

Notice of meeting and agenda

Pensions Committee

2.00pm, Wednesday 16 December 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 Pensions Board 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 If any.

4. Minute

- 4.1 Previous Minute 16 November 2015 – Submitted for approval as a correct record (circulated)

5. Reports

- 5.1 Considerations and matters to be raised by the Pension Board regarding any items on the agenda
- 5.2 Referrals and Recommendations from Pensions Audit Sub-Committee – verbal update from the Convener of the Sub-Committee
- 5.3 Agenda Planning – report by the Deputy Chief Executive (circulated)
- 5.4 Lothian Pension Fund – Investment Strategy Review and Update – report by the Deputy Chief Executive (circulated)
- 5.5 Lothian Buses Pension Fund – Investment Strategy Review and Update - report by the Deputy Chief Executive (circulated)
- 5.6 Scottish Homes Pension Fund – Investment Strategy Review and Update - report by the Deputy Chief Executive (circulated)
- 5.7 Investment Controls and Compliance - report by the Deputy Chief Executive (circulated)
- 5.8 Pension Fund Cost Benchmarking - report by the Deputy Chief Executive (circulated)
- 5.9 Environmental Social and Governance Activity Report Update (including class actions) - report by the Deputy Chief Executive (circulated)
- 5.10 Service Plan Update - report by the Deputy Chief Executive (circulated)
- 5.11 Communications Policy and Pensions Administration Strategy Update – report by the Deputy Chief Executive (circulated)
- 5.12 Risk Management Summary - report by the Deputy Chief Executive (circulated)

6. Motions

6.1 If any

Carol Campbell

Head of Legal and Risk

Committee Members

Councillor Rankin (Convener), Councillor Child, Councillor Bill Cook, Councillor Orr and Councillor Rose, John Anzani and Richard Lamont.

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

3.00pm, Monday 16 November 2015

Present

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

Pensions Board Members Present:

Eric Adair, Jim Anderson, Simon Belfer, Thomas Carr-Pollock, Darren May, Linda McDonald, Graham Turnbull and Catrina Warren

1. Funding Strategy

(a) Deputation – Lothian Pension Fund Employers' Forum

Ken Hay (CMI), Brian Drinkwater (Into Work), Sharon Cowlie (Scottish Legal Complaints Commission) and Adam Wilkinson (Edinburgh World Heritage Trust) explained how changes to the funding approach had impacted on their organisations and others like them. There had been 14 organisations that had submitted an appeal with six of these stating that they wished to leave the fund, all for affordability reasons.

The impact on the affected organisations over the last 11 months had been one of uncertainty, resulting in organisations being unable to forward plan. Some organisations such as the Scottish Legal Complaints Commission had already set its budget with aforementioned increases in pensions costs now being unbudgeted. For other organisations there was concern that these additional pension costs may deter other funding.

The deputation asked the Pensions Committee to consider the following:

1. That the relevant Councils act as a guarantor to the affected organisations.
2. That a deal is agreed between the Pension Fund and the relevant organisations.
3. To suspend the process and lobby the Scottish Government to review the duties put on pension funds regarding cessation valuations.

Brian Drinkwater added that advice from the Lothian Pension Fund would also be welcomed which, if possible, could provide projections on future costs and affordability.

(b) Report – Funding Strategy – Employer Appeals

Details were provided of the key issues raised by those appealing the funding approach and changes were recommended to the Funding Strategy Statement, in relation to the funding of liabilities transferred from another employer within the fund and the frequency of payment of past service deficits.

The Fund's actuary, Richard Warren, was heard in regard to the consideration of this item.

Decision

- 1) To note that a further report by the Deputy Chief Executive, recording the determinations of the employer appeals against the Funding Strategy was to be considered as item B1.1.
- 2) To note that a further report by the Deputy Chief Executive, on those employers who proposed to cease membership of Lothian Pension Fund was to be considered as item B1.2.
- 3) To note that the Fund had proposed amendments to the Funding Strategy Statement following the appeals process and had consulted with employers on the proposed changes.
- 4) To agree to amend the Funding Strategy Statement to provide that where an employer had been admitted to the Fund, arising from the transfer of members of staff from another scheme employer and the ceding employer was in agreement, then funding, including cessation valuations, should be on an ongoing basis.
- 5) To agree to amend the Funding Strategy Statement to stipulate that employer contributions in respect of Past Service Deficit, which are expressed as a minimum fixed monetary sum, were payable on a monthly basis, that is one twelfth of the annual total.
- 6) To note that the basis of cessation valuation had been considered by the Scheme Advisory Board and to agree that the Fund would take cognisance of any guidance in due course.

(Reference – report by the Deputy Chief Executive, submitted.)

2. Minutes

Decision

To approve the minute of the Pensions Committee of 30 September 2015 as a correct record.

3. Resolution to consider in private

The Committee, under Section 50(A)(4) of the Local Government (Scotland) Act 1973, excluded the public from the meeting for the following items of business on the grounds that they involved the disclosure of exempt information as defined in Paragraph 6 of Schedule 7(A) of the Act.

4. Employer Appeals against Funding Strategy, Actuarial Valuation 2014 - Determinations

Appeals made by eight employers against the adoption of a low risk (cessation basis) approach to funding in the Funding Strategy for the 2014 Actuarial Valuation were outlined.

Decision

- 1) To note that the Deputy Chief Executive has determined the outcome of the appeals in consultation with the Convener of the Pensions Committee, the Convener of the Pensions Audit Sub-Committee and the Independent Professional Observer, in accordance with the instruction by the Pensions Committee.
- 2) To note the conclusion of the appeals process for those employers looking to remain in the Fund, as follows:
 - 2.1) The future service rate on the gilts basis is considered to be the minimum contribution in order to ensure that the accrual of new benefits does not increase the deficit on the cessation basis.
 - 2.2) In the event of active members leaving earlier than anticipated, the Fund should require employers to continue to pay the respective future service rate contributions to the Fund to reduce the deficit.
 - 2.3) Given the disputed interpretation of the clause in the admission agreement the Fund should look to update the admission agreements of the affected employers.
- 3) To note that actuarial advice had been taken and that accordingly a revised 'Rates and adjustments certificate' would be issued to the Fund Actuary.
- 4) To note that appropriate follow-up actions would be undertaken by Lothian Pension Fund, including exploring the potential for suitable financial guarantor(s)

(Reference – report by the Deputy Chief Executive, submitted.)

5. Employers Exiting Lothian Pension Fund

Details were provided of proposals from employers who had stated their intention to leave the Fund.

Decision

- 1) To note that six employers had intimated that they proposed to close their Local Government Pension membership to future accrual as soon as possible, and thereby leave the Fund.

- 2) To note that Pilton Community Health Partnership exited the Fund with effect from 1 April 2015.
- 3) To note that in these cases, requiring repayment of cessation debt over a short period of time could mean that the employer defaulted or in some cases go into insolvency.
- 4) To agree the conclusions of the review of these cases, that the interest of the Fund as a whole (and any aligned body) may be best served by:
 - 4.1) Allowing payment of cessation debt over longer terms rather than insisting on payment as a one-off payment or over shorter terms previously agreed;
 - 4.2) Agreeing repayment of debt less than the cessation debt in order to avoid employer insolvency, with an appropriate agreement which allows the Fund to revisit the repayment of the remaining debt at a future date (i.e. the debt would be a contingent liability and hence not recognised on an employer's balance sheet).
 - 4.3) Maximising debt repayment in the short term in order to access employers' current cash reserves, rather than these being depleted by further losses.
 - 4.4) Obtaining security over any employer assets and/or suitable guarantee where possible.
 - 4.5) Seeking, where appropriate, suitable 'anti-embarrassment' provisions in legal agreements covering future increases in employer asset values.
- 5) To delegate authority to the Deputy Chief Executive, or whom failing, the Head of Finance, the conclusion of the debt repayments with each of the seven employers in line with the conclusions above and as outlined in the report by the Deputy Chief Executive, taking into account up-to-date accounting information as required.
- 6) To note that the final outcomes of the employer exits and debt repayment plans would be reported to Committee in due course.
- 7) To agree that in the event of any of the six employers not exiting the Fund, that the future service rate on the gilts basis should be the minimum contribution in order to ensure that the accrual of new benefits did not increase the deficit on the cessation basis and that admission agreements were updated.

- 8) To note that the Deputy Chief Executive would report to the committee prior to taking any legal action when recovering debt.

