be paid.	Benefits paid on redundancy or efficiency grounds (for members aged 55 or over) are paid with no actuarial reduction. Otherwise, benefits are subject to reduction on account of early payment as mentioned in the previous row, unless this is waived by the employer.
	Benefits paid on redundancy or efficiency grounds are paid with no actuarial reduction. Otherwise, benefits are subject to reduction on account of early payment, unless this is waived by the employer.		

Provision	Benefit Structure To 31 March 2009	Benefit Structure From 1 April 2009 to 31 March 2015	Benefit Structure From 1 April 2015
Ill-health benefits	In the event of premature retirement due to permanent ill-health or incapacity, an immediate pension and lump sum are paid based on actual scheme membership plus an enhancement period of scheme membership. The enhancement period is dependent on scheme membership at date of leaving and is seldom more than 6 years 243 days. No reduction is applied due to early payment.	In the event of premature retirement due to permanent ill-health or incapacity and a reduced likelihood of obtaining gainful employment (local government or otherwise) before age 65, an immediate pension and lump sum are due based on actual scheme membership plus an enhanced period of scheme membership. The enhancement period is: 25% of the period to age 65, if there is reasonable prospect of undertaking gainful employment before age 65; or 100% of the period to age 65, if there is no likelihood of undertaking gainful employment prior to age 65.	As a result of permanent ill-health or incapacity and a reduced likelihood of obtaining gainful employment (local government or otherwise) before age 65. Immediate payment of unreduced benefits. Enhanced to scheme membership, dependent on severity of ill health. 100% of prospective pension to age 65 where no likelihood of undertaking any gainful employment prior to age 65. 25% of prospective pension to age 65 where reasonable prospect of undertaking gainful employment before reaching age 65.
Flexible retirement	After 5th April 2006, a member who has attained the age of 50, with his employer's consent, reduces the hours he works, or the grade in which he is employed, may elect in writing to the appropriate Administering Authority that such benefits may, with his employer's consent, be paid to him notwithstanding that he has not retired from that employment. Benefits are paid immediately and subject to actuarial reduction unless the reduction is waived by the employer.	A member who has attained the age of 55 and who, with his employer's consent, reduces the hours he works, or the grade in which he is employed, may make a request in writing to the appropriate Administering Authority to receive **all or part** of his benefits, Benefits are paid immediately and subject to actuarial reduction unless the reduction is waived by the employer.	

<table>
<tr><th>Provision</th><th>Benefit Structure To 31 March 2009</th><th>Benefit Structure From 1 April 2009 to 31 March 2015</th><th>Benefit Structure From 1 April 2015</th></tr>
<tr><td>Pension increases</td><td colspan="3">All pensions in payment, deferred pensions and dependant’s pensions other than benefits arising from the payment of additional voluntary contributions are increased annually. Pensions are increased partially under the Pensions (Increases) Act 1971 and partially in accordance with statutory requirements (depending on the proportions relating to pre 88 GMP, post 88 GMP and excess over GMP).</td></tr>
<tr><td>Death after retirement</td><td>A spouse’s or civil partner’s pension of one half of the member's pension (generally post 1 April 1972 service for widowers’ pension and post 6 April 1988 for civil partners) is payable; plus

If the member dies within five years of retiring and before age 75 the balance of five years' pension payments will be paid in the form of a lump sum; plus

Children’s pensions may also be payable.</td><td colspan="2">A spouse’s, civil partner’s or nominated cohabiting partner’s pension payable at a rate of 1/160th of the member's total membership multiplied by final pay is payable; plus

If the member dies within ten years of retiring and before age 75 the balance of ten years' pension payments will be paid in the form of a lump sum; plus

Children’s pensions may also be payable.</td></tr>
<tr><td>Death in service</td><td>A lump sum of two times final pay; plus

A spouse's or civil partner’s pension of one half of the ill-health retirement pension that would have been paid to the scheme member if he had retired on the day of death (generally post 1 April 1972 service for widowers’ pension and post 6 April 1988 for civil partners); plus</td><td colspan="2">A lump sum of three times final pay; plus

A spouse’s, civil partner’s or cohabiting partner’s pension payable at a rate of 1/160th of the member's total (augmented to age 65) membership, multiplied by final pay; plus

Children’s pensions may also be payable.</td></tr>
<tr><td>Leaving service options</td><td colspan="3">If the member has completed two years or more scheme membership, deferred benefits with calculation and payment conditions similar to general retirement provisions ; or

A transfer payment to either a new employer's scheme or a suitable insurance policy, equivalent in value to the deferred pension; or

If the member has completed less than two years scheme membership, a return of the member's contributions with interest, less a State Scheme premium deduction and less tax at the rate of 20%.</td></tr>
</table>

Provision	Benefit Structure To 31 March 2009	Benefit Structure From 1 April 2009 to 31 March 2015	Benefit Structure From 1 April 2015
State pension scheme	The Fund is contracted-out of the State Second Pension and the benefits payable to each member are guaranteed to be not less than those required to enable the Fund to be contracted-out.		
Assumed pensionable pay	N/A		This applies in cases of reduced contractual pay (CP) resulting from sickness, child related and reserve forces absence. In these circumstances benefits are based on an assumption of what pay would have been had the reduction not occurred.
50/50 option	N/A		Optional arrangement allowing 50% of main benefits to be accrued on a 50% contribution rate.

Note: Certain categories of members of the Fund are entitled to benefits that differ from those summarised above.

Discretionary benefits

The LGPS Regulations give employers a number of discretionary powers. The effect on benefits or contributions as a result of the use of these provisions as currently contained within the Local Government Pension Scheme Regulations has been allowed for in this valuation to the extent that this is reflected in the membership data provided. No allowance has been made for the future use of discretionary powers that will be contained within the scheme from 1 April 2015.

Appendix C: About the valuation

For more details please refer to the Fund's Funding Strategy Statement.

It is important to realise that the actual cost of the pension fund (i.e. how much money it will ultimately have to pay out to its members in the form of benefits) is currently unknown. This cost will not be known with certainty until the last benefit is paid to the last pensioner. The core purpose of this valuation is to estimate what this cost will be, so that the Fund can then develop a strategy to meet it.

Such a valuation can only ever be an estimate – as the future cannot be predicted with certainty. However, as actuaries, we can use our understanding of the Fund and the factors that affect it to determine an anticipated cost which is as sensible and realistic as possible. A decision can then be made as to how much is set aside now to meet this anticipated cost. The pace of this funding can vary according to the level of prudence that is built into the valuation method and assumptions.

For this valuation, as for the previous valuation, our calculations identify separately the expected cost of members' benefits in respect of scheme membership completed before the valuation date ("past service") and that which is expected to be completed after the valuation date ("future service").

Past service

The principal measurement here is the comparison at the valuation date of the assets (taken at market value) and the value placed on the Fund's liabilities (calculated using a market-based approach). By maintaining a link to the market in both cases, this helps ensure that the assets and liabilities are valued in a consistent manner. Our calculation of the Fund's liabilities also explicitly allows for expected future pay and pension increases.

The funding level is the ratio of assets to liabilities at the valuation date. A funding level of less/more than 100% implies that there is a deficit/surplus in the Fund at the valuation date.

The funding target is to eliminate any deficit (or surplus) over a specified period and therefore get back to a funding level of 100%. To do so, additional contributions may be required to be paid into the Fund, either via lump sums or by increasing the contribution rate. These additional contributions are known as the past service adjustment.

Future service

In addition to benefits that have already been earned by members prior to the valuation date, employee members will continue to earn new benefits in the future. The cost of these new benefits must be met by both the employer and the employees. The employer's share of this cost is known as the future service contribution rate.

For valuation results for the Fund, I have calculated the future service rate as the cost of benefits members will earn over the entirety of their remaining working lifetime, taking account of expected future salary increases until retirement and revaluation of accrued CARE benefits in line with CPI. This funding method is known as the Attained Age Method and is appropriate for funds which are no longer admitting new entrants.

Combining this future service rate with any past service adjustment required to repay a deficit (or reduce a surplus) gives us the total contribution rate. The total rate for the Fund as a whole is known as the common contribution rate. This is really just a notional figure. In practice, the employer will have a contribution rate which reflects its particular circumstances.

The sensitivity of valuation results

The aim of this valuation is not only to determine these important figures but also to demonstrate their sensitivity to a number of key influences. This will promote an understanding of how the expected cost of the Fund may change in response to uncertain future events (e.g. changes in life expectancy or investment returns). Please refer to **Section 5** for details of the sensitivity analysis.

Appendix D: Data

This section contains a summary of the membership, investment and accounting data provided by the Administering Authority for the purposes of this valuation (the corresponding membership and investment data from the previous valuation is also shown for reference). For further details of the data, and the checks and amendments performed in the course of this valuation, please refer to our separate report dated 23 July 2014.

Membership data

Employee members

	31 March 2011		31 March 2014	
	Number	Pensionable Pay* (£000)	Number	Pensionable Pay* (£000)
Total employee membership	1,499	37,617	1,193	32,655

*actual pay (not full-time equivalent)

Deferred pensioners

	31 March 2011		31 March 2014	
	Number	Deferred pension (£000)	Number	Deferred pension (£000)
Total deferred membership	1,296	2,199	1,252	2,412

The figures above also include any “frozen refunds” and “undecided leavers” at the valuation date.

Current pensioners, spouses and children

	31 March 2011		31 March 2014	
	Number	Pension (£000)	Number	Pension (£000)
Members	1,089	5,797	1,183	6,705
Dependants	269	683	309	873
Children	22	18	19	26
Total pensioner members	**1,380**	**6,497**	**1,511**	**7,605**

Note that the membership numbers in the table above refer to the number of records provided to us and so will include an element of double-counting in respect of any members who are in receipt (or potentially in receipt of) more than one benefit.

Membership Profile	Average Age (years)		FWL (years)	
	2011	2014	2011	2014
Employees	50.9	51.5	9.0	11.7
Deferred Pensioners	50.2	50.9	-	-
Pensioners	66.3	67.4	-	-

The average ages are weighted by liability.

The expected future working lifetime (FWL) indicates the anticipated length of time that the average employee member will remain as a contributor to the Fund. Note that it allows for the possibility of members leaving, retiring early or dying before retirement.

Assets at 31 March 2014

A summary of the Fund's assets (excluding members' money-purchase Additional Voluntary Contributions) as at 31 March 2014 and 31 March 2011 is as follows:

Asset class	Market Value at 31 March 2011 (£000)	Allocation %	Market Value at 31 March 2014 (£000)	Allocation %
Equities	190,970	74%	221,274	66%
Bonds	38,212	15%	53,888	16%
Property (including alternatives)	22,204	9%	40,601	12%
cash and net current assets	5,626	2%	21,362	6%
Total	**257,012**	100%	**337,125**	100%

Accounting data – revenue account for the three years to 31 March 2014

Consolidated accounts (£000)	Year to			
	31 March 2012	31 March 2013	31 March 2014	Total
Income				
Employer - normal contributions	7,830	7,147	7,126	22,104
Employer - additional contributions	0	0	0	0
Employer - early retirement and augmentation strain contributions	298	0	0	298
Employee - normal contributions	2,332	2,234	2,196	6,763
Employee - additional contributions	26	27	26	79
Transfers In Received (including group and individual)	0	0	0	0
Other Income	0	0	0	0
Total Income	**10,486**	**9,408**	**9,349**	**29,243**
Expenditure				
Gross Retirement Pensions	6,579	7,015	7,358	20,953
Lump Sum Retirement Benefits	1,712	2,136	1,819	5,667
Death in Service Lump sum	144	237	213	594
Death in Deferment Lump Sum	0	0	0	0
Death in Retirement Lump Sum	0	0	0	0
Gross Refund of Contributions	0	2	0	2
Transfers out (including bulk and individual)	67	112	218	397
Fees and Expenses	145	110	110	365
Total Expenditure	**8,647**	**9,613**	**9,719**	**27,978**
Net Cashflow	**1,839**	**-205**	**-370**	**1,265**
Assets at start of year	**257,012**	**271,449**	**311,910**	**257,012**
Net cashflow	1,839	-205	-370	1,265
Change in value	12,597	40,666	25,585	78,848
Assets at end of year	**271,449**	**311,910**	**337,125**	**337,125**
Approximate rate of return on assets	**4.9%**	**15.0%**	**8.2%**	**30.5%**

Note that the figures above are based on the Fund accounts provided to us for the purposes of this valuation, which were fully audited at the time of our valuation calculations.