(Reference – report by the Deputy Chief Executive, submitted.)

Pensions Committee

2.00 p.m., Wednesday, 16 December 2015

Agenda Planning

Item number	5.3
Report number	
Executive/routine	
Wards	All

Executive summary

This document provides Committee with an overview of the agendas 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

Agenda Planning

Recommendations

- 1.1 That Committee invites the Pension Board to raise any relevant matters or concerns which the Committee should consider.
- 1.2 That the Committee notes the agenda planning document.

Background

- 2.1 In order for the Committee and Pension Board to gain an overview of the content of future meetings 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.

March 2016

Pensions Committee

- Audit Plans (external and internal)
- Audit Sub Committee Appointments
- Governance Update
- Policies/Strategies/Training
- 2015 – 2018 Service Plan Update
- 2016 – 2019 Service Plan and Budget
- Employers Participating in Lothian Pension Fund
- Risk management summary

It is proposed that the Pensions Audit Sub-Committee does not meet in March 2016. Audit plans for 2016/17 will be developed in consultation with the Convener of the Audit Sub-Committee before consideration by the Pensions Committee.

June 2016

Pensions Committee	Pensions Audit Sub Committee
<ul style="list-style-type: none">• Lothian Pension Fund Annual Report (& Accounts) Unaudited• Statement of Investment Principles• Investment Strategy Panel Activity• Annual Investment and funding – Lothian Pension Fund/Lothian Buses Pension Fund/Scottish Homes Pension Fund• Risk management summary	<ul style="list-style-type: none">• Lothian Pension Fund Annual Report (& Accounts) Unaudited• Risk management summary

Future Pensions Committee and Audit Sub Committee dates:

Pensions Committee	Pensions Audit Sub Committee
<ul style="list-style-type: none">• Wednesday, 15 March, 2pm, Dunedin Room, City Chambers.• Monday, 27 June, 2pm, Dunedin Room, City Chambers.	<ul style="list-style-type: none">• Thursday, 23 June 2016, 2pm, Dunedin Room, City Chambers

The Circulation Committee Papers

- 3.2 Concerns around the preparation time given for Committee papers has been raised by both Committee and Pension Board members over the past few months. Section 50B of the Local Government (Scotland) Act 1973 states that *'any document which is required' to be 'open to inspection shall be so open at least three clear days before the meeting'*. 'Clear days' exclude weekends, the date Committee papers are issued or received or when the Committee meet. For example, Committee papers can be issued by e-mail on a Tuesday for a committee meeting scheduled to be held the following Monday.
- 3.3 It is acknowledged that given the complexity and length of some of the Committee papers, the Fund will endeavour to issue Committee papers at least 10 days before the Committee meet. This would be the equivalent of 7 'clear days'. However, there may be occasions when later circulation of selected papers may be necessary.

Measures of success

- 4.1 The Committee and Pension Board 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 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 Pension Board, comprising employer and member representatives, is integral to the governance of the Funds.

Background reading/external references

None

Alastair D Maclean

Chief Operating Officer

Deputy Chief Executive

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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 2 - <http://www.legislation.gov.uk/ukpga/1973/65/section/50B>

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
	Policies/Strategies/Training (including revised Pension Administration Strategy biennial from March 2016)	N/A	March
	Service Plan and Budget		March
	Governance Update (as from March 2016)		March
	Audit Sub-Committee Appointments		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 (or September if available)	
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) Discretions (death grants etc.) N/A Regulatory Update Investment Strategy Reviews (at least every 3 years) N/A	N/A Audit reports Internal Audit Reports N/A N/A Risk management (in depth review)	

Pensions Committee

2.00 p.m., Wednesday, 16 December 2015

Lothian Pension Fund – Investment Strategy Review & Update

Item number	5.4
Report number	
Executive/routine	
Wards	All

Executive summary

This report provides an update on the investments of the Lothian Pension Fund to 30 September 2015 and the outcome of the recent review of strategy undertaken by the Investment Strategy Panel.

The Fund's Investment Strategy 2012-17 is being implemented gradually. Fund risk has declined materially since 2012 due to the reorganisation of equity and bond mandates and small adjustments to asset allocation.

Performance during recent equity market volatility indicates that the changes to strategy have positioned the Fund to achieve its objective of better preservation of capital during periods of market weakness.

The review of strategy reaffirmed the existing strategy with the aim of achieving the strategic allocation by end 2017 subject to suitably attractive alternative investments becoming available in the market.

Links

Coalition pledges

Council outcomes [CO26](#)

Single Outcome Agreement

Lothian Pension Fund – Investment Strategy Review and Update

Recommendations

- 1.1 That Committee invites the Pension Board to raise any relevant matters or concerns which the Committee should consider.
- 1.2 That Committee notes the investment update of strategy implementation and performance.
- 1.3 That Committee agrees that progress towards the investment strategy for 2012-17 should continue.
- 1.4 That Committee notes the recent Investment Strategy Panel discussion reviewing benchmarks, in particular for the Alternative investments with the decision to retain the existing benchmark of RPI +3.5%.

Background

- 2.1 The Fund's investment strategy is set at the broad asset class level of Equities, Index-Linked Gilts and Alternatives, which are the key determinants of investment risk and return. Investment strategy includes Equities and Alternatives on the assumption that these assets will deliver better performance than Index-Linked Gilts in the long-term.
- 2.2 The Pensions Committee approved the Investment Strategy and Objectives 2012-17 for Lothian Pension Fund in October 2012.

Asset Category	Investment Strategy 2012-17 %	Permitted Range %
Equities	65	50 - 75
Index-Linked Assets	7	0 - 20
Alternatives	28	20 - 35
Cash	0	0 - 10
TOTAL	100	

- 2.3 The strategy reduces the allocation to equities (including private equity) from 71.5% at the end of 2012 to 65% by the end of 2017 and increases the allocation to Index-Linked Gilts and Alternatives. It recognises a gradually changing risk profile for the Fund, but retains significant exposure to real investments, such as Index-Linked Gilts and Equities, which have a history of

protecting or enhancing purchasing power, after the effects of inflation have been taken into account.

- 2.4 The Fund's investment objectives are:
- Over long-term economic cycles (typically 5 years or more), the achievement of the same return as that generated by the strategic allocation;
 - Over shorter periods, the Fund should perform better than the strategic allocation if markets fall significantly.
- 2.5 Investment strategy is typically reviewed following the results of the triennial actuarial valuation and the most recent valuation was undertaken in 2014.
- 2.6 Investment Strategy Panel reviews the progress of the implementation of investment strategy at their quarterly meetings. An additional meeting was held in October 2015 to review the investment strategy of the Fund in the context of the results of the 2014 actuarial valuation.
- 2.7 The purpose of this report is to provide an update on the implementation of the current 2012-17 strategy implementation of the Lothian Pension Fund to 30 September 2015 and the conclusions of an interim review of its investment strategy recently undertaken by the Investment Strategy Panel.
- 2.8 An update on the investments of Lothian Pension Fund was provided to Committee in June 2015.

Main report

Investment Strategy Implementation

- 3.1 The implementation of the Investment Strategy 2012-17 has continued to proceed at a measured pace as investment opportunities have become available and as research on opportunities have been completed. Progress towards the long term strategy allocation involves the interim strategy allocation and the actual asset allocation changing gradually over time. The pace of change can be accelerated or slowed depending on asset prices, the availability of alternative investments and research conclusions on new strategies.
- 3.2 The interim strategy allocation to equities was reduced from 71.5% to 68.0% over the 3.5 year period. The long term target allocation for 2017 is 65%. A key objective of the Fund's investment strategy is to reduce risk, including risk within the equity pool of assets. Over the period, this has been achieved by shifting from regional to global and external to internal portfolios as well as a reduction in private equity exposure. Approximately three quarters of the Fund's equities are managed internally with the majority of these in low cost, low turnover strategies, which are expected to enhance the Fund's risk-adjusted returns over the long term.

- 3.3 The Fund's independent performance measurer, Portfolio Evaluation, shows that the actual equity volatility experienced by the Fund has fallen materially over the last 5 years from 17.0% to 11.2%, which largely reflects the lower market volatility over the period, but also reflects the changes in the table below. The Fund's equity volatility over the last year was 93% of the equity benchmark.
- 3.4 The following table illustrates the changes in the Fund's equities since March 2012.