Appendix E: Assumptions

Financial assumptions

Financial assumptions	31 March 2011 (% p.a.)	31 March 2014 Funding Basis (%p.a)	31 March 2014 Gilts Basis (%p.a)
Discount rate	5.8%	5.0%	3.5%
Retail Price inflation	3.6%	3.5%	3.5%
Pay increases*	5.1**	5.0%**	5.0%***
Pension increases:			
pension in excess of GMP	2.8%	2.7%	2.7%
post-88 GMP	2.8%	2.7%	2.7%
pre-88 GMP	0.0%	0.0%	0.0%
Revaluation of deferred pension	2.8%	2.7%	2.7%
Revaluation of accrued CARE pension	-	2.7%	2.7%
Expenses	0.3%	0.3%	0.3%

**Excluding promotional increases*

*** 2.4% p.a. for 2011/12, 3.1% p.a. 2012/13, reverting to 5.1% p.a. thereafter*

**** 2% p.a. for 2014/15 and 2015/16, reverting to 5.0% p.a. thereafter.*

Mortality assumptions

Longevity assumptions	31 March 2014
Longevity - baseline	Vita curves
Longevity - improvements	
CMI Model version used	CMI_2012
Starting rates	CMI calibration based on data from Club Vita using the latest available data as at December 2012.
Long term rate of improvement	Period effects: 1.25% p.a. for men and women. Cohort effects: 0% p.a. for men and for women.
Period of convergence	Period effects: CMI model core values i.e. 10 years for ages 50 and below and 5 years for those aged 95 and above, with linear transition to 20 years for those aged between 60 and 80. Cohort effects: CMI core i.e. 40 years for those born in 1947 or later declining linearly to 5 years for those born in 1912 or earlier.
Proportion of convergence remaining at mid point	50%

The longevity improvement assumption is based on the latest industry standard and combined information from our longevity experts in Club Vita. The start point for the improvements has been based on observed death rates in the Club Vita data bank over the period.

In the short term we have assumed that the ‘cohort effect’ of strong improvements in life expectancy currently being observed amongst a generation born around the early and mid-1930s will start to tail off, resulting in life expectancy increasing less rapidly than has been seen over the last decade or two. This is known as ‘peaked’.

In the long term (post age 70) we have assumed that increases in life expectancy will stabilise at a rate of increase of 1 year per decade for men and women. This is equivalent to assuming that longer term mortality rates will fall at a rate of 1.25% p.a. for men and women.

However, we have assumed that post age 90 improvements in mortality are hard to achieve, declining between ages 90 and 120 so that no improvements are seen at ages 120 and over.

As a member of Club Vita, the longevity assumptions that have been adopted at this valuation are a bespoke set of VitaCurves that are specifically tailored to fit the membership profile of the Fund. These curves are based on the data you have provided us with for the purposes of this valuation. Full details of these are available on request.

Other demographic valuation assumptions

Retirements in ill health	Allowance has been made for ill-health retirements before Normal Pension Age (see table below).
Withdrawals	Allowance has been made for withdrawals from service (see table below).
Family details	A varying proportion of members are assumed to be married (or have an adult dependant) at retirement or on earlier death. For example, at age 60 this is assumed to be 90% for males and 85% for females. Husbands are assumed to be 3 years older than wives.
Commutation	50% of future retirements elect to exchange pension for additional tax free cash up to HMRC limits for service to 1 April 2009 (equivalent 75% for service from 1 April 2009).
50:50 option	No members will choose the 50:50 option.

The tables below show details of the assumptions actually used for specimen ages. The promotional pay scale is an annual average for all employees at each age. It is in addition to the allowance for general pay inflation described above. For membership movements, the percentages represent the probability that an individual at each age leaves service within the following twelve months.

Death in Service tables:

Age	Incidence per 1000 active members per annum			
	Male officers and Post 98	Male Manuals	Female officers and Post 98	Female Manuals
	Death	Death	Death	Death
20	0.26	0.32	0.14	0.17
25	0.26	0.32	0.14	0.17
30	0.31	0.38	0.20	0.26
35	0.36	0.45	0.34	0.43
40	0.61	0.77	0.54	0.68
45	1.02	1.28	0.88	1.11
50	1.63	2.04	1.29	1.62
55	2.55	3.19	1.70	2.13
60	4.59	5.74	2.18	2.72
65	7.65	9.56	2.79	3.49

Ill Health Early Retirements tables

Tier 1

Age	Incidence for 1000 active members per annum							
	Male Officers & Post 98 Males		Male Manuals		Female Officers & Post 98 Females		Female Manuals	
	Ill Health		Ill Health		Ill Health		Ill Health	
	FT	PT	FT	PT	FT	PT	FT	PT
20	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
25	0.00	0.00	0.76	0.60	0.19	0.15	0.99	0.79
30	0.00	0.00	1.39	1.11	0.25	0.20	1.44	1.15
35	0.19	0.15	2.08	1.66	0.50	0.40	1.98	1.58
40	0.32	0.25	3.02	2.42	0.76	0.60	2.88	2.30
45	0.69	0.55	4.16	3.33	1.01	0.81	3.78	3.02
50	1.76	1.41	6.17	4.94	1.89	1.51	5.04	4.03
55	6.91	5.53	14.61	11.69	7.01	5.61	13.54	10.83
60	12.16	9.73	23.42	18.74	14.86	11.89	23.81	19.05
65	23.10	18.48	45.15	36.12	26.71	21.37	45.15	36.12

Tier 2

Age	Incidence for 1000 active members per annum							
	Male Officers & Post 98 Males		Male Manuals		Female Officers & Post 98 Females		Female Manuals	
	Ill Health		Ill Health		Ill Health		Ill Health	
	FT	PT	FT	PT	FT	PT	FT	PT
20	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
25	0.00	0.00	0.80	0.64	0.20	0.16	1.05	0.84
30	0.00	0.00	1.47	1.18	0.27	0.21	1.53	1.22
35	0.20	0.16	2.21	1.77	0.54	0.43	2.10	1.68
40	0.33	0.27	3.21	2.57	0.80	0.64	3.06	2.45
45	0.74	0.59	4.42	3.53	1.07	0.86	4.02	3.21
50	2.37	1.90	8.31	6.65	2.54	2.03	6.78	5.43
55	5.34	4.27	11.29	9.03	5.42	4.33	10.47	8.37
60	4.58	3.66	8.82	7.05	5.60	4.48	8.96	7.17
65	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

Withdrawal

Less than 1 year

Age	Incidence for 1000 active members per annum											
	Male Officers Withdrawals		Male Manuals Withdrawals		Female Officers Withdrawals		Female Manuals Withdrawals		Post 98 Males Withdrawals		Post 98 Females Withdrawals	
	FT	PT	FT	PT	FT	PT	FT	PT	FT	PT	FT	PT
20	304.04	506.74	304.04	506.74	288.39	400.55	288.39	400.55	557.41	750.00	384.52	640.87
25	200.83	334.72	200.83	334.72	194.00	269.45	194.00	269.45	368.19	736.38	258.67	431.11
30	142.46	237.40	142.46	237.43	162.58	225.80	162.58	225.80	261.17	522.34	216.77	361.28
35	111.28	185.44	111.28	185.47	140.22	194.75	140.22	194.75	204.02	408.04	186.96	311.60
40	89.55	149.18	89.55	149.25	116.62	161.98	116.62	161.98	164.17	328.34	155.50	259.16
45	73.28	121.99	73.28	122.13	96.01	133.34	96.01	133.34	134.34	268.69	128.01	213.35
50	56.76	94.52	56.76	94.60	73.15	101.60	73.15	101.60	104.06	208.12	97.54	162.56
55	49.18	81.86	49.18	81.97	56.39	78.32	56.39	78.32	90.17	180.34	75.18	125.30
60	29.81	49.62	29.81	49.68	26.21	36.40	26.21	36.40	54.65	109.30	34.94	58.24

Between 1-2 years

Age	Incidence for 1000 active members per annum											
	Male Officers Withdrawals		Male Manuals Withdrawals		Female Officers Withdrawals		Female Manuals Withdrawals		Post 98 Males Withdrawals		Post 98 Females Withdrawals	
	FT	PT	FT	PT	FT	PT	FT	PT	FT	PT	FT	PT
20	152.02	253.37	152.02	253.37	144.20	200.27	144.20	200.27	278.70	557.41	192.26	320.44
25	100.42	167.36	100.42	167.36	97.00	134.72	97.00	134.72	184.10	368.19	129.33	215.56
30	71.23	118.70	71.23	118.71	81.29	112.90	81.29	112.90	130.59	261.17	108.39	180.64
35	55.64	92.72	55.64	92.74	70.11	97.38	70.11	97.38	102.01	204.02	93.48	155.80
40	44.77	74.59	44.77	74.62	58.31	80.99	58.31	80.99	82.09	164.17	77.75	129.58
45	36.64	60.99	36.64	61.07	48.00	66.67	48.00	66.67	67.17	134.34	64.00	106.67
50	28.38	47.26	28.38	47.30	36.58	50.80	36.58	50.80	52.03	104.06	48.77	81.28
55	24.59	40.93	24.59	40.99	28.19	39.16	28.19	39.16	45.08	90.17	37.59	62.65
60	14.90	24.81	14.90	24.84	13.10	18.20	13.10	18.20	27.32	54.65	17.47	29.12

Greater than 2 years

Age	Incidence for 1000 active members per annum											
	Male Officers Withdrawals		Male Manuals Withdrawals		Female Officers Withdrawals		Female Manuals Withdrawals		Post 98 Males Withdrawals		Post 98 Females Withdrawals	
	FT	PT	FT	PT	FT	PT	FT	PT	FT	PT	FT	PT
20	89.89	149.82	89.89	149.82	85.26	118.42	85.26	118.42	164.80	329.60	113.69	189.48
25	59.38	98.96	59.38	98.96	57.36	79.66	57.36	79.66	108.86	217.71	76.48	127.46
30	42.12	70.19	42.12	70.20	48.07	66.76	48.07	66.76	77.22	154.43	64.09	106.81
35	32.90	54.82	32.90	54.84	41.46	57.58	41.46	57.58	60.32	120.64	55.28	92.13
40	26.48	44.10	26.48	44.13	34.48	47.89	34.48	47.89	48.54	97.08	45.97	76.62
45	21.66	36.05	21.66	36.11	28.38	39.42	28.38	39.42	39.72	79.44	37.85	63.08
50	16.78	27.94	16.78	27.97	21.63	30.04	21.63	30.04	30.77	61.53	28.84	48.06
55	14.54	24.19	14.54	24.24	16.67	23.15	16.67	23.15	26.66	53.32	22.23	37.05
60	8.81	14.66	8.81	14.69	7.75	10.76	7.75	10.76	16.16	32.31	10.33	17.22

Promotional salary scale

Age	Promotional Salary Scales							
	Male Officers & Post 98 Males		Male Manuals		Female Officers & Post 98 Females		Female Manuals	
	FT	PT	FT	PT	FT	PT	FT	PT
20	100	100	100	100	100	100	100	100
25	135	116	100	100	118	105	100	100
30	169	134	100	100	137	111	100	100
35	192	146	100	100	151	116	100	100
40	208	153	100	100	163	121	100	100
45	222	154	100	100	166	122	100	100
50	236	154	100	100	166	122	100	100
55	239	154	100	100	166	122	100	100
60	239	154	100	100	166	122	100	100
65	239	154	100	100	166	122	100	100

Appendix F: Events since valuation date

Post-valuation events

These valuation results are in effect a snapshot of the Fund as at 31 March 2014. Since that date, various events have had an effect on the financial position of the Fund. Whilst we have not explicitly altered the valuation results to allow for these events, a short discussion of these "post-valuation events" can still be beneficial in understanding the variability of pension funding.

Investment conditions since 31 March 2014

In the period from the valuation date to 31 January 2015, investment markets moved in the following manner:

- asset returns have been between 12-14%
- long term Government bond yields have fallen by more than long term expected price inflation, which is likely to have increased the past service liabilities by around 17-20%

It should be noted that the above is for information only: the figures in this report have all been prepared using membership data, audited asset information and market-based assumptions all as at 31 March 2014. In particular, we do not propose amending the contribution rates listed in the Rates & Adjustments Certificate on the basis of these market changes. In addition, these rates are finalised within a risk-measured framework as laid out in the Fund's Funding Strategy Statement (FSS).

We do not propose altering the FSS to include allowance for post-valuation date market changes, since this principle would then need to be adopted for future valuations even if markets had worsened since the valuation date (thus increasing contribution rates). Such a change in principle would then obstruct advance planning by employers. Only allowing for market changes where these reduced contribution rates, and not where they increased the rates, would not be consistent with prudent financial management of the Fund.

Other events

In addition to changes in market conditions since the valuation date, we have also considered the potential impact of planned membership movements, expected to occur in the near future. Our conclusion is that no changes to the agreed rates or the FSS are required.

Appendix G: Rates and Adjustments certificate

In accordance with regulation 32(1) of the Administration Regulations we have made an assessment of the contributions that should be paid into the Fund by the participating employer for the period 1 April 2015 to 31 March 2018 in order to maintain the solvency of the Fund.

The method and assumptions used to calculate the contributions set out in the Rates and Adjustments certificate are detailed in the Funding Strategy Statement dated 25 March 2015 and our report on the actuarial valuation dated 25 March 2015.

The required minimum contribution rates are set out in the table overleaf.

Signature:		
Date:	25 March 2015	25 March 2015
Name:	Richard Warden	Steven Scott
Qualification:	Fellow of the Institute and Faculty of Actuaries	Fellow of the Institute and Faculty of Actuaries
Firm:	Hymans Robertson LLP	Hymans Robertson LLP
	20 Waterloo Street	20 Waterloo Street
	Glasgow	Glasgow
	G2 6DB	G2 6DB

Statement to the Rates and Adjustments certificate

The Common Rate of Contribution payable by each employing authority under regulation 32(4)(a) of the Administration Regulations for the period 1 April 2015 to 31 March 2018 is 11.1% of pensionable pay (as defined in Appendix B).

Individual Adjustments are required under regulation 32(4)(b) of the Administration Regulations for the period 1 April 2015 to 31 March 2018 resulting in Minimum Total Contribution Rates expressed as a percentage of pensionable pay are as set out below.

Period	Employer Minimum Contribution Rate
1 April 2015 to 31 December 2015	21.7%
1 January 2016 to 31 December 2016	22.9%
1 January 2017 to 31 December 2017	24.1%
1 January 2018 to 31 March 2018	24.1%

Notes

Contributions expressed as a percentage should be paid into Lothian Buses Pension Fund ('the Fund') at a frequency in accordance with the requirements of the Regulations.

Further sums should be paid to the Fund to meet the costs of any early retirements and/or augmentation (i.e. additional membership or additional pension) using methods and factors issued by us from time to time, or GAD guidance if we consider it to be appropriate.

In addition, further sums may be required to be paid to the Fund by the employer to meet the capital costs of any ill-health retirements that exceed those included within our assumptions.

The certified contribution rates represent the minimum level of contributions to be paid. The employer may pay further amounts at any time and future periodic contributions may be adjusted on a basis approved by the Fund actuary.

Hymans Robertson LLP has carried out an actuarial valuation of the Lothian Buses Pension Fund ("the Fund") as at 31 March 2014, details of which are set out in the report dated 25 March 2015 ("the Report"), addressed to City of Edinburgh Council ("the Client"). The Report was prepared for the sole use and benefit of our Client and not for any other party; and Hymans Robertson LLP makes no representation or warranties to any third party as to the accuracy or completeness of the Report.

The Report was not prepared for any third party and it will not address the particular interests or concerns of any such third party. The Report is intended to advise our Client on the past service funding position of the Fund at 31 March 2014 and employer contribution rates from 1 April 2015, and should not be considered a substitute for specific advice in relation to other individual circumstances.

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

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

Pensions Committee

2.30 p.m., Wednesday, 25 March 2015

2015-2018 Service Plan and Budget

Item number	5.9
Report number	
Executive/routine	
Wards	All

Executive summary

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 2015-2018 is provided as Appendix 1.

The Service Plan provides details of the pension fund's key challenges over the coming years including implementation of the new local government pension scheme, governance changes leading to increased scrutiny as well as ongoing funding challenges.

Links

Coalition pledges	
Council outcomes	CO26
Single Outcome Agreement	

EDINBVRGH
THE CITY OF EDINBURGH COUNCIL

Report

2015-2018 Service Plan and Budget

Recommendations

The Pensions Committee is requested to:

1.1 Approve the Service Plan 2015-2018 and the budget for 2015-2016, together with provision of requisite financing to the investment special purposes vehicles; and

1.2 Note the indicative budgets for years 2016-2017 and 2017-2018.

Background

2.1 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.

Main report

3.1 The draft Service Plan for 2015-2018 is provided as Appendix 1.

3.2 The Fund's objectives have been realigned to:

- Customer First;
- Honest & Transparent
- Working Together; and
- Forward Thinking.

3.3 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.

3.4 The proposed budget is shown at Appendix 1, page 10. The main points to note are summarised below at "Financial Impact".

Measures of success

4.1 The funds key measures of success are:

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

Financial impact

5.1 The proposed budget for invoiced expenditures for 2015-2016 of £11,894K and indicative figures of £12,495K for 2016-2017 and £13,375K for 2017-2018 are provided at Appendix 1, page 10.

5.2 The Service Plan also includes, for the first time, indicative costs of un-invoiced investment fees which are deducted from capital. This increased cost transparency also aligns to the best practice accounting methodology adopted at the 2013-2014 Annual Report. Committee is reminded that investment fees are difficult to predict accurately in the short term as fees are typically based on market values which can be volatile. Equally, transaction costs are difficult to estimate as they are dependent on the level of trading which may be affected, for example, by changes in investment managers' mandates or opportunities in the market. This reinforces the need for the totality of investment costs to be considered in the context of investment performance. Un-invoiced costs are estimated to be £18,924K for year 2015-2016.

5.3 The proposed budget also includes a £10,000K contingency, as previously agreed by Committee at its meeting of 23 September 2014, to be utilised in the specific event of significant departures from the internal investment team compelling the outsourcing of the investment management function.

5.4 The following areas account for the principal reductions in the budget for direct expenditure from 2014-2015 to 2015-2016 of £978K:

- Investment fees paid directly to external managers is reduced by £1,353K as a result of investment portfolios transferred in-house during 2014-2015. The budget assumes no further changes to the portfolios;
- In line with market best practice, the intention is to subscribe to research from brokers directly, that is not to pay for research via commission on trading. An additional £500K has been included within 'Third Party Payments'. All other things being equal, transaction costs incurred will be lower as a result.
- As the internal team has developed, opportunities for direct investment have increased and a budget of £200K has been introduced to enable the team to pursue investments where costs may be incurred during the due diligence process before the investment is made.
- In order to strengthen investment research and controls, a new solicitor post is included. An additional portfolio manager post, to provide enhanced strategic investment analysis, is also budgeted. Such costs total £125K.
- Reflecting strong income from stock lending during 2014-2015 and favourable changes in relevant withholding tax, the budget for 2015-2016 has been increased by £800K.
- The budget includes allowance for Central Support Costs which are provisional, pending receipt of final calculations from the City of Edinburgh Council. However the Fund intends to introduce a Service

Level Agreement for key services provided to the Fund to ensure clarity on service and costs in the future.

- Requisite funding has been provided in respect of the administrative and operating outlays of the two special purpose vehicles, wholly owned and controlled by City of Edinburgh Council. One special purpose vehicle has been established to directly employ certain internal investment staff, with the other for the purpose of seeking Financial Conduct Authority (FCA) registration for relevant investment activities. Indicative provision had already been made in the budget for FCA registration, as well as the core employee cost provision. Additional revenue outlays, whilst still to be finalised, are not significant in overall terms.

Capital Budget

- The working capital requirements of the two special purpose vehicles, reflecting the timing difference between outlays and billing receipts, will be met by the provision of loan facilities of amounts not exceeding £250K for the staffing company, LPFE Limited, and £75K for the regulated investment services company, LPFI Limited. These financing arrangements should provide the companies with sufficient operational flexibility within the overall framework of Council financial controls, with the total principal amounts including a contingency margin. Cash will be drawn-down from the loan facilities (not beyond the agreed upper level) as and when required. Interest will be charged on the net amount drawn down, the rate will be linked to the Royal Bank of Scotland base rate. The loan facilities will need to continue as long as Lothian Pension Funds uses the companies as service providers and the amount drawn down will be reviewed on a regular basis. If at any point the companies are no longer required the loans will be repaid in full.
- Share capital of 50,000 Euros (c£36,240) is anticipated to be the regulatory capital sum which FCA may require in order to grant authorisation to LPFI Limited.

5.5 The budget is also shown split between pension administration and investment consistent with the split shown in the annual report and accounts. For pension administration, an increase in budget of £61K is proposed. One vacant post and budgeted overtime has been removed from the budget but this is offset by increased employer pension contributions. Based on current membership numbers, the budgeted cost per member is £25.46. This compares to £24.90 for 2013-2014 and projected £24.28 for 2014-2015. An additional four posts are currently vacant and have been maintained in the budget for 2015-2016. Excluding these vacancies, the cost per member is £24.09. Given recent relatively high staff turnover, the intention is to monitor the service provision whilst reviewing options for further efficiencies. Resource requirements will be reviewed on an ongoing basis and will also reflect the continuing drive to enhance the data quality of member records.

Risk, policy, compliance and governance impact

6.1 The service plan includes plans in place to manage key risks to the pension funds.

Equalities impact

7.1 There are no adverse equalities impacts arising from this report.

Sustainability impact

8.1 There are no adverse equalities impacts arising from this report.

Consultation and engagement

9.1 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.

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

Background reading/external references

Not applicable

Alastair Maclean

Director of Corporate Governance

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Links

Coalition pledges	
Council outcomes	CO26 - The Council engages with stakeholders and works in partnerships to improve services and deliver agreed
Single Outcome Agreement	
Appendices	Appendix 1 – Draft Lothian Pension Fund Service Plan 2015-2018

Appendix 1

Service Plan 2015 - 2018

Service Plan 2015 - 2018

Introduction

The City of Edinburgh Council is the administering authority for the Local Government Pension Scheme in the Lothian area. 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 £4.5 billion, 100 employers with active members and over 70,000 members.

The Lothian Buses Pension Fund holds assets of £0.4 billion and 3,900 members, while Scottish Homes Pension Fund investments amount to £0.13 billion with 1,800 members.

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 Pension Board, made up of 5 employers and 5 union members, assists the Pensions Committee in securing compliance with legislation and other requirements imposed by the Pensions Regulator.

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 team who manage approximately 60% of assets. It 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. 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 four objectives for our service to:

- We put our customers first and aim to provide the very best service.
- Our people are at the very heart of our business and we work together to deliver our service.
- We strive to improve our services by thinking ahead and developing new solutions.
- We are committed to supporting a culture of honesty and transparency.

To enable us to achieve these objectives we must:
- meet our statutory responsibilities
- develop our service beyond our statutory responsibilities taking into account internal and external influences. This will ensure that the Fund continuously improves 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.

Appendix 1

Key Performance Indicators*

Performance Indicators	Target & (Actual)* 2013/2014	2014/2015	2015/2016	2016/2017	2017/2018
Customers					
Maintain Customer Service Excellence Standard (CSE)	Retain award (Yes)	Retain award (Yes)	Retain	Retain	Retain
Overall satisfaction of employers, active members and pensioners measured by surveys	86% (85%)	86% (88%)*	87%	88%	89%
Proportion of active members receiving a benefit statement and time of year when statement is issued	Over 95% by Sept (96%)	Over 95% by Aug (96%)	Over 96% by Aug	Aim to have all members' benefit statements up-to-date monthly	
Forward Thinking					
Performance and Risk of Lothian Pension Fund	*Actual 9.8%pa. Benchmark 8.8%pa	Meet benchmark over rolling 5 year periods with lower risk with risk/return measures including performance in rising and falling markets			
Proportion of critical pensions administration work completed within standards	Greater than 90% (91%)	Greater than 90% (89%)*	Greater than 90%	Greater than 90%	Greater than 90%
Honest & Transparent					
Audit of annual report	Unqualified opinion (Yes)	Unqualified opinion			
Percentage by value of pension contributions received within 19 days of the end of the month to which they relate	98% (96%)*	98% (98.7%)*	99%	99%	99%
Data quality - compliance with best practice as defined by The Pensions Regulator	Fully compliant (Yes)	Fully compliant (TBC)	Fully compliant		
Monthly pension payroll paid on time	n/a	Yes (Yes)*	Yes	Yes	Yes
Working Together					
Level of sickness absence	4.0% (2.2%)	4.0% (2.3%)*	4.0%	4.0%	4.0%
Annual staff survey question to determine satisfaction with present job	60% (63%)	65% (65%)	67%	69%	71%
All staff complete at least two days training per year	2 days (Yes)	2 days (Yes)*	Yes	Yes	Yes

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

Continuous improvement

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

Political & Regulatory	The Local Government Pension Scheme in Scotland changes to a career average scheme with effect from April 2015. Governance arrangements are also changing, both for the Fund as well as the Scheme at a national level. In addition the Pensions Regulator will take on the role of regulatory oversight of public sector pension schemes A review of the structure of the LGPS in Scotland is expected to be undertaken. From April 2015, members over age 55 will be able to transfer their LGPS benefits to defined contribution arrangements and have full access to the cash transferred. The Fund is also looking to gain authorization from the Financial Conduct Authority. The abolishment of contracting out of the State Earnings Related Pension Scheme will mean increases in national insurance contributions for employers and members, as well as an onus on the Fund to reconcile members' contracting out with those of the government.
Economic	Continuing budgetary constraints across the public sector are expected to lead to further reductions in employee numbers. 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. Together with the new pension freedom and pension auto-enrolment, these could impact on the Fund's membership and liabilities. Economic growth in most parts of the world appears to be stuttering and yields on government bonds continue to move to historic lows. The results of the 2014 actuarial valuation and employer covenant analysis have highlighted the need for different funding and investment options for certain employers. With increased pressure on employer contributions, there continues to be a need to improve efficiency and reduce costs.
Customer Insight	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. Their needs, experiences of our service and their perception of the Fund help us to continually improve and become more efficient and effective.
Technology	Advances in information technology facilitating on-line self-services and data transfer for both scheme members and employers.
Environmental	The Fund continues to strive to be an active shareholder to enhance the long-term value of our investments.
Scrutiny & Benchmarking	The Fund uses feedback from scrutiny of services to help. Such scrutiny includes internal and external audit, cost benchmarking and external awards (Customer Service Excellence and Investors in People).
Risk Management	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.