No change
Increased Strategy Allocation
Decreased Strategy Allocation
Mandate Terminated
New Mandate

LOTHIAN PENSION FUND		Interim	Interim
30 September 2015		Strategy	Strategy
Fund size £4,833m		Allocation	Allocation
		at end	at end
		March	September
		2012	2015
		%	%
Manager			
UK All Cap	Internal	15	2.0
UK Mid Cap	Internal		1.8
Europe (ex UK)	Internal	7.1	2.1
US	Internal	6.5	2.1
Asia Pacific	Baillie Gifford	8.1	0.0
Asia Pacific	Invesco Perpetual	2.8	0.0
EM	Aberdeen	5.0	0.0
EM	Mondrian	0.0	2.3
EM	UBS	0.0	2.3
Total Regional Listed		44.5	12.5
Global	Lazard	5.5	0.0
Global	L&G	5.5	0.0
Global HDY	Internal	0.0	14.3
Global GLOVE	Internal	0.0	17.5
Global GLOVAL	Internal	0.0	6.5
Global	Nordea	0.0	3.7
Global	Cantillon	5.0	5.0
Global	Harris	3.5	3.5
Total Global Listed		19.5	50.5
Private Equity (listed & LP)	Internal/Various	7.5	5.0
Currency Hedge	AG Bisset	0.0	0.0
Currency Hedge	Internal	0.0	0.0
Total Equities		71.5	68.0

- 3.5 The change to the index-linked asset strategy allocation is shown in the table below. The allocation has increased from 5.0% to 7.0% of Fund assets, which is the target allocation for 2017. This represents a small reduction in risk as index-linked gilts provide diversification from the Fund's dominant asset, equities, some insurance against an unexpected rise in inflation and a return broadly in

line with the Fund's liabilities. They are, however, priced to generate a negative real return over all timeframes.

LOTHIAN PENSION FUND 30 September 2015 Fund size £4,833m	Manager	Interim Strategy Allocation at end March 2012	Interim Strategy Allocation at end September 2015
		%	%
Total Index-Linked Assets	Internal	5.0	7.0

- 3.6 The increased allocation to the Alternatives is shown in the table below. Excellent progress has been made in making new infrastructure and timber investments over the past 3.5 years, but identifying attractive bond related investments has proved more difficult. The corporate bond mandate managed by Rogge was terminated during the first half of 2014 as bond yields fell and corporate bond spreads narrowed with proceeds invested in index-linked gilts and US Treasuries pending better credit opportunities arising. Since then, the Fund has made commitments to two private debt funds focused on direct lending in UK and European markets. The target allocation to Alternatives in 2017 is 28%.

LOTHIAN PENSION FUND 30 September 2015 Fund size £4,833m	Manager	Interim Strategy Allocation at end March 2012	Interim Strategy Allocation at end September 2015
		%	%
SLI Property	SLI	12.0	10.0
Other Property (LP)	Internal		
Property		12.0	10.0
Infra Listed	Internal	4.5	
Infra LP	Various		8.0
Timber & Agriculture	LPs	0.5	
Other Real Assets		5.0	8.0
Corporate bonds	Rogge	5.0	0.0
Private Secured Loans	Internal	0.5	0.0
Other Bonds	Internal	5.5	6.0
Alternatives Cash	NT	0.0	0.0
Total Alternatives		22.5	24.0

Investment Performance to 30 September 2015

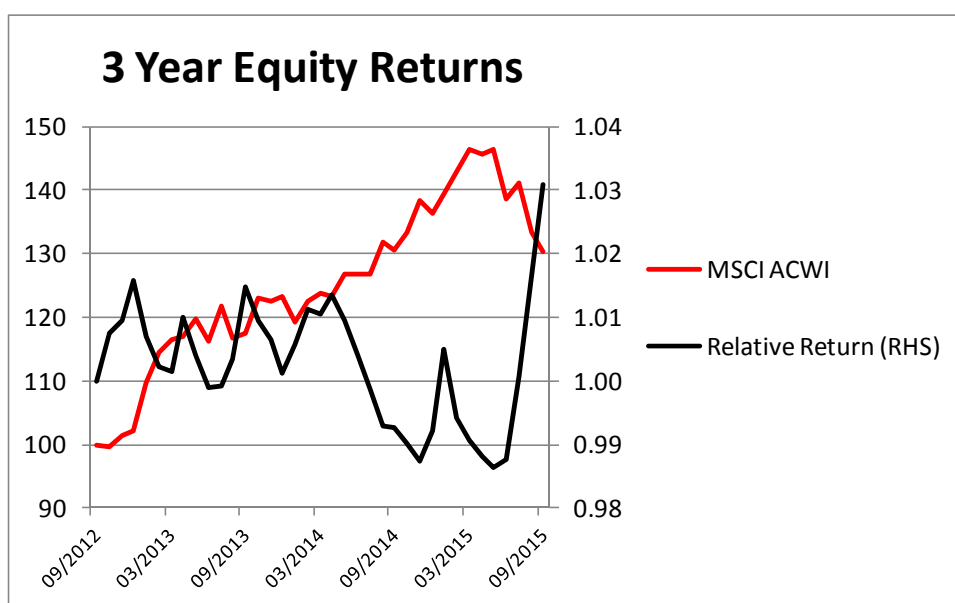
- 3.7 The Fund as a whole has achieved returns in excess of the strategic allocation over the short and long term timeframes shown in the table.

% per annum	1 Year	5 Years	10 Years
Lothian Pension Fund	+7.1%	+8.6%	+7.1%
Benchmark	+1.7%	+7.2%	+5.5%
Relative	+5.4%	+1.4%	+1.6%

- 3.8 The benchmark in the table comprises equity, index-linked gilt and cash indices as well as an inflation-linked index for the alternatives allocation.
- 3.9 The Fund's return over the last five years is 8.6% per annum, well ahead of the benchmark return of 7.2% per annum despite exhibiting lower than benchmark risk.
- 3.10 The Fund's return over the twelve month period is significantly ahead of the benchmark by +5.4%, but there is less information content in this relative return number, not least because the development of asset prices is much more volatile than the development of the UK retail price index (RPI), which is the basis of the Alternatives benchmark, because of the low risk construction of the equity pool of assets and because the currency hedge is designed to reduce risk. With that caveat, stock selection in Alternatives contributed +1.2%, Equities +3.5% and currency hedging +0.7% to the total Fund's relative return of +5.4% over that one year period.
- 3.11 The Investment Strategy Panel assesses the underlying risks of the portfolios that make up the asset allocation to ensure that these are consistent with the long term objectives of the Fund. The direction of the Fund's relative performance when markets are increasing and decreasing is one way of measuring risk. It has been a relatively short time since the Fund adopted its strategy, which included a lower volatility objective, but after an extended period of relatively benign market conditions, the period from end March to end September 2015 brought significantly increased volatility to test the resilience of the strategy.
- 3.12 The first bout of serious anxiety for some time was caused by concerns over the potential timing and pace of interest rate rises in the US & UK, combined with worries over growth in China and lower commodity and oil prices. The performance of the Fund over this period and over the last 12 months does indicate that the Fund is delivering lower volatility and better capital preservation.
- 3.13 The structure of the equity pool of assets and the currency hedge were very helpful in achieving an outcome of lower volatility. The equity pool has a heavy

weighting to lower risk strategies that emphasise income generation and low volatility.

- 3.14 Global equity markets experienced a notable correction in recent months (see red line in chart below) following the steady gains of the last three years. While the Fund's equity exposure also experienced declines, the focus on capital preservation resulted in outperformance of the broader market (black line on the right-hand side scale). In the 3 months to end September 2015, the Fund's equity exposure (excluding private equity) fell by 1.9% compared to a fall of 6.4% in the index.



- 3.15 The Fund hedges exposure to overseas equities where hedging is expected to reduce Fund risk and does not hedge exposure where hedging is expected to magnify Fund risk. Over the last 12 months, the impact of currency hedging on overseas equities exposure was significantly positive - it generated a positive return as well as reducing Fund risk, its primary purpose.

Investment Strategy Review

- 3.16 Following the 2014 Actuarial Valuation, the Investment Strategy Panel has reviewed the Fund's investment strategy in light of developments in pension fund membership, expected cash flow, funding level, fund maturity and historic and prospective investment risk and returns.
- 3.17 Following a dip in active membership between 2008 and 2011, membership resumed a rising trend between 2011 and 2014. Beyond 2014, there are considerable uncertainties related to Council cost-cutting.