Customer First

The Fund has a range of customers including members of the Fund, employers, government departments and regulators. 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 members 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.

Action	Description
Develop and improve customer insight	– Develop and refresh our insight of our customers to ensure we capture changing needs – Develop our understanding of the ways customers contact us. Continue to regularly engage with all customer groups using a variety of techniques including mystery shopping and transactional surveys. – Improve analysis of consultations to ensure it remains integral to our service.
Develop and improve customer awareness	– Continue communication of new scheme benefits to members – Communicate with members on new pension freedom – Improve external communications and understanding of investment strategy.
Improve timeliness and quality of customer service	– Complete roll-out of "employer on-line" system. – Partnership accountability – continue to monitor and publish performance against service standards to ensure we have an effective and accountable partnership with employers. – Enhance members' first point of contact with the Fund. – Re-assess our service standards and targets for members.
Develop and improve our information and access	– Update member on-line system for new scheme regualtions – Improved access to services via member on-line system – Monitor the Fund's trail social media for communicating with stakeholders. – Review and update the Fund's new website based on feedback from employers and members.

Forward Thinking

The new Local Government Pension Scheme in Scotland taking effect from April 2015 brings significant challenges for the Fund. There are significant communication needs to explain career average pension schemes to both members and employers.

The administration will be more complex for both the Fund and employers. By striving to continually improve our performance, the Fund will be position to meet these challenges.

The results of the 2014 actuarial valuation and employer covenant analysis have highlighted the need for different funding and investment options for certain employers. New ways of working such as sharing services and the ongoing development of the internal investment team continue to be prioritised.

Action	Description
Embedding new Scheme benefits	– Reinforce communication of the new scheme benefits to employers and members – Put in place revised internal processes and procedures
Provide an efficient, accurate and effective service	– Improve systems skills and data analysis, particularly performance statistics and data quality measures – Reconcile members' contracting out records (GMPs) with those of the government – Continue to explore further efficiencies
Monitor financial and economic pressures and scheme maturity	– Manage the risks of the participating employers including updates of admission agreements – Implement different funding and investment options for certain employers in Lothian Pension Fund with new unitisation approach – Review investment strategies for Lothian Buses Pension Fund and Scottish Homes Pension Fund following the 2014 actuarial valuations – Monitor membership and cash flow
Shared services	– Develop shared-service arrangement with Falkirk Pension Fund

Honest & Transparent

The Fund is committed to supporting a culture of openness, honesty and transparency, both internally and externally. Members and employers are an integral part of the Fund's governance.

From April 2015, all public sector pension schemes will be subject to greater scrutiny by the Pensions Regulator. The Fund also has a new Pension Board, made up of employers and members and a new national Scheme Advisory Board is being established which will provide advice to Scottish Ministers on desirability of changes to the scheme in the future.

By adopting an open culture, the Fund encourages staff to contribute to the continuous improvement of the service. This includes learning from mistakes in a positive way.

The risks faced by the Fund change over time and ongoing management of risk is crucial. The Fund is committed to a strong control environment to ensure that risks are identified, understood, managed and monitored appropriately. Risks are reported on a regular basis to the Pensions Committee and Pension Board.

Action	Description
Ensure effective Governance	– Embed the new Pension Board in to the Fund's governance – Continue to improve the Fund's approach to training for the Pensions Committee and Pension Board – Review standards against the requirements of the Pensions Regulator Code – Monitor and respond to the requirements of the Scheme Advsiory Board – Participate in the review of the structure of the LGPS in Scotland
Risk is managed effectively	– Progress with application for authorisation from Financial Conduct Authority to improve investment controls – Review and update procedure manuals – Integrate environmental, social and governance research more extensively into investment decision making – Progress with updates of employer admission agreements

Working Together

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.

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. Following a review of options to manage such risks associated with the internal investment team, the employment of specialist investment staff was transferred to a special purpose vehicle in March 2015 to facilitate relevant and appropriate terms and conditions. Consideration will be given in due course to a phase two where all the pension fund staff would be transferred to the special purpose vehicle.

Action	Description
Develop trust between line managers and staff	– Continue to have regular team meetings and 1-to-1s with all staff to discuss progress, achievements and changes – Ensure all team meetings are engaging, encourage suggestions and provide feedback on suggestions
Communicate effectively, especially around change	– Continue to communicate regularly via face-to-face briefings and via email on issues affecting the division
Ensure team is robust and sustainable	– Follow up actions following the transfer of the investment team to the special purpose vehicle – Monitor and manage potential change in team dynamics and morale following the transfer – Consider potential for further transfer of pension fund staff
Celebrate Success	– More proactive approach to celebrating successes of key milestones – Put in place annual achievement newsletter – Improve communication of performance indicators
Ensure development and training for all staff	– Continue to promote learning and development opportunities for all – Deliver programme of internal Continuos Professional Development sessions – Develop ICT and project management skills

Our Budget

The budget for 2015-16 and indicative figures for 2016-2017 and 2017-2018 and are as follows:

	Projected 2014/15 £000	Budget 2014/15 £000	Movement £000	Budget 2015/16 £000	Movement £000	Budget 2016/17 £000	Movement £000	Budget 2017/18 £000
Employees	2,051	2,253	236	2,489	89	2,578	85	2,663
Property Costs	180	77	111	188	2	190	2	192
Plant and Transport	28	26	11	37	4	41	0	41
Supplies and Services	916	952	143	1,095	-20	1,075	0	1,075
Third Party Payments	595	522	764	1,286	-172	1,114	50	1,164
Investment Managers Fees	7,815	9,453	-1,353	8,100	688	8,788	743	9,531
Support Costs	273	281	-5	276	10	286	0	286
Capital Funding	80	80	0	80	0	80	0	80
Gross Expenditure (Invoiced)	**11,938**	**13,644**	**-93**	**13,551**	**601**	**14,152**	**880**	**15,032**
Receipts	-67	-52	-105	-157	0	-157	0	-157
Income - Fire	-20	-20	20	0	0	0	0	0
Income - Other	-1,750	-700	-800	-1,500	0	-1,500	0	-1,500
Total Income	**-1,837**	**-772**	**-885**	**-1,657**	**0**	**-1,657**	**0**	**-1,657**
Net Expenditure (Invoiced)	**10,101**	**12,872**	**-978**	**11,894**	**601**	**12,495**	**880**	**13,375**

<u>Indicative Expenditure (Uninvoiced)</u>

Property Operational Costs	n/a	n/a	n/a	1,000	50	1,050	53	1,103
Investment fees deducted from Capital	n/a	n/a	n/a	15,624	781	16,405	820	17,225
Transaction Costs	n/a	n/a	n/a	2,300	115	2,415	121	2,536
Net Expenditure (Uninvoived)	**n/a**	**n/a**	**n/a**	**18,924**	**946**	**19,870**	**994**	**20,864**
Total Indicative Expenditure	**n/a**	**n/a**	**n/a**	**30,818**	**1,547**	**32,365**	**1,874**	**34,239**

<u>Total Expenditure apportioned:</u>

Pension Administration	**1,945**	**1,980**	**61**	**2,041**	**69**	**2,110**	**90**	**2,200**
Investment Management	**n/a**	**n/a**	**n/a**	**28,777**	**1,478**	**30,255**	**1,784**	**32,039**

Our Budget continued

The budget for 2015-16 and indicative figures for 2016-2017 and 2017-2018 and are as follows:

Capital Expenditure

	Projected 2014/15 £000	Budget 2014/15 £000	Movement £000	Budget 2015/16 £000	Movement £000	Budget 2016/17 £000	Movement £000	Budget 2017/18 £000
Atria One Fixtures & Fittings	34	34	-34	0	0	0	0	0
Loan Facility - LPFE	n/a	0	250	250	-250	0	0	0
- LPFI	n/a	0	75	75	-75	0	0	0
LPFI Share Capital	n/a	0	36	36	-36	0	0	0
Total Capital Expenditure	**34**	**34**	**327**	**361**	**-361**	**0**	**0**	**0**

Investment Manager Contingency

Investment Managers Fee Contingency	**0**	**10,000**	**0**	**10,000**	**0**	**10,000**	**0**	**10,000**

Pensions Committee

2.30 p.m., Wednesday, 25 March 2015

Internal Investment Controls and FCA Update

Item number	5.10
Report number	
Executive/routine	
Wards	All

Executive summary

This report summarises the key matters in relation to the investment controls and the development of the in-house operations. These are:

- **Investment controls and consultant's recommendations:** the Fund has now addressed most of the recommendations of an external consultant following their review of the in-house investment operations in December 2013. Certain points are still in the process of being addressed or under review.
- **Financial Conduct Authority (FCA) Authorisation:** the Fund is now in the process of finalising its structure and application for authorisation by the FCA and anticipates that the application is expected to be submitted at the end of April 2015.

Links

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Council outcomes	CO26
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Report

Internal Investment Controls and FCA Update

Recommendations

1.1 It is recommended that Committee notes the progress made in relation to refining its internal controls and in establishing an FCA authorised structure.

Background

2.1 In December 2013 the Fund instructed a review of its investment operations and controls and has since been addressing the resulting recommendations.

2.2 The Fund has also been in the process of establishing an FCA authorised structure for the purposes of strengthening internal controls and facilitating the further development of the in-house investment function.

2.3 A report on progress was previously considered by the Committee in September 2014.

Main report

FCA Authorised Structure

3.1 **Companies established:** the investment and employer services companies were established on 11 February 2015 as wholly owned subsidiaries of the City of Edinburgh Council (CEC), in its capacity as the administering authority of the pension funds. A twin corporate structure has been preferred primarily to enable appropriately tailored governance for the investment and employer facets of the structure.

Details of the companies are as follows:

	LPFI Limited (for FCA regulated activity)	**LPFE Limited (for intra-group employer services)**
Sole shareholder:	City of Edinburgh Council	City of Edinburgh Council
Share capital:	1 ordinary shares of £1 (likely to increase to the sterling equivalent of circa €50,000 immediately prior to receiving authorisation from the FCA)	1 ordinary share of £1

	LPFI Limited (for FCA regulated activity)	LPFE Limited (for intra-group employer services)
Directors:	Alastair Maclean (Chairman), Clare Scott, Bruce Miller, Struan Fairbairn and John Burns	Alastair Maclean (Chairman), Alastair Rankin (as the Convener of the Pensions Committee), Clare Scott, Hugh Dunn and Linda Holden
Company Secretary:	CMS (Solicitors)	CMS (Solicitors)
Registered office:	4th Floor, Saltire Court, 20 Castle Terrace, Edinburgh EH1 2EN (CMS's Offices)	4th Floor, Saltire Court, 20 Castle Terrace, Edinburgh EH1 2EN (CMS's Offices)
Accounting reference date:	31 March	31 March
Auditors:	Scott Moncrieff	Scott Moncrieff
Bankers:	The Royal Bank of Scotland	The Royal Bank of Scotland

3.2 **Business plan and FCA Authorisation:** The business plan for the new structure contemplates that the operation of LPFI Limited will be limited to regulated activity in operating the pension funds; such as certain derivative use, developing investment strategies for employer(s) and informal investment collaborations with other pension funds. It is not anticipated that such activity would involve LPFI Limited providing formal investment services, receiving monies or incurring liabilities from external third parties. The structure has been established in order to be best placed to accommodate any future requirements to most efficiently operate the pension funds in the interest of its stakeholders.

3.3 The anticipated timescales for the project are set out in the table below. A verbal update will also be provided to Committee on the latest progress:

Milestone	Completion Date
Finalise detailed feasibility exercise and internal approvals	January 2015
Establish companies (inactive)	11 February 2015
Consultation with investment staff and trade unions	Mid-Late March
Transfer of investment staff to LPFE and admission of LPFE to the Lothian Pension Fund	April 2015
Submission of FCA Application (with LPFI board approval)	April 2015
Engagement with the FCA (if required)	April – June 2015
LPFI Receives decision on FCA Authorisation	Summer 2015
Implementation of business requirements through the authorised structure	Q3/4 2015 onwards

Investment Operations

3.4 The key developments to note are as follows:

- **Notice periods:** it was identified that having staff, including key members of the management and investment team, on a one month notice period exposed the Funds to inappropriate levels of risk.