	2002	2005	2008	2011	2014	Trend
Active	26,940	28,446	30,726	30,031	31,536	Rising
Deferred	9,756	11,770	14,668	15,102	17,094	Rising
Pensioners	17,945	18,905	20,223	21,930	24,055	Rising
TOTAL	54,641	59,121	65,617	67,066	72,865	

3.18 Net cash flow (excluding investment income) has continued to be positive, but increasingly, investment income will be an important source of stability for the Fund.

Financial Year	2002/03	2005/06	2008/09	2011/12	2013/14	Trend
Income	117	154	163	188	186	Recently Flat
Expenditure	84	95	121	151	173	Increasing
Net Cashflow	+33	+59	+42	+37	+13	Falling

3.19 The funding level declined between the 2011 and 2014 valuations, due to liabilities growing at a faster pace than assets, largely the effect of falling gilt yields.

Valuation as at 31 March	2002	2005	2008	2011	2014	Trend
Assets £m	1,793	2,092	2,903	3,477	4,379	Increasing
Liabilities £m	1,867	2,450	3,259	3,619	4,796	Increasing
Deficit £m	74	358	356	142	417	Volatile
Funding Level %	96	85	89	96	91	Volatile

3.20 The Fund's strategy is geared towards long term economic growth with the majority of assets invested in equities. Given the relative immaturity of the Fund and the strong covenant of the majority of the employers, the review reaffirmed that the Fund's existing strategy remains appropriate and that implementation should continue along its planned path to 2017. The Committee are asked to agree that progress towards the investment strategy for 2012-17 should continue.

Asset Category	Investment Strategy 2012-17 %	Permitted Range %
Equities	65	50 - 75
Index-Linked Assets	7	0 - 20
Alternatives	28	20 - 35
Cash	0	0 - 10
TOTAL	100	

3.21 The review did recognise that investing in illiquid alternative investments could affect the achievement of targeted allocations. Such investments should only be made if they fulfil their role as attractive investments in their own right and as diversifiers for the Fund. The Fund will continue to hold equities, index-linked gilts or cash if attractive alternative investments cannot be sourced. The Investment Strategy Panel reviews the relative attractiveness of the major asset classes every quarter to determine which assets to hold within the constraints of the permitted limits.

3.22 Implementation of the investment strategy requires assessment of internal and external management, including the risks and financial implications of each

option. The Investment Strategy Panel has also reviewed the internal/external balance looking at diversification, governance and market intelligence issues alongside the well-recognised cost benefits of internal management. Panel concluded that there is scope for further increasing the assets to be managed internally provided that staff retention risks can be managed to ensure sustainability. The internal team currently manages over £3bn, approximately two thirds of the Fund's assets.

Investment Strategy Benchmark

- 3.23 The Investment Strategy Panel reaffirmed the existing strategy and also reassessed and reaffirmed the appropriateness of the existing benchmark against which the Fund is monitored with the caveat that it is relevant over the long term, not the short term. Unfortunately, there are no ideal benchmarks given the nature of Alternative assets, whose market values are calculated intermittently rather than continuously.

Asset Category	Strategic Allocation Strategic Benchmark	
	2012-17	2012-17
Equities	65	MSCI All Countries World Index
Index-Linked Assets	7	FTSE Index-Linked Gilts > 15 year Index
Alternatives	28	UK Retail Price Index +3.5%pa
	100	

- 3.24 Panel has debated the relevance of the RPI +3.5% benchmark for Alternatives at length. While noting that this benchmark is imperfect, its relevance stems from the fact that Fund liabilities are tied to inflation and so the required return from Fund assets is related to inflation. Unfortunately, RPI does not behave in the same way as asset prices, except over extended periods of several years. Panel, however, concluded that a perfect benchmark does not exist and so the existing benchmark for Alternatives should be retained.
- 3.25 The weakness of the benchmark is that it is not investible and that it is much less volatile than the market values of the assets in the Fund. Committee should note that recent strong relative performance is partly attributable to the fact that Alternative asset market values have grown at a faster rate than the benchmark of RPI+3.5% per annum. When Alternative asset values fall, as they inevitably will over some timeframes, relative performance will be weaker. Scenario analysis shows that a wide range of relative returns over short term timeframes is likely going forward.
- 3.26 Panel also concluded that the MSCI ACWI benchmark for equities was still appropriate while recognising that it creates a challenging objective given the Fund's current strategic configuration with the majority of the internal equity investments in low risk/low leverage strategies. The Fund is targeting good risk-adjusted returns and measurement of returns in the context of risk, as well as against a benchmark such as the MSCI ACWI, will be important. With this perspective, recent strong relative performance by the equity pool of assets in the weak equity markets of the third quarter of 2015 is encouraging and points to

good risk-adjusted returns. It should be noted that in very strong equity markets, absolute returns should be positive but are likely to lag the benchmark.

- 3.27 Committee should also note that the Investment Strategy Panel utilises other specialist benchmarks at the sub-asset class level to help assess the success of the various investment strategies employed by internal and external managers. For example, a US equity index is used to assess performance of the internal US equity portfolio. In addition, the principles of each internally managed portfolio are reviewed in detail periodically to ensure they remain sound and relevant. Comparisons with external options are made where applicable.

Conclusion

- 3.28 The Fund's Investment Strategy 2012-17 is being implemented gradually. Fund risk has declined materially since 2012 due to the reorganisation of equity and bond mandates and the adjustments to asset allocation.
- 3.29 Performance of the Fund's equity pool of assets during recent equity market volatility has illustrated that strategic changes have positioned the Fund to achieve its objective of better preserving capital during periods of market weakness.
- 3.30 The Investment Strategy Panel's review of strategy post the 2014 Actuarial Valuation reaffirmed the existing strategy with the aim of achieving the strategic allocation by end 2017 subject to suitably attractive alternative investments becoming available in the market.
- 3.31 Panel also reaffirmed the benchmark against which the Fund's investments are monitored, recognising that there is no perfect benchmark given that some assets are infrequently valued.

Measures of success

- 4.1 The investment performance of the Lothian Pension Fund is crucial to the achievement of the required investment return which impacts on the funding level and employers' contributions. The objectives for the investments are:
- Over long-term economic cycles (typically 5 years or more), the achievement of the same return as that generated by the strategic allocation;
 - Over shorter periods, the Fund should perform better than the strategic allocation if markets fall significantly.

Financial impact

- 5.1 The report provides an update of the investment performance of the Lothian Pension Fund. The investment performance has a significant impact on the funding levels and potentially on the contributions required from employers.

Risk, policy, compliance and governance impact

- 6.1 Investment strategy is a key determinant of funding level, risk and volatility of employer contribution rates. The Fund's investment strategy is aimed at reducing the risk without sacrificing returns.
- 6.2 There is no governance impact as a result of this report. Committee delegates the implementation of investment strategy to the Director of Corporate Governance, who takes advice from the Investment Strategy Panel. The Investment Strategy Panel is an important element of the governance of the pension fund investments.

Equalities impact

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

Sustainability impact

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

Consultation and engagement

- 9.1 The Pension Board, comprising employer and member representatives, is integral to the governance of the Funds.

Background reading/external references

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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 None

Pensions Committee

2.00 p.m., Wednesday, 16 December 2015

Lothian Buses Pension Fund – Investment Strategy Review Update

Item number	5.5
Report number	
Executive/routine	
Wards	All

Executive summary

This report provides an update on the investments and the investment strategy review of the Lothian Buses Pension Fund.

The Fund's Investment Strategy 2012-17 is being implemented gradually. The Fund's risk reduced over the period since the last review in 2012 with a reduction in the equity weighting accompanied by an increased allocation to index-linked gilts and alternative investments.

Performance of the Fund during recent equity market volatility has illustrated that the strategy has positioned the Fund to achieve its objective of better preserving capital during periods of market weakness.

The Investment Strategy Panel's review of strategy post the 2014 Actuarial Valuation is underway. The outcome of the review and recommendations for the future strategy of the Fund are expected to be reported to Committee in March 2016.

Links

Coalition pledges

Council outcomes [CO26](#)

Single Outcome Agreement

Annual Investment Update – Lothian Buses Pension Fund

Recommendations

- 1.1 That Committee invites the Pension Board to raise any relevant matters or concerns which the Committee should consider.
- 1.2 That Committee notes the investment update and the progress of the investment strategy review of the Lothian Buses Pension Fund.

Background

- 2.1 The purpose of the report is to provide an update on the investments of Lothian Buses Pension Fund to 30 September 2015 and on its investment strategy review. Strategy is typically reviewed following the results of the triennial actuarial valuation and the most recent valuation was undertaken in 2014.
- 2.2 The investment performance of the Fund has a significant impact on the funding level and potentially on the contributions required by the employer, Lothian Buses plc.

Main report

Investment Strategy Implementation

- 3.1 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. The investment strategy is set at the broad asset class level of Equities, Index-Linked Gilts and Alternatives, which are the key determinants of investment risk and return. Investment strategy includes Equities and Alternatives on the assumption that these assets will deliver better performance than Index-Linked Gilts in the long-term.
- 3.2 The Pensions Committee approved the Investment Strategy 2012-17 for Lothian Buses Pension Fund in October 2012.

Asset Category	Long term Strategy Allocation 2012-17 %	Permitted Range %
Equities	55	45 - 65
Index-Linked Assets	15	10 - 30
Alternatives	30	10 - 35
Cash	0	0 - 10
TOTAL	100	

- 3.3 The strategy reduces the allocation to equities (including private equity) from 65% at the end of 2012 (prior to Strategy Review) to 55% by the end of 2017 and increases the allocation to index-linked gilts and alternatives. It recognises a gradually changing risk profile for the Fund, but retains significant exposure to real investments, such as Index-Linked Gilts and Equities, which have a history of protecting or enhancing purchasing power, after the effects of inflation have been taken into account.
- 3.4 The Fund's investment objectives are:
- Over long-term economic cycles (typically 5 years or more), the achievement of the same return as that generated by the strategic allocation;
 - Over shorter periods, the Fund should perform better than the strategic allocation if markets fall significantly.
- 3.5 The implementation of the Investment Strategy 2012-17 has continued to proceed at a measured pace as investment opportunities have become available and as research on opportunities has been completed. Progress towards the long term strategy allocation involves the interim strategy allocation and the actual asset allocation changing gradually over time. The pace of change can be accelerated or slowed depending on asset prices, the availability of alternative investments and research conclusions on new strategies.
- 3.6 This is reflected in the table below. Progress towards the increased allocation to alternatives can be seen - the 26% exposure to alternatives only modestly below the 27.5% interim strategy allocation. The equity weighting has also reduced and at 60% is in line with the interim strategy allocation of 60.5%. Equity exposure is now split roughly equally between an externally managed (Baillie Gifford) portfolio and an internally managed Global High Dividend portfolio.

	Manager	Interim Strategy Allocation 31 March 2012 %	Interim Strategy Allocation 30 September 2015 %	Actual Allocation 30 September 2015 %
EQUITIES				
Global Alpha	Baillie Gifford			30
Global High Dividend Yield	Internal			29
Private Equity	Internal			1
Subtotal		65	60.5	60
INDEX-LINKED ASSETS				
Index-linked bonds	Baillie Gifford			8
Index-linked gilts	Internal			4
Subtotal		10	12.0	12
ALTERNATIVES				
Property	Standard Life	10		10
Other Real Assets [1]	Various	15		8
Other Bonds [2]	Baillie Gifford			8
Subtotal		25	27.5	26
Cash	Internal	0	0	2
TOTAL		100	100	100

[1] Includes infrastructure and timber

[2] Includes corporate bonds and loans

3.7 The main constraint to achieving the current strategic plan 2012-17 is that investing in illiquid alternative investments may prevent achievement of target allocations. Panel is clear that such investments should only be made if they fulfil their role as attractive investments in their own right and as diversifiers for the Fund. Having said that, significant progress was made towards the increased allocation to alternatives over the last 12 months with a notable increase in infrastructure investment.

Investment Performance to 30 September 2015

3.8 The Fund has achieved returns in excess of the strategic allocation over the short and long term timeframes shown in the table.

% per annum	1 Year	5 Years	10 Years
Lothian Buses Pension Fund	+5.5	+9.6	+8.3
Benchmark	+2.7	+7.8	+6.8
Relative	+2.8	+1.8	+1.5

- 3.9 The benchmark shown in the table comprises equity, index-linked gilt and cash indices as well as an inflation-linked index for the alternatives allocation.
- 3.10 The Fund's return over the last five years is 9.6% per annum, comfortably ahead of the benchmark return of 7.8% per annum.
- 3.11 The Fund's return over the twelve month period is significantly ahead of benchmark, but there is less information content in this relative number, not least because the development of asset prices is much more volatile than the development of the UK retail price index (RPI), which is the basis of the Alternatives benchmark (RPI +3.5%pa), and because of the low risk construction of the equity pool of assets. With that caveat, Alternatives contributed +1.3%, Equities +1.8% and Index-Linked Assets -0.3% to the total Fund's relative return of +2.7% over that one year period.
- 3.12 Global equity markets experienced a notable correction in recent months following the steady gains of the last three years. The global equity index (MSCI ACWI) declined by almost 11% in sterling terms between 31 March and 30 September 2015.
- 3.13 The strategic shift towards lower volatility equities, in the form of the internally managed Global High Dividend Equity portfolio, has helped to preserve capital and proved beneficial to relative returns. The dividend yield on this portfolio is currently 4.3% compared with the benchmark yield of 2.7%. In the six months to end September, the Global High Dividend portfolio declined by 7.4% compared to the benchmark decline of 10.9%. The overall Fund returned -4.9%, compared to the benchmark return of -6.1% over the same period.

Investment Strategy Review

- 3.14 The Investment Strategy Panel reviews asset allocation and the progress to the new investment strategy on a quarterly basis and the internal team reviews it monthly. The Investment Strategy Panel also undertakes a strategy review every three years, typically following a triennial actuarial valuation.
- 3.15 Following the 2014 Actuarial Valuation, the Investment Strategy Panel has started to review the Fund's investment strategy in light of developments in pension fund membership, expected cash flow, funding level, fund maturity, historic and prospective investment risk and returns. An important consideration is also the employer covenant and the implications of funding level volatility on the company.
- 3.16 Net cash flow (excluding investment income) has been marginally negative. Investment income will become an increasingly important source of stability for the Fund.
- 3.17 The funding level declined between the 2011 and 2014 valuations, due to liabilities growing at a faster pace than assets, largely the effect of falling gilt yields. This trend has continued during 2014/15.

- 3.18 The Fund's strategy is geared towards long term economic growth with the majority of the Fund invested in equities.
- 3.19 The largest funding risks identified were those driven by the liability value, which is a function of changes in long term interest rates and inflation, and the equity risk, which is expected to diminish over the very long term.
- 3.20 The Panel has undertaken scenario analysis, which highlights the importance of the covenant when making investment allocation decisions. In the context of a standalone transport company, the current strategic allocation contains significant funding level and contribution rate volatility, which could affect affordability. The implications of reducing the volatility of funding levels meaningfully are higher contributions. In the context of a company backed by the Council's covenant, a long-term funding approach can be considered with potential for contributions to be smoothed over longer periods of time, which allows for a higher risk/higher return (and therefore, cheaper) strategic allocation.
- 3.21 The review is ongoing and the Fund is working with Lothian Buses plc to ensure that the risks inherent in the strategy are understood and are acceptable. Meantime, it is clear that the current 2017 strategic allocation shown above remains appropriate, is heading in the correct direction, and changes can be accelerated if desired. The outcome of the review and recommendations for the future strategy of the Fund are expected to be reported to Committee in March 2016.

Conclusion

- 3.22 The Fund's Investment Strategy 2012-17 is being implemented gradually. Since 2012, Fund risk has declined materially. This has been as a result of a reduction in weight and reorganisation of the equity exposure, combined with an increased allocation to alternative assets.
- 3.23 Performance of the Fund during recent equity market volatility has illustrated that the strategy has positioned the Fund to help it achieve its objective of preserving capital during periods of market weakness.
- 3.24 The Investment Strategy Panel's review of strategy post the 2014 Actuarial Valuation highlights the importance of the Council's covenant when making investment allocation decisions. In the context of a standalone transport company, the current strategic allocation contains meaningful funding level volatility. The Fund is working with Lothian Buses plc, its sponsor and its advisers to ensure that the risks inherent in the strategy are acceptable before concluding an appropriate investment strategy for the future.