  Update: Following consultation with staff and trade unions, key members of management and investment staff are expected to be placed on extended notice periods appropriate to their roles by the end of April 2015.

- **HR Resource:** the consultant recommended that the Fund put in place dedicated HR support to provide for its particular circumstances.

  Update: A member of the City of Edinburgh Council's HR team has provided additional resource to assist with implementing the authorised structure. The Fund has also instructed PwC to provide discrete levels of HR support for this process. In addition, options to access HR support that the structure will require on an ongoing basis are currently being explored. Initial indications are that externalising this service will allow the Fund to access a suitably bespoke service at a relatively low cost.

- **External controls audit of in-house investment function:** the consultant noted that once assets under management exceed £5 billion most external fund managers commission an internal controls review. It was noted that the Fund does not manage external assets in the same way, but that a thorough external review would provide the relevant stakeholders with greater comfort in this area.

  Update: Whilst the enhancements to controls are being put in place following the review, a further external review is not deemed appropriate at this stage. However, specialist pensions auditors have been utilised for internal audits via the Council's co-sourcing internal audit team with PwC. Whilst recognising that these are internal audits, they are considered an enhancement to controls. A further controls review by an external party will be considered in due course once the improvements to controls are fully implemented and FCA authorisation is achieved.

- **Separate dealing desk:** it was highlighted that where volumes of assets under management by the in-house team materially increase, the Fund should establish a central dealing desk. An interim solution was proposed that one portfolio manager could create a trade, with a different manager executing that trade.

  Update: The dealing procedures for the Fund already require authorisation of every trade by at least two portfolio managers. The Fund's trading volumes do not justify a separate central dealing desk. However testing of an electronic trading platform is underway. It is expected that this would be operated by members of the team who do not manage portfolios. Resource implications are also being assessed but it is expected that these additional responsibilities may be incorporated within the existing team. The system would also provide transaction cost analysis and electronic trade confirmations.

- **Ongoing review of transaction costs:** the consultant recommended that the Fund implement a regular programme of Transaction Cost Analysis ("**TCA**"). That should be done either via an external provider or, where that could not be justified in the context of the Fund's current operations, via a simpler in-house TCA model using monthly transaction reports and Bloomberg pricing access.

  Update: Transaction costs are now reported in the accounts of the Funds. The Fund's trading volumes are currently low, so every internal transaction is routinely checked for best execution. If the testing of the electronic trading platform is successful, all transactions will be further analysed electronically.

3.5 Further work continues in the following areas:

- **Pre and post-trade compliance checks:** processes have been amended to include checks prior to trading which are signed off by the portfolio managers. In addition, weekly post-trade compliance checks have been introduced to supplement the quarterly sign-off by the portfolio manager.
- **Ongoing diligence on external managers and the custodian:** additional diligence on the Fund's custodian has been undertaken and further due diligence on external managers will be progressed over the coming year.
- **Telephone recording:** the Fund anticipates that an appropriate telephone recording package will be in place shortly. This will be equally beneficial for the ongoing compliance of the pensions administration and investment teams.

Measures of success

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

Financial impact

5.1 There is no direct financial impact associated with the update of progress in relation to the matters set out in the report. However, improved operations should reduce financial risks.

5.2 Costs associated with implementing investment operational improvements and seeking and maintaining FCA authorisation have been contained within the agreed budget for 2014-17, are included in the proposed budget for 2015-18 covered elsewhere on the agenda.

Risk, policy, compliance and governance impact

6.1 The review of operations highlighted areas for the improvement of governance and risk and these have largely been implemented.

Equalities impact

7.1 None.

Sustainability impact

8.1 None.

Consultation and engagement

9.1 The Consultative Panel for the Lothian Pension Funds comprises employer and member representatives who are integral to the governance of the Funds.

9.2 Appropriate consultation with staff and trade unions will be undertaken.

Background reading / external references

None.

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Links

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Pensions Committee

2.30 p.m., Wednesday, 25 March 2015

Update on Employers participating in Lothian Pension Fund

Item number	5.11
Report number	
Executive/routine	
Wards	All

Executive summary

This report provides updates on:

- Employers who are currently looking to join the Fund;
- Employers leaving the Fund; and
- Other current matters affecting employers participating in the Fund

Links

Coalition pledges	
Council outcomes	CO26
Single Outcome Agreement	

Report

Update on Employer participating in Lothian Pension Fund

Recommendations

1.1 Note the changes to the employers participating in Lothian Pension Fund.

Background

2.1 Responsibilities of both the City of Edinburgh Council, as administering authority of the Fund, and the participating employers are set out in the Funding Strategy statement and the Pensions Administration Strategy.

2.2 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.

2.3 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.

Main report

Employers joining the Fund

3.1 As covered elsewhere on the agenda, a new special purpose vehicle, LPFE is being created which will directly employ certain members of staff of Lothian Pension Fund. To provide staff with continuity of employment conditions, LPFE has applied to become an admitted body under the Scheme regulations. The Fund’s admission policy requires any new admitted body to provide a guarantor and the City of Edinburgh Council has indicated they will act as guarantor for LPFE.

Employers leaving the Fund

3.2 Mental Welfare Commission, an admitted body to the Fund has indicated that following the retiral of their last active member on 31 March 2015, they will be leaving the Fund. As required under the Scheme regulations, a cessation valuation will be carried out to identify any deficit payment required from Mental Welfare Commission to the Fund.

3.3 Pilton Community Health Project has advised that following a period of staff consultation they will be leaving the Fund with effect from 1 April 2015. A cessation valuation will be carried out to identify any deficit payment required from Pilton Community Health Project.

Forth Estuary Transport Authority (FETA)

3.4 As previously reported to Committee, FETA will be dissolved in June 2015. A new contractor (Amey) has been appointed to operate both the Forth Bridge and the new Forth Crossing. Current FETA employees will be transferring to Amey under TUPE and to ensure continuity of pension provision, Amey will be applying for admission to Lothian Pension Fund. The Scottish Ministers will act as guarantors for Amey and an admission agreement has been drafted and issued via Transport Scotland.

3.5 The Fund is continuing to liaise with the Scottish Government on documentation reflecting provisions of the Forth Road Bridge Act 2013. The Act provides for the transfer of liabilities to the Scottish Government which has agreed to act as guarantor for legacy pension liabilities in respect of former FETA employees.

Other employer changes

3.6 11 members employed with the City of Edinburgh Council transferred to the Department of Work and Pensions (DWP) in November 2014 as part of the introduction of a Single Fraud Investigation Service. Members will be provided with the option to transfer benefits to the Civil Service Pension Scheme and the Fund is liaising with the DWP and the Fund Actuary on the terms of the transfer.

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

3.8 Committee were previously advised of staff transfers from outside organisations to the Services for Communities department within the City of Edinburgh Council. Transfers from Police Scotland and MITIE have been completed, however a further transfer exercise involving recycling staff from PALM recycling and FMG recycling is still ongoing.

3.9 The Fund is also starting to work with a number of existing admitted bodies in the Fund to update admission agreements.

Measures of success

4.1 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

5.1 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 help to protect the financial position of the Fund and other contributing employers.

Risk, policy, compliance and governance impact

6.1 Ongoing employer monitoring and engagement, together with robust policies on admission and cessation help to mitigate the risk of employer actions having an adverse impact on the Fund. Risks are also regularly reviewed via the Lothian Pension Fund risk register.

Equalities impact

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

Sustainability impact

8.1 There is no sustainability impact arising from this report.

Consultation and engagement

9.1 The Fund engages with participating employers on a regular basis via monthly bulletins highlighting relevant issues and employer events held throughout the year. The Fund continues to remind employers of the importance of keeping the Fund informed of any changes that could have an impact on their pension arrangements

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

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

Background reading / external references

None.

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Pensions Committee

2.30 p.m., Wednesday, 25 March 2015

Overpayment of Pension

Item number	5.12
Report number	
Executive/routine	
Wards	All

Executive summary

This report seeks agreement by Pensions Committee not to pursue recovery of an overpayment of pension, which arose on the death of a pensioner, amounting to £6,033.45.

Links

Coalition pledges	
Council outcomes	CO26
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Report

Overpayment of Pension

Recommendations

1.1 That Committee agrees not to pursue recovery of an overpayment of pension amounting to £6,033.45.

Background

2.1 Delegated authority has been granted to the Director of Corporate Governance, in certain circumstances, to write-off pension overpayments up to £3,000. Any overpayments above this limit require approval of the Pensions Committee.

Main report

3.1 On the death of a pensioner, a survivor's pension may be payable immediately after death, subject to the scheme rules in force at the date of retirement. On 30 December 2014, Lothian Pension Fund was notified of the death of a survivor. The scheme rules applicable to this case are The Local Government Superannuation (Scotland) Regulations 1987 which specify that a survivor's pension is not payable during any subsequent marriage or any period of cohabitation outside marriage.

3.2 In this case, the survivor's step-son advised Lothian Pension Fund of the re-marriage when he called to inform us of the death. An overpayment of pension has therefore occurred for the period 9 November 1994 to 28 December 2014, these being the dates of re-marriage and death respectively. Because the statutory retention period for pensioner payroll records is 6 years and there is therefore limited data available from the Council's payroll system, we are only able to calculate the overpayment of pension from 1 March 2007. The overpayment from 1 March 2007 to 28 December 2014 amounted to £6,033.45.

3.3 A review of the file record has confirmed that the survivor member had not been informed about this specific regulatory constraint regarding any subsequent marriage. In light of this, it is not considered appropriate to pursue matters further.

Measures of success

4.1 Not applicable.

Financial impact

5.1 As the expenditure has already been reflected in the relevant financial statements of Lothian Pension Fund, there is no additional financial impact arising from the overpayment of pension.

Risk, policy, compliance and governance impact

6.1 There are no adverse risk, policy, compliance or governance impacts arising directly from this report.

6.2 The most common cause of overpayment of pensions is unreported pensioner deaths and re-marriage. To reduce the risk of further occurrence, letters issued to dependents on the death of a member now include a paragraph regarding changes of circumstances. Penfriend, the Fund's newsletter for pensioners regularly includes a reminder that deaths or changes of circumstances must be reported immediately.

Equalities impact

7.1 There are no adverse equalities impacts arising from this report.

Sustainability impact

8.1 There are no adverse sustainability impacts arising from this report.

Consultation and engagement

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

Background reading / external references

None.

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Pensions Committee

2.30 p.m., Wednesday, 25 March 2015

2014–2017 Service Plan Update

Item number	5.13
Report number	
Executive/routine	
Wards	All

Executive summary

The purpose of this report is to provide an update on progress against the 2014 – 2017 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.

Overall progress is being made against the service plan objectives. It is expected that the majority of performance targets will be achieved by the end of the year.

Links

Coalition pledges	
Council outcomes	CO26
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Report

2014–2017 Service Plan Update

Recommendations

1.1 It is recommended that the Committee note the progress of the Fund against the 2014 – 2017 Service Plan.

Background

2.1 The purpose of this report is to provide an update on the 2014 – 2017 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.

Main report

3.1 Progress against indicators and key actions agreed in the 2014-2017 Service Plan is set out in the appendix.

3.2 Progress in the following areas are covered elsewhere on the agenda:

- 2014 Actuarial Valuations;
- Investment controls and Financial Conduct Authority;
- Implementation of the new LGPS Scotland 2015 including new governance arrangements.

3.3 Other progress of particular note are shown below:

Investment Strategy – Lothian Pension Fund

3.4 The Fund continues to implement the 2012-17 investment strategy of the pension funds, with oversight and advice from the Investment Strategy Panel.

3.5 Committee will recall that in 2014 the Investment Strategy Panel considered the longer-term future of the Asia Pacific portfolios managed by Baillie Gifford and Invesco alongside the Fund's efforts to reduce the volatility of the overall equity allocation. Both managers were terminated in the second half of 2014 as a result of the decision to invest in global rather than regional mandates. Both managers had produced very good performance for the Fund since inception.

3.6 During February 2015, a new internal global equity portfolio has been created alongside the two existing internal global portfolios, which are currently focussed on high dividend yield and low volatility respectively. The new internal portfolio complements the existing portfolios with a focus on valuation and volatility.

3.7 The transition of assets was managed by the internal team. It involved the reallocation of Asia Pacific equities valued at £308million into the new global portfolio. Trading took place across several time zones and market exposure risk was mitigated by using futures contracts. Favourable market conditions resulted in a much better outcome than expected in terms of market impact. By undertaking the transition internally, it is estimated that approximately £200K of commission costs were saved by the Fund.

Investment Strategy – Scottish Homes Pension Fund

3.8 In accordance with the funding agreement with the Scottish Government, following an improvement in the funding level of the Scottish Homes Pension Fund, the Fund's equity allocation was reduced. The investment strategy's equity allocation was reduced from 30% to 27.5%. This was implemented by withdrawing cash from the Fund's equities which will be used to pay pensions in the coming months (as opposed to selling and buying assets). The actual funding level is currently close to the target funding level and monitoring continues.

Collaboration on Environmental, Social & Governance activity

3.9 The Fund has collaborated with other investors in an initiative to encourage investment managers to produce meaningful information on Environmental Social and Governance (ESG) activity in their regular client reporting. "The Guide to Responsible Investment Reporting in Public Equity" was launched on 26 January 2015. The Guide was backed by sixteen UK pension funds with assets over £200 billion. This collective group of pension funds believes that Responsible Investment reporting can help improve the transparency and accountability between asset owners and fund managers. The guide is divided into two parts of responsible investment reporting activity:

- ESG integration: the transparent processes for considering ESG factors in the manager's investment process including examples.
- Stewardship: the policies and processes for identifying companies for engagement and for voting stocks; voting and engagement activities, and evidence of outcomes from those activities.

The recommendations in the guide are a useful basis for improving dialogue with fund managers and strengthening the investment monitoring processes. The Guide is available on the Fund's website:

http://www.lpf.org.uk/lpf1/info/68/responsible_investment/48/responsible_investment

Pensions Liberation

3.10 The Pensions Regulator (TPR) relaunched its anti-fraud campaign in July 2014 and in September 2014 HMRC updated its registration process to make it harder for pensions liberation schemes to register and operate. The Fund has a process in place to attempt to identify suspicious practices and a clear message is provided to members that transfers are not approved as a matter of course. Between 1 April 2014 and 31 January 2015 Lothian Pension Fund received 441 transfer applications and 17 of those were classed as suspicious. 3 of the suspicious cases were blocked and no further requests to transfer have been received for the remaining 14 cases.

Social Media Trial

3.11 Preparations have been made for the Fund for a trial of social media using Twitter and Facebook accounts. The target audience will be the members of the Fund. Other pension funds have had mixed success of using social media, with some funds having very few 'followers'. The trial will be assessed before the end of 2015.

Firefighters Pensions

3.12 The pensions administration for the Firefighters who were previously part of the Lothian and Borders Fire and Rescue service has been transferred to the Scottish Public Pensions Agency (SPPA) who are taking over the administration of all Scottish Firefighters' pensions. This follows the merger of all the regional Fire services across Scotland.

Performance Indicators

3.13 Performance for the key performance indicators against targets are shown in the Appendix.

3.14 Two indicators are highlighted as 'amber' and one as 'red':

- The proportion of pensions administration critical work completed on time in the quarter and for the financial year to date is marginally below the target of 90%. With the volume of historic work reducing, efforts are being made to aim to achieve the target for the year.
- 61% of staff had completed their training target up to 31 December 2014. With the focus on training on the new scheme in the current quarter, it is anticipated that the target will be achieved by the end of the year.
- Lothian Pension Fund performance over the calendar year 2014 has been strong in absolute terms and relative to its benchmark. A significant driver of excess return has been the significant outperformance achieved by the Alternatives assets, which are measured against their inflation-based benchmark. The annual report on investment returns and risk will be presented to Committee in June.

3.15 Customer satisfaction over the 12 months to 31 December has increased again over recent quarter and is now marginally ahead of target (86.2% compared to target of 86%). The satisfaction of new members has continued to increase

(79% from 67%). This is reassuring given the Fund's efforts to improve service to these members who have been significantly less satisfied compared to other customer groups.

3.16 Following a visit by an external assessor from Customer Service Excellence (CSE) in January 2015, the Fund has successfully retained the award. Of the 57 criteria, the Fund had previously been compliant in all but one. This one 'partial compliance' related to partnership working, in particular with the Fund employers. The assessor recognised the significant efforts to improve performance in this area which has resulted in significant improvements in new member satisfaction and the Fund is now fully compliant in all the award criteria. The Fund's work had previously been assessed as having two criteria of high standard ('compliance plus'). Two further criteria have been added as 'compliance plus'. The first relates to the Fund's work with employers to engage them in providing timely data, particularly employer events and meetings, along with the bespoke assistance to an employer during their recent reorganisation. The second relates to complaint handling.

Measures of success

4.1 Measures of success include meeting targets for performance indicators and progressing the actions set out in the Service Plan.

Financial impact

5.1 A summary of the projected and year-to-date financial outturn compared to the approved budget for 2014/15 is shown in the table below:

	Approved Budget	Projected Outturn	Projected Variance	Budget to date	Actual to date	Variance to date
Category	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Employees	2,253	2,051	(202)	1,878	1,693	(185)
Transport & Premises	104	208	104	87	171	84
Supplies & Services	952	916	(36)	793	792	(1)
Investment Managers Fees	9,453	7,815	(1,638)	7,878	6,502	(1,376)
Other Third Party Payments	522	595	73	435	503	68
Depreciation	80	80	-	67	67	-
Direct Expenditure	**13,364**	**11,665**	**(1,699)**	**11,138**	**9,728**	**(1,410)**
Central Support Costs	**281**	**273**	**(8)**	**234**	**227**	**(7)**
Income	(772)	(1,837)	(1,065)	(643)	(1,363)	(720)
Total Cost to the Funds	**12,873**	**10,101**	**(2,772)**	**10,729**	**8,592**	**(2,137)**

5.2 The financial outturn includes year to date budget, actual expenditure and variance as at the end of January 2015. Year to date actual expenditure includes provision for services incurred but for which no invoice has yet been received.

5.3 The projection shows an underspend of approximately £2,772k. The key variances against budget are:

- Investment management fees - **£1,638k underspend**. This is due to termination of Rogge, Baillie Gifford and Invesco mandates, with assets transferred in-house.
- Income - Securities lending income is expected to be **over £1million more** than expected. This is due to changes in the stock lending activity in investment markets as well as changes to the Fund's holdings.
- Employees **- £202k underspend**. This is mainly due to unfilled posts across the division during the period from April to December 2014.
- Transport & Premises - **£104k overspend**. This is due to a misalignment between the feasibility report and the budgeted figures for property rental at Atria One. This has been corrected in the 2015/16 budget covered elsewhere on the agenda.
- Other Third Party Payments - **£73k overspend**. This mainly relates to custody fees which have increased due to the volume of transactions and higher market valuations.
- Supplies & Services - **£36k underspend**. This reflects the delay in the investment unitisation project until 2015/16.

5.4 Committee is reminded that the investment management fees included in the budget are those directly invoiced to the Fund and do not include fees that have been netted against investment asset values.

Risk, policy, compliance and governance impact

6.1 The pension funds' service plan aims to manage risk, improve compliance and governance. There are no direct implications on these issues as a result of this report.

Equalities impact

7.1 None

Sustainability impact

8.1 None

Consultation and engagement

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

Background reading / external references

None

Alastair Maclean

Director of Corporate Governance

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Links

Coalition pledges	
Council outcomes	CO26 - The Council engages with stakeholders and works in partnerships to improve services and deliver agreed
Single Outcome Agreement	
Appendices	Appendix 1 - Service Plan Update

Appendix 1

Lothian Pension Fund
25 March 2015
Service Plan Update 2014 - 2017

Lothian Pension Fund
The City of Edinburgh Council
Atria One, 144 Morrison Street
Edinburgh, EH3 8EX
pensions@lpf.org.uk
0131 529 4638

Service Plan Performance Indicators – Targets & Actual Performance

	Q1 April to June	Q2 July to Sept	Q3 Oct to Dec	Target	Status
Performance					
Performance and Risk of Lothian Pension Fund	Actual 9.8%pa. Benchmark 8.8%pa. Exceeding benchmark. Risk/return measures will take some time to demonstrate the success or otherwise of the investment strategy.			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	Complete			Unqualified opinion	
Proportion of critical pensions administration work completed within standards	87.23%	90.74%	89.1%	Greater than 90%	
Percentage of employer contributions paid within 19 days of month end	96.97%	99.78%	99.47%	98%	
Data quality – compliance with best practice as defined by the Pensions Regulator	Assessment will be made at year-end			Fully compliant	Not yet known
Pension Payroll complete on due dates	100%	99.97%	100%	Yes	
Customer Indicators and targets					
Maintain Customer Service Excellence Standard	Successful annual assessment in January 2015			Maintain standard	
Overall satisfaction of employers, active members and pensions measured by surveys (rolling 12 month performance)	84.7%	86.2%	88%	86%	
Proportion of active members receiving a benefit statement and time of year when statement is issued	96% By August			Over 95% by August	
Staff					
Level of sickness absence	2.98%	2.3%	2.3%	4%	
Annual staff survey question to determine satisfaction with present job	65%			65%	
Percentage of staff that have completed two days training per year.	38%	47%	62%	100%	

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

Project	Status	Overall Progress	Project Summary
Successful implementation of the Scheme changes		- The Fund's Communications Officer continues to work with the other funds to develop clear communications for employers and scheme members. A new website, http://scotlgps2015.org/ has been created to provide guidance to those affected by the LGPS changes. A newsletter which included details of the changes was issued to all active scheme members. - LGE training session held in November 2014 for employers and User Group arranged for February 2015. - The LGPS 2015 project team continues to ensure effective co-ordination of all aspects of the implementation of the scheme changes, including system updates and staff training. For example the team are currently ensuring that the Pension Regulator Code is currently being implemented throughout the division to ensure compliance.	- Communicate changes to scheme benefits to employers and members - Review internal processes and procedures Provide training for staff on new arrangements
Ensure effective Governance of the Fund		- The nomination process for both the Pension Board and Pension Committee has been completed. Full membership with a good representation of employers and Unions. - TPR Code is being reviewed and TPR e-learning is being undertaken by all members of the Legal and Risk team. - Key policies for training, attendance and code of conduct are in place as is the monitoring processes for to ensure compliance is also in place. Training monitoring is reported to Committee in March 2015. - Induction training is scheduled for all members of the Pension Board and a training schedule for the year ahead has been drafted.	- Engage in debate on governance changes for the Fund - Participate in the review of the structure of the LGPS in Scotland - Reinforce the separation of the Fund from the City of Edinburgh Council and review dependencies on its services - Continue to improve the Fund's approach to 'trustee' training
Monitor financial and economic pressures and scheme maturity.		- Implementation of investment strategies is ongoing and is a regular agenda item at Investment Strategy Panel meetings. - 2014 Actuarial valuations are complete. - Funding Strategy Statement has been reviewed. - Employer covenant work has progressed and utilised during the actuarial valuation. - Cashflow continues to be monitored monthly. - Procurement of a unitisation system is progressing.	- Continue to implement new investment strategies - Undertake the Fund's 2014 actuarial valuation - Review Funding Strategy Statement - Improve membership and cash flow monitoring and forecasting - Review the risk profile of the participating employers and manage the pension implications of organisational and staffing changes - Explore potential options for unitisation of the Fund

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

Project	Status	Overall Progress	Project Summary
Provide an efficient accurate and effective service.	✓	- Underlying investment costs have been included in the 2013/14 accounts. Information on benchmarking of investment costs and pensions administration were presented to Committee in December. - The last part of the Payroll is the 'Immediate Payments Payroll'. This is progressing well and at final stages of testing before creating the procedures manual. Once this has been completed the Fund can make one off payments and Lump Sums from Vendors. This should be implemented in the coming months. Payroll continues to run smoothly each month.	- Explore ways to improve transparency of investment costs. - Improve use of systems and data analysis skills. - Complete full implementation of payroll
Risk is managed effectively	✓	- Progress is being made in FCA authorisation and progress is being made in implementing the recommendations for improvements in the internal investment controls. - Risk register continues to be updated regularly.	- Investigate gaining of authorisation from Financial Conduct Authority to improve investment controls. - Ensure up-to-date and stream-lined procedure manuals for all key responsibilities are maintained
Shared services /governance	✓	- Joint working with Falkirk has now been implemented and a joint infrastructure investments via relevant staff being seconded on a part-time basis to Falkirk Council is now in place. - Fire Pension Administration has been transferred to SPPA.	- Developed shared-services with Falkirk Pension Fund. - Transfer administration of the Fire Fighters pensions schemes to the Scottish Public Pensions Agency

Our Customers - *To provide excellent customer care*

Project	Status	Overall Progress	Project Summary
Develop and improve customer insight.		- In January the fund retained the CSE award and received no partial compliances and 4 elements of the award were given best practice grading. The best practice areas were in relation to our approach to consultation, effective leadership and complaints handling. - The fund continues to consult regularly with all key stakeholders and is meeting its overall customer satisfaction targets. - There has been a huge improvement in satisfaction from new scheme members which has increased dramatically. Quarter 3 2013/14 overall satisfaction was 60%. Quarter 3 overall satisfaction in 2014/15 was 92%. In addition response rate to the new scheme member survey increased from 8 people in Quarter 3 2013/14 to 200 people responding in 2014/15. - Monitoring processes have been reviewed and tightened over the last year to provide a very clear audit trail from individual responses to performance indicators. In addition comments are being effectively captured and fedback to the administration team to act upon. New scheme member survey was reviewed and updated over the last year to ensure is was user friendly for customers.	- Continue to regularly engage with all customer groups using a variety of techniques including mystery shopping and transactional surveys. - Improve analysis of consultations to ensure it remains integral to our service.
Improve timeliness and quality of customer service.		- Efforts continue to assist employers to submit member contribution details to the Fund on a monthly basis to improve data quality and member service. - Employer performance reports are being issued on an ongoing basis. - Tracesmart have identified 128 scheme members and the registrars have confirmed this. Next of kin now being contacted. - Pensions Administration workflow has been set up to distribute both urgent and non urgent cases. The volume of historic cases has reduced significantly. - Customers' first point of contact with the Fund continues to be reviewed. Improvements have been implemented but effectiveness continues to be monitored.	- Extend usage of "employer on-line" system. - Partnership accountability – monitor and publish performance against service standards to ensure we have an effective and accountable partnership with employers. - Review the way we deal with members' first point of contact with the Fund. - Attempt to trace members who we've lost touch with. - Focus efforts on non-urgent member cases. - Re-assess our service standards and targets for members.
Develop and improve our information and access.		- Strategy for social media program is currently being developed. It is hoped that this channel will be very helpful for specific messaging regarding the LGPS 2015 changes.	- Promote, and improve usability of, member on-line system. - Improve Frequently Asked Questions on website - Undertake trial of social media for communicating with stakeholders. - Provide more on-line training facilities for employers and members. - Develop way to monitor the ways customers contact us.