Measures of success

- 4.1 The investment performance of the fund is crucial to the achievement of the required investment return which impacts on the funding level and employer contributions. The objectives for the investment are:
- Over long-term economic cycles (typically 5 years or more), the achievement of the same return as that generated by the strategic allocation;
 - Over shorter periods, the Fund should perform better than the strategic allocation if markets fall significantly.

Financial impact

- 5.1 This report details the investment performance of the Lothian Buses Pension Fund. The investment performance has a significant impact on the funding levels and potentially on the contributions required from the employer, Lothian Buses plc.

Risk, policy, compliance and governance impact

- 6.1 Investment Strategy is the main determinant of funding level and volatility of employer contribution rates. The Investment Strategy is aimed at reducing the risk without sacrificing returns. There is no governance impact as a result of this report. Committee delegates the implementation of investment strategy to the Director of Corporate Governance, who takes advice from the Investment Strategy Panel. The Investment Strategy Panel is an important element of the governance of the pension fund investments.

Equalities impact

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

Sustainability impact

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

Consultation and engagement

- 9.1 The Pension Board, comprising employer and member representatives, is integral to the governance of the Fund. The Pension Board includes a union representative from Lothian Buses.
- 9.2 Regular meetings are held with Lothian Buses plc to update them on the Fund and to consult on strategic issues.

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 None

Pensions Committee

2.00 p.m., Wednesday, 16 December 2015

Scottish Homes Pension Fund – Investment Strategy Review & Update

Item number	5.6
Report number	
Executive/routine	
Wards	All

Executive summary

This report provides an update on the investments of the Scottish Homes Pension Fund and the review of strategy undertaken by the Investment Strategy Panel over the last few months.

The estimated funding level (the ratio of assets to liabilities) at 30 September 2015 was 90.6%, increased from 88.8% at the last actuarial valuation at 31 March 2014.

In December 2014 Pensions Committee agreed that the Fund's asset allocation would be adjusted according to changes in funding levels pending a review of investment strategy. Following improvements in the funding level, in January 2015, the equity allocation was reduced from 30% to 27.5% and following the end of the financial year, the equity allocation was further reduced to 25%. Subsequent market movements have led to a deterioration of the funding level and in October 2015 the equity allocation was increased to 27.5%.

Further discussion has taken place with the Scottish Government to review the funding approach. The Scottish Government has agreed to consider various options. Work is currently ongoing on the options and progress will be reported to Pensions Committee in due course.

Links

Coalition pledges

Council outcomes [CO26](#)

Single Outcome Agreement

Scottish Homes Pension Fund – Investment Strategy Review & Update

Recommendations

- 1.1 That Committee invites the Pension Board to raise any relevant matters or concerns which the Committee should consider.
- 1.2 That Committee notes the update on the discussions with the Scottish Government on funding options, and the investment strategy review, investment performance, funding level and asset allocation of the Scottish Homes Pension Fund.

Background

- 2.1 The City of Edinburgh Council took over the administration of the deferred and pensioner liabilities of Scottish Homes in July 2005. An agreement between the Scottish Government and the City of Edinburgh Council ('the Guarantee') was put in place in June 2005. The Scottish Government acts as the 'Guarantor' for the Fund liabilities.
- 2.2 The Guarantee and the investment strategy are designed to reduce investment risk as the Fund is closed to new members and the liabilities will mature over the time. They allow for acceleration in the sale of equities and property and purchase of bonds if the actual funding level improves to the target funding level.
- 2.3 The investment strategy is set at the broad asset class level of equities, bonds and property, which are the key determinants of investment risk and return. The strategy changes the allocation to equities, bonds and property dependent on the development of the actuary's estimate of the funding level.
- 2.4 The Target Funding Levels (TFLs), as set out in the Guarantee, are 89.5%, 91.5% and 93.0% at 31 March 2011, 2014 and 2017 respectively. The actual funding levels were below the respective targets in 2011 and 2014. Therefore Scottish Government is paying a contribution of £675,000 p.a. from April 2015 to March 2018.
- 2.5 As previously reported to Committee, discussions regarding potential changes to the funding agreement have been held with the Scottish Government. Options to change the funding approach, including an option where contributions would be determined by fund cash flows rather than funding level, were explored. The Scottish Government have now agreed to consider options for changes to the existing funding agreement.

- 2.6 Pending further engagement with the Scottish Government, Committee approved a change to the investment strategy in December 2014 whereby the equity and bond allocations are adjusted depending on the funding level in accordance with the following table:

Equity Allocation %	Funding level	Note [1]
35	89.5%	2011 TFL
30	91.5%	2014 TFL
25	93.0%	2017 TFL
20	94.5%	2020 TFL
15	95.5%	2023 TFL
10	96.5%	2026 TFL

[1] TFL: Target Funding Level

- 2.7 The purpose of the report is to provide an update on the review of the investment and funding strategy of the Scottish Homes Pension Fund.
- 2.8 The investment strategy and performance have a significant impact on the funding level and potentially on the contributions required from the Scottish Government.

Main report

Funding Level and Investment Strategy

- 3.1 The funding level is monitored regularly by the internal investment team using an on-line system provided by Fund's actuary and the progression of the estimated funding level since 31 March 2015 is shown below:



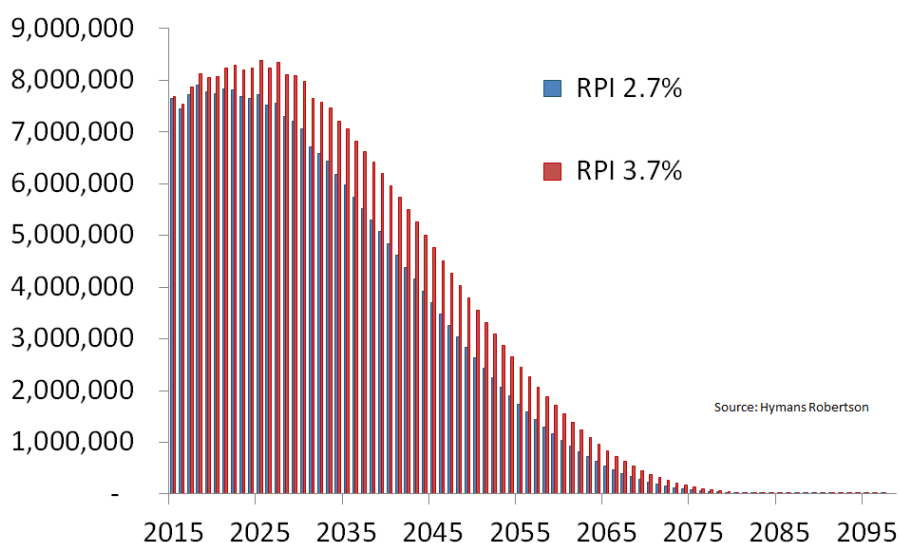
- 3.2 Based on the improved funding level, the strategic equity allocation was reduced from 30% to 27.5% in January 2015 with the bond allocation increasing from 65% to 67.5%.

- 3.3 During April 2015, with equity markets having continued to rally, the funding level estimate rose above the 2017 target funding level of 93%. As a result, the equity allocation was reduced further to 25% resulting in an increased bond allocation of 70%, up from 67.5%.
- 3.4 In the six months to 30 September 2015, global equity markets fell by approximately 10% and the Fund returned -3%. This resulted in a decrease in the estimated funding level to 90.6% and, following discussion with the Investment Strategy Panel, the equity allocation was increased to 27.5% with a corresponding decrease in the bond allocation in the middle of October.
- 3.5 Adjustments to the equity allocation are generally infrequent, but recent changes reflect volatility in financial markets and the fact that the funding level is close to target.
- 3.6 The changes in investment strategy are summarised below:

Scottish Homes Pension Fund – Evolution of Strategy				
	Strategy Allocation 31 March 2014	Strategy Allocation 31 March 2015	Strategy Allocation 30 April 2015	Strategy Allocation 14 October 2015
Asset Class	%	%	%	%
Equities	30.0	27.5	25.0	27.5
Bonds	65.0	67.5	70.0	67.5
Property	5.0	5.0	5.0	5.0
TOTAL	100.0	100.0	100.0	100.0

- 3.7 As part of the 2014 actuarial valuation, analysis of the Fund’s liability cash flow projections was undertaken. A graph of the expected liability payments using two different inflation assumptions is shown below.

Figure 1: Projected cashflows at differing inflation rates (£)



- 3.8 The Fund's strategic allocation to each manager and asset class following the most recent change in the equity allocation is shown in the table below.

Asset Class	Manager	Strategy Allocation 14 October 2015 %
Equities		
UK	State Street	6.2
US	State Street	8.4
Europe Ex-UK	State Street	5.5
Asia Pacific	State Street	2.2
Japan	State Street	3.0
Emerging Markets	State Street	2.2
Subtotal		27.5
Bonds		
Index-linked gilts	In-house	40.5
Index-linked gilts	State Street	13.4
Fixed income gilts	State Street	13.6
Subtotal		67.5
Property		
Property	Schroders	5.0
Subtotal		5.0
Cash		0.0
TOTAL		100.0

Review of Investment Strategy

- 3.9 Discussions regarding potential changes to the funding agreement were held with the Scottish Government during 2014/15 at the time of the actuarial valuation. However, at that time the Scottish Government preferred to make no changes, preferring that the 2014 actuarial valuation and contributions for the 3 years starting April 2015 be determined in accordance with the existing Guarantee.
- 3.10 Further discussions have now taken place and the Scottish Government has agreed to consider various options. The investment team along with the Fund's advisors are now working on options for the funding approach and Guarantee. A formal review of the investment strategy will be undertaken as part of this work, including a review of the way in which the individual asset classes are managed. Updates to the Committee will be provided as this work progresses.

Conclusions

- 3.11 Funding levels are monitored regularly and changes to the investment strategy have been implemented following recent market volatility and changes in the funding level. The funding level at the beginning of November 2015 is broadly unchanged compared to that previously reported to Committee (92.8% at 31

March 2015). This is broadly in line with the target funding level of 93.0% for 2017.

- 3.12 Progress on the review of the investment strategy and the funding agreement of the Fund in consultation with the Scottish Government will be reported to Committee.

Measures of success

- 4.1 The investment performance of the funds is crucial to the achievement of the required investment return which impacts on the funding level and employer contributions. The objectives for the investments are:
- Over long-term economic cycles (typically 5 years or more), the achievement of the same return as that generated by the strategic allocation;
 - Over shorter periods, the Fund should perform better than the strategic allocation if markets fall significantly.

Financial impact

- 5.1 This report updates progress on the review of the investment strategy, the investment performance and funding level of the Scottish Homes Pension Fund. The investment strategy and performance have a significant impact on the funding level and potentially on the contributions required from the Scottish Government.

Risk, policy, compliance and governance impact

- 6.1 Investment strategy is a key determinant of funding level, risk and volatility of employer contribution rates.

There is no governance impact as a result of this report. Committee delegates the implementation of investment strategy to the Chief Operating Officer who takes advice from the Investment Strategy Panel. The Panel is an important element of the governance of the pension fund investments.

Equalities impact

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

Sustainability impact

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

Consultation and engagement

- 9.1 The Pension Board, comprising employer and member representatives, is integral to the governance of the Funds.
- 9.2 Regular updates are provided to Scottish Government with ongoing liaison and consultation.

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 None

Pensions Committee

2.00 p.m., Wednesday, 16 December 2015

Investment Controls and Compliance

Item number	5.7
Report number	
Executive/routine	
Wards	All

Executive summary

This report summarises the key matters in relation to investment controls and the development of the in-house investment operations. These are:

- **Investment controls:** the Fund has now finalised its process of reviewing and implementing the appropriate recommendations of the external consultant following a review of the in-house investment operations in December 2013.
- **Financial Conduct Authority (FCA) authorisation:** the FCA application was approved for submission by the LPFI board on 15 October 2015 and the Fund will continue to liaise with the FCA during the coming months to facilitate a conclusion to this process.
- **Investment pooling:** the UK Government has recently announced a national agenda to ensure the effective collaboration of LGPS funds in England and Wales to pool their investments. The Fund, together with a number of internally managed pension funds, is exploring the options for collaboration.
- **Wider financial services regulation:** draft European driven regulation within the UK may have a substantial impact on LGPS fund's ability to operate in particular investment markets. The Fund's current strategy to operate and develop an in-house investment team makes it well placed to work within these regulations.

Links

Coalition pledges

Council outcomes [CO26](#)

Single Outcome Agreement

Investment Controls and Compliance

Recommendations

- 1.1 That Committee invites the Pension Board to raise any relevant matters or concerns which the Committee should consider.
- 1.2 That Committee notes the progress made in relation to implementing the recommendations of the external consultant, the establishment of an FCA authorised structure, the Fund's involvement in the investment pooling discussions and the potential impact of new financial service regulation on the Fund.

Background

- 2.1 The Fund instructed a review of its in-house investment operations by a consultant in December 2013 in order to ensure that its systems and controls were fit for purpose and also to benchmark them against those for full FCA compliance (albeit not currently a requirement for the Fund).
- 2.2 The consultant's report concluded that the Fund's systems were fit for its current purpose, but that certain improvements could be made and would be required in anticipation of it operating an FCA authorised vehicle. The Fund has since been phasing in appropriate operational and compliance improvements generally and in anticipation of LPFI's application for FCA authorisation. The Committee last received an update on the Fund's progress in this regard on 25 March 2015.
- 2.3 This report should also be read in conjunction with the report for Pensions Committee on 16 December as regards the costs associated with the ongoing initiatives and the Risk Management Overview for a more detailed update on the associated risk analysis.

Main report

Investment controls and consultant's recommendations

- 3.1 *Human capital:* Following the consultant's recommendation to put in place arrangements that would allow staff involved in the in-house investment function to be placed on terms and conditions appropriate to their roles (including extended notice periods), the Fund has established a special purpose staffing vehicle, LPFE Limited ("**LPFE**"), and transferred the employment of those staff into LPFE. LPFE has now appointed an external HR provider (121 Solutions

Limited) to provide it with dedicated services. The LPFE board is expected to meet prior to the meeting of the Pensions Committee in order to discuss and agree the implementation of the remainder of its employer systems and procedures, including any revisions to the current remuneration policy and terms and conditions to ensure they are appropriate for the employment of investment professionals.

- 3.2 *Transaction execution:* An electronic trading platform is being put in place to ensure that dual authorisation of a trade takes place. The system also requires unique trader identifications which will support improved compliance in this area. The Fund will not, however, be looking to implement a full central dealing desk due to this not being required, or cost effective, for its current volumes of trading and because the Fund will not be managing the assets of any other external parties.
- 3.3 *Transaction testing:* Transaction testing is undertaken and signed off post-trade by the front office. This testing has also now been included within the Fund's compliance checks. The introduction of electronic trading will also permit transaction cost analysis via Bloomberg.
- 3.4 *Operational due diligence:* The Fund's process for reviewing external managers has been extended and amended to include regular reviews of those managers on its current framework but with whom the Fund does not have an existing mandate. These reviews will now also formally include an assessment of the appropriateness of the underlying manager's operational infrastructure. Similarly, the Fund's review process for its custodian, currently The Northern Trust Company, has been updated so that it includes at least one "on-site" review per year. This will ensure we are aware of their on-site capabilities. Two such visits have subsequently taken place with satisfactory observations and outcomes.
- 3.5 *Telephone recording:* A telephone recording system is now in operation across the Fund and has been fully tested. Discussions are currently ongoing around how long the resulting call data should be retained for.
- 3.6 *Internal service level agreements:* The Fund is in the process of updating its existing internal service level agreement for cash management with the City of Edinburgh Council's ("**CEC**") treasury team. The Fund is also looking to put in place internal service level agreements for certain other key services which it receives from CEC divisions, such as IT, payroll/treasury etc.

FCA authorisation

- 3.7 The board of LPFI approved the business plan and FCA application for submission on 15 October 2015, subject to it being updated to include the appointment of a non-executive director to the board and to make some minor amendments to the proposed investment services agreement between CEC and LPFI. These changes have now been made with the intention that the application will be submitted in early course. The additional appointment of a non-executive to the LPFI board is in line with the Corporate Governance Code

and is viewed as an important means of supporting the senior management of the investment function and an additional check and balance on its governance. The Fund will keep Committee updated on the appointment process.