Our Staff - *To support and develop staff*

Project	Status	Overall Progress	Project Summary
Develop trust between line managers and staff and promote an open culture.		- Regular 1-1 meetings with staff take place regularly. - Efforts to improve engagement in team meetings are ongoing.	- Continue to have regular and engaging team meetings and 1-to-1s with all staff, to discuss progress, achievements and changes.
Communicate effectively, especially around change.		- Senior management team continues to communicate in a regular monthly e-update, face to face and via e-mail. In addition to this senior managers meet with small groups of staff. - The results of the staff survey have been reviewed and an action plan has been put in place.	- Continue to communicate regularly via face-to-face briefings and via email on issues affecting the division. - Review the success of major changes and learn lessons in how we manage change.
Ensure development and training for all staff.		- Training and development continues to be encouraged via 1:1 and staff meetings. The achievement of training and development is being assessed regularly. - Regular briefing sessions are held internally to inform staff about current issues and developments. - Compulsory data protection training was held during the first quarter and thereafter new members of staff are trained on key policies as part of their induction. - Project management tools are promoted internally.	- Continue to promote learning and development opportunities for all staff, including those who have already achieved qualifications - Develop ICT and project management skills.
Support staff well-being		- Staff forum continues to provide feedback from staff as do the regular 1-1s. - Flexible working trial is progressing well. Feedback from some pension administration staff about the flexible working arrangements have highlighted issues with printing and telephone cover. Home working has been limited to one day per week until longer term solutions for printing can be found.	- Empower staff to make changes to the way they work to improve the service and efficiency, particularly around work-flow management. - Implementation of flexible working options.
Ensure team is robust and sustainable		- For the internal investment team, a special purpose vehicle is being put in place. - Career development coaching for certain staff.	- Explore options and review plans for a sustainable team.

Pensions Committee

2.30 p.m., Wednesday, 25 March 2015

Risk Management Summary

Item number	5.14
Report number	
Executive/routine	
Wards	All

Executive summary

The pension funds' risk management procedures require us to:

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

(ii) produce a summary report of the risk register for the 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 12 February 2015 is set out in the appendix to this report.

Links

Coalition pledges	
Council outcomes	CO26
Single Outcome Agreement	

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Report

Risk Management Summary

Recommendations

1.1 We recommend the Committee notes the Quarterly Risk Overview.

Measures of success

2.1 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.

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

Financial impact

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

Risk, policy, compliance and governance impact

4.1 Please see the Quarterly Risk Overview appended to this report.

Equalities impact

5.1 None.

Sustainability impact

6.1 None.

Consultation and engagement

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

Background reading / external references

None.

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Links

Coalition pledges	
Council outcomes	CO26 - The Council engages with stakeholders and works in partnerships to improve services and deliver agreed
Single Outcome Agreement	
Appendices	Appendix 1 - Quarterly Risk Overview, as at February 2014

Appendix 1

Lothian PENSION FUND

QUARTERLY RISK OVERVIEW

12 February 2015

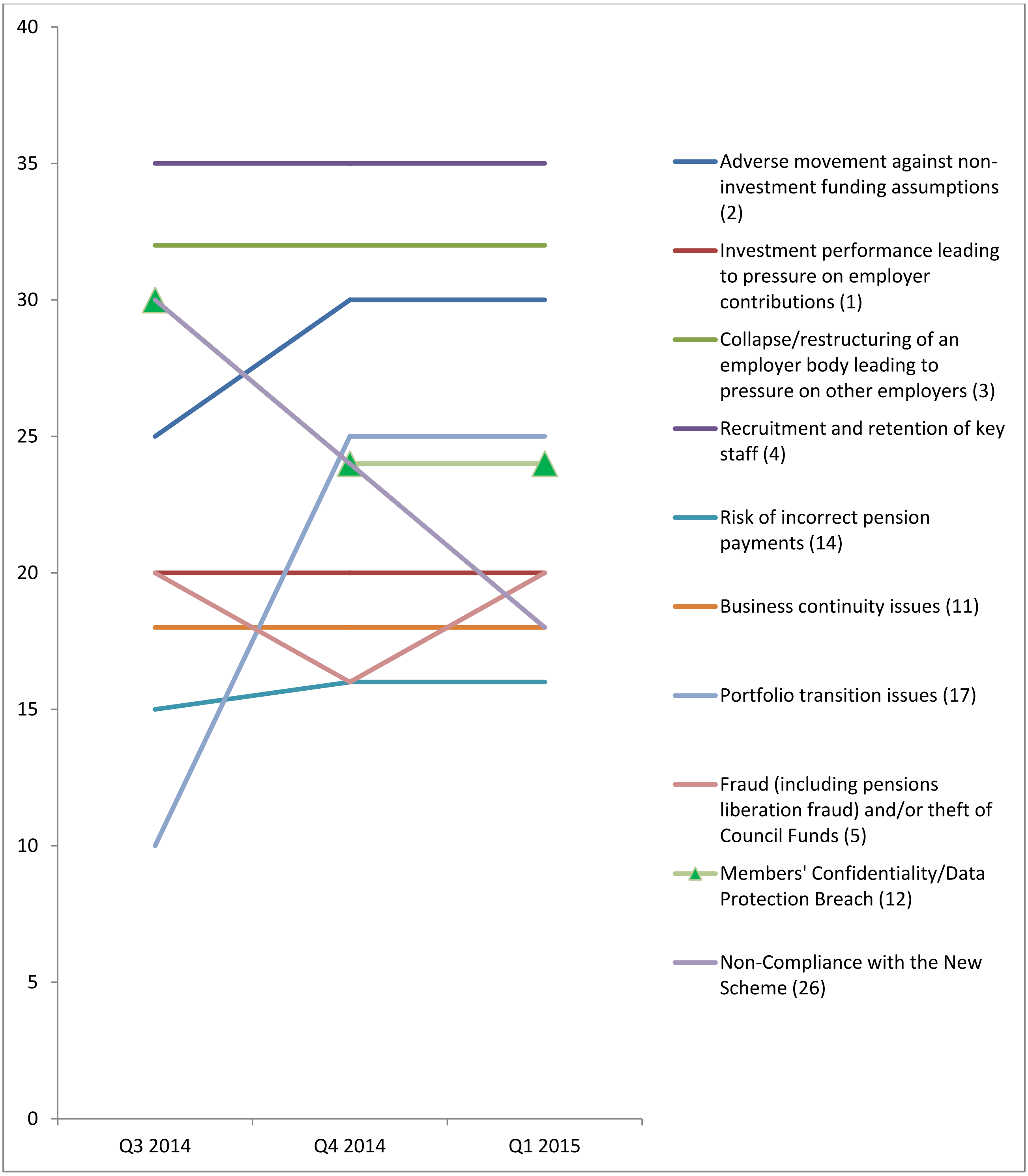
UPDATE ON MOST NOTABLE RISKS

Risk & Reference Number	Update	Trend/ RAG
Adverse Investment performance leading to pressure on employer contribution (1)	The new lower volitility investment strategy continues to be implemented to mitigate this risk and more detailed reporting on the Investment Strategy has been produced for the Pensions Committee. A review of the funding for Lothian Buses is also underway.	Static ⟷
Adverse movement against non-investment funding assumptions leading to pressure on employer contributions (2)	The 2014 actuarial valuation is almost complete Experience against funding assumptions and employer contributions have been assessed. We continue to closely monitor the levels of transfers-out to determine whether there will be an increase in light of added flexibility in Defined Contribution (DC) pensions and the decision to allow transfers from the LGPS to Defined Contribution schemes. This could have implications for cashflow and investment strategy. Initial indications from the Actuary imply that funding implications would not be a significant risk to employers but investigations on the potential implications will continue. We note that this issue has now been raised nationally with the SPPA.	Static ⟷
Collapse/restructuring of an employer body leading to pressure on other employers (3)	We have concluded our covenant analysis and results have been taken into account in the actuarial valuation. The revised funding approach for employers close to exiting the Fund reduces the risk to the Fund and the other employers. We will shortly be implementing a review of our existing admission agreements/guarantees with employers as part of our ongoing engagement with employers.	Static ⟷
Recruitment and retention of key staff (4)	This risk remains high due to the continued improvement in UK economic and market conditions in the private sector. Also, we understand that although Scottish Widows Investment Partnership (SWIP) had laid-off a substantial number of Edinburgh based investment managers late last year, most of the affected managers have already been re-employed. Significant progress has been made in implementing the new FCA and staffing structure, dealt with in more detail in the separate Investment Controls paper. It is anticipated that this risk will therefore reduce in Q2 2015. Additionally, following the recent departure of several members of the pensions administration team, a qualified administrator has been recruited.	Static ⟷

Risk & Reference Number	Update	Trend/ RAG
Risk of incorrect pension payments (29)	Progress to achieve full integration/automation to reduce reliance on manual intervention to the payments system is ongoing. The internal audit report has also now been received and action has been taken to address its recomendations (e.g. restriction of 'Superuser' access to key IT staff, removal of member creation permissions from'Client' accounts and monthly activity reports for 'Clients' will be reviewed by Pensions and Accounting Manager.)	**Static**
Members' Confidential Data is lost or made public / breach of Data Protection Act (12)	Internal processes in relation to printing and administrative tasks are in place, however this continues to be under review due to the potential for such errors to result in material Data Protection breaches. In particular, we continue to review the feasibility of outsourcing printing and will report back to Committee on the outcomes of this review. Separately, we are continuing to liaise with the Information Compliance team regarding the potential requirement for the corporate vehicles to be separately registered with the Information Commissioner as data controllers and also to ensure that the funds' document retention processes are fully up to date.	**Static**
Fraud (including pensions liberation fraud) and/or theft of pension fund monies (5)	The risk around pensions liberation fraud has slightly increased as, while the Scorpion Task Force (comprising members from the FCA, TPR and HMRC) is making progress in this area, the industry as a whole continues to report an upturn in the level and sophistication of pension liberation and other forms of fraud. We will therefore require to continue to monitor the position closely and remain vigilant in monitoring requests for transfers-out. As highlighted last quarter, we are monitoring the level of transfers to assess the impact of the relaxed regulations around accessing pension fund monies and with a particular focus on this playing into the hands of potential fraudsters.	**Up**
Business continuity issues (11)	The Pensions Audit Sub-Committee, at its meeting on 16 June 2014, requested that the Director of Corporate Governance considers whether a test of the disaster recovery system (of the pensions administration system) was necessary to establish sufficient assurance. The software system for pensions administration is hosted by the supplier. The disaster recovery test originally scheduled for November 2014 has been delayed until late February 2015. We anticipate that business continuity risk will reduce following the conclusion of the Council's IT tender. We are reviewing the need for a back-up hard-line fax machine within Atria One (given the network reliance of many of our communications systems).	**Static**
Non-compliance with the new LGPS Scheme in Scotland / Public Service Pensions Act 2013 (26)	Preparation to implement the new scheme in 1 April 2015 continues to place an increased pressure on existing resources, but we are currently on schedule for full compliance within the requisite timeframe. The recent publication of the final governance regulations and the establishment of the Pension Board are a major step to reducing the risk. We will continue to be actively involved in the national discussions and closely monitor the position. We anticipate that this risk will substantially reduce further as new systems, processes and procedures bed in shortly after 1 April 2015.	**Down**

Risk & Reference Number	Update	Trend/ RAG
Over-reliance on single service provider for core functions (31)	We continue to monitor the position in relation to our core providers and are looking to put in place arrangements to further mitigate this risk where it exists in relation to our Pension Administration systems.	**Static** ↔
Portfolio Transition Issues (17)	The risk remains higher than usual to reflect the additional work and exposure relating to the transition of two internal investment portfolios to further implement the new investment strategy. The risk will be reduced immediately following the completion of the transition and we anticipate that this will be the case by the time the Committee meet to discuss this paper.	**Static** ↔

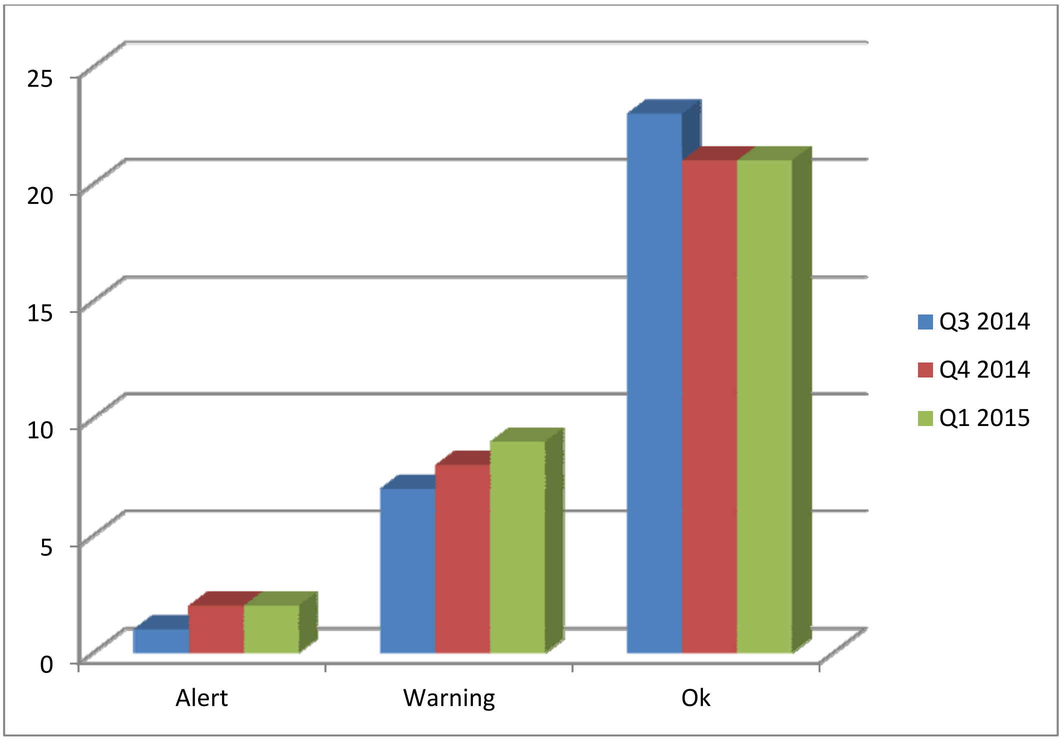
NOTABLE RISKS: PROGRESSION OF CURRENT RISK (ACCOUNTING FOR CONTROLS) IN LAST THREE QUARTERS



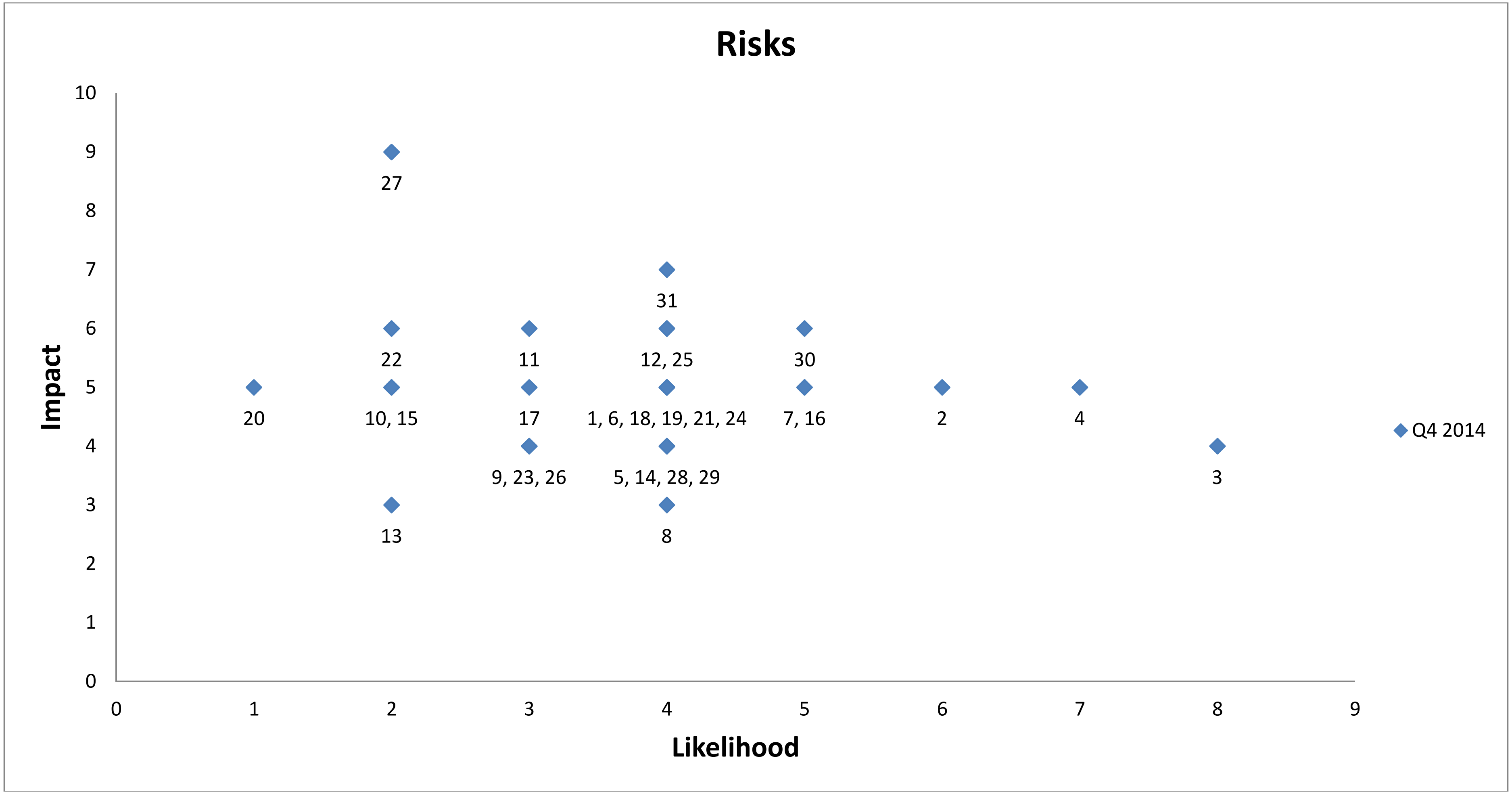
Other Key Points

	Comments
New significant risks	None
Other new risks	Pension Board not operating effectively, with a negative impact on the operation of the Fund. (10) Human Resource within the division not sufficient to carry out core business tasks in conjunction with active or anticipated projects. (32) Breach of Health and Safety Regulations (33)
New controls	HR resource, including external advice, in place for FCA/Staffing project. (4)
Eliminated risks	Failure to complete annual accounts on time (a routine business process).
Notable initiatives / actions	Liaising with Falkirk Council to ensure procedures for the secondment arrangement are embedded. (27) Strengthening of investment controls continues. In due course a further review will be undertaken (17) Recruitment of Legal & Compliance support in progress, albeit we will not have a legal trainee for the six months from March – August 2015. (32)
Material Litigation	None.

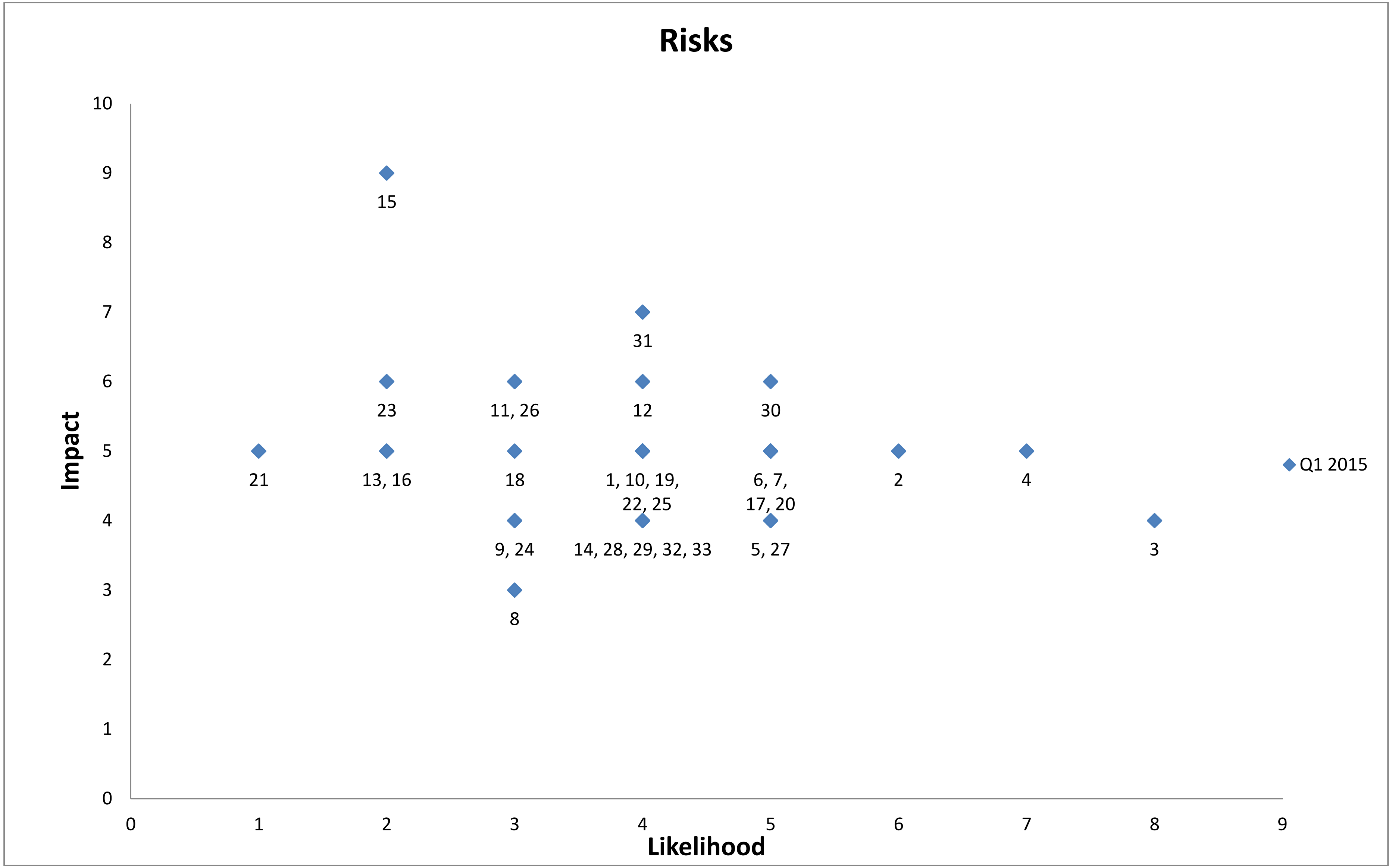
All Risks: Status Overview



Q4 (2014) All Risks: Impact and Likelihood Overview



Q1 (2015) All Risks: Impact and Likelihood Overview



Key: Risks by Number

1	Investment Performance pressure on employer contributions
2	Adverse Movement - pressure on employer contributions
3	Collapse of an employer
4	Retention of key staff
5	Fraud or theft of Council/Pension Fund assets
6	Staff negligence
7	Failure of IT systems
8	Employers HR decisions without consideration of fund
9	Elected members take decisions against sound advice
10	Pension Board not operating effectively
11	Business continuity issues
12	Members' confidential data is breached
13	Loss due to stock lending default
14	Risk of incorrect pension payments
15	Late payment of pension
16	Market abuse by investment team
17	Portfolio transition issues
18	Disclosure of confidential information
19	Material breach of contract
20	Regulatory breach
21	FOI process in accordance with law
22	Incorrect communication with members
23	Not acting in accordance with proper authority/delegations
24	Inappropriate use of pension fund monies
25	Procurement/framework breach
26	Non-compliance with the new LGPS
27	Claim or liability arising from shared services
28	Unauthorised access to PensionsWEB
29	Incorrect data from Employers leading to fines
30	Inadequate contractual protection for services
31	Over reliance on single core service provider
32	HR insufficient to carry out active projects
33	Breach of Health and safety regulations