- 3.8 The Fund will continue to liaise with the FCA over the coming months in order to facilitate the process and will keep the Committee up to date on developments. The Fund would anticipate that the FCA will take somewhere between four and six months to process the application, although it could potentially take longer.
- 3.9 By way of a reminder, LPFI is seeking limited investment advisory and arranging permissions in support of the development of its own internal in-house investment function (e.g. in collaborating with other institutional investors, unitising its internal strategies for the benefit of employers and for operational and other governance improvements). LPFI will not therefore be seeking permissions to manage or hold third party assets as part of this process.

LGPS Investment pooling

- 3.10 The UK Government has recently announced a national agenda to ensure the effective collaboration of LGPS funds in England and Wales to pool their investments in order to generate cost efficiencies and savings for the scheme and to facilitate infrastructure investment within the United Kingdom. This was most recently formalised in the summer budget of 2015 (section 2.19), a subsequent conference speech by the Chancellor and consultations released on 25 November 2015. A link to the recent publication from the UK government is provided at the end of this report.
- 3.11 The Fund continues to monitor the position south of the border and is directly involved in a project with other LGPS funds, being coordinated by Hymans Robertson in consultation with the UK Treasury Department and the Department for Communities and Local Government (DCLG), to inform the best outcomes and approach to implement investment pooling. This includes a detailed analysis of the benefits of internal management and the different ways in which LGPS funds could collaborate and further exploit the benefits of internal management.
- 3.12 In Scotland, a review of structure of the Local Government Pension Scheme is expected to be taken forward by the Scheme Advisory Board (SAB). The scope of this review is not yet clear. However, a recent report from the Scottish Government's Local Government and Regeneration Committee (a link to which is provided at the end of this report) indicates that Scottish Government is less inclined to formal pooling. Paragraph 45 of the report...

'We agree investment in infrastructure is vital to a successful economy, but we are less attracted to the UK's formal pooling arrangements for Scottish pension funds. During our inquiry we heard how informal collaborations worked well because there was a willingness to work together for a shared vision and benefit. Strathclyde, Falkirk and Lothian and a few others are already working with other funds to increase their investment options. This is to be applauded and we encourage funds to seek out opportunities to work

collaboratively to benefit from shared expertise in identifying suitable infrastructure investment and to reduce investment costs such as management fees. Being proactive in this regard has particular importance given the potential changes to investment rules.'

- 3.13 The Fund believes that its existing strategy and initiatives makes it well placed to adapt to any future change and collaborate effectively with other LGPS funds if that would be appropriate. Conclusions of the project will be reported to Committee for consideration in due course.

Wider financial services regulation

- 3.14 Some important European/financial services legislation is currently under consultation which may significantly impact on the types of investment that local authority administering authorities can invest in and could result in many LGPS schemes having to divest from certain otherwise illiquid investments at a substantial cost to their respective stakeholders. In short, the Markets in Financial Instruments Directive (2014/65/EU) (“**MiFID II**”) is proposing that local government administering authorities will default to being classified as ‘Retail Clients’ rather than ‘Professional Clients’, resulting in their being regulated within the more onerous and restrictive retail regulatory regime. This classification would be based on such local authorities not having sufficient investment knowledge and expertise to properly assess and make their own investments in particular sectors. It would effectively exclude such funds from the more sophisticated private markets (e.g. private equity/infrastructure/timberland/debt funds, co-investments, single asset opportunities etc.) and therefore meaningfully reduce their investment universe and ability to diversify their investment strategies. Whilst the detail is yet to be determined and finalised, the Fund is currently of the view that it would be able to ‘opt out’ and continue to benefit from classification as a ‘Professional Client’, given the nature of its current structure and in-house investment team.
- 3.15 The Fund’s current strategy of retaining an in-house investment function, and further developing this capability through its new structure, will make it well placed to deal with this (and any other) regulatory change. This will allow the Fund to mitigate the potentially significant costs and constraints that such regulation could potentially impose.
- 3.16 The Fund will continue to closely monitor the position and keep the Committee and Pension Board apprised of this and any other equivalent area of regulatory development.

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.

- 4.2 That the Fund seeks to improve its service provision and adapts its operations to the wider structural and regulatory changes facing public sector 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 this report.
- 5.2 A report elsewhere on the Committee's agenda shows how the Fund's investment costs compare favourably (approximately £5.5m p.a.) with an average pension fund, largely due to its internal management operations.
- 5.3 The improvements in day-to-day investment controls have been met from within existing budgets.
- 5.4 The Fund has incurred approximately £64,000 in legal, accounting and tax advisory costs in order to establish LPFI and LPFE and operate them to this point. The Fund has saved a very significant amount of costs (while continuing to mitigate risks through seeking appropriate levels of external advice) through its ability to design the structure, manage external advisors and put in place the necessary documentation/systems etc. through its internal legal and accounting expertise. The Fund has also incurred other lower level costs in relation to implementing bespoke payroll, HR and time-recording systems for LPFE, but these have been absorbed within existing budgets.
- 5.5 An update on the impact of the review of employer systems and procedures, including any revisions to the current remuneration policy and terms and conditions, will be provided to Committee following the LPFE Board meeting.
- 5.6 There continue to be very significant cost implications in not ensuring that the Fund's internal investment operation is best placed to adapt to the market and regulatory changes currently affecting the sector.

Risk, policy, compliance and governance impact

- 6.1 The review of investment operations highlighted areas for improvement in governance and risk and these have been implemented.
- 6.2 In particular, the Fund needs to continue to ensure that its governance processes and procedures (including delegations, signing authorities etc.) adapt to any organisational changes within the Council and are sufficient to allow it to continue to carry out its business effectively and to exercise its functions with sufficient fiduciary independence.
- 6.3 There are significant risk and compliance considerations for the Fund to consider around any implementation of MIFID II within the United Kingdom in the manner currently proposed.

Equalities impact

7.1 None.

Sustainability impact

8.1 The review of investment operations and the implementation of actions resulting from that review are intended to secure the long-term sustainability of the internal investment operations for the benefit of the pension funds.

Consultation and engagement

9.1 The Pension Board, comprising employer and member representatives, is integral to the governance of the Funds.

Background reading/external references

<https://www.gov.uk/government/publications/local-government-pension-scheme-investment-reform-criteria-and-guidance>

<http://www.scottish.parliament.uk/parliamentarybusiness/CurrentCommittees/94373.aspx>

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Links

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Pensions Committee

2.00 p.m., Wednesday, 16 December 2015

Pension Fund Cost Benchmarking

Item number	5.8
Report number	
Executive/routine	
Wards	All

Executive summary

The purpose of this report is to inform Committee of summary conclusions of the benchmarking of investment for Lothian Pension Fund and pensions administration costs for Lothian Pension Fund, Lothian Buses Pension Fund and Scottish Homes Pension Fund.

The report on investment costs relies on data provided by CEM, an independent provider of benchmarking data. Its database is comprised of 320 global pension funds. Actual cost of approximately 0.39% was below the benchmark cost of 0.50%. The 0.11% difference amounts to approximately £5.5m per year. This is almost certainly due to the fact that the Fund manages a relatively high percentage of assets internally compared with the universe of pension funds.

Pension administration cost per member for this Council of £21.76 is within the range of the 18 broadly comparable local authority funds, £15.84 to £24.33. However LPF cost is higher than the peer group average of £19.17. Cost per member for LPF in 2014/15 has reduced by £3.14 (12.6%) from the previous year, in excess of the saving attained by the peer group of £1.11 (5.5%).

Links

Coalition pledges

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[CO26](#)

Single Outcome Agreement

Pension Fund Cost Benchmarking

Recommendations

- 1.1 That Committee invites the Pension Board to raise any relevant matters or concerns which the Committee should consider;
- 1.2 Note the report;
- 1.3 Note that the CEM Investment Benchmarking Analysis 2014 and the CIPFA Pensions Administration Benchmarking 2015 comparator reports have 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.

Background

- 2.1 The annual report 2014/15 for the pension fund identifies £28.7 million of costs for the Lothian Pension Fund, with investment costs representing by far the largest proportion of the Fund's total expenses.
- 2.2 Benchmarking can be a helpful tool to help drive improvements and deliver value for money. It is intended that participation in the benchmarking of service provision should facilitate:
 - Comparison between the costs and performance;
 - Provision of evidence to support decisions on budget and improvement and thereby enhance customer satisfaction;
 - Sharing of information and ideas with peer(s);
 - Review of performance trends over time.
- 2.3 In an effort to better understand its investment expense base, Lothian Pension Fund has contributed to CEM's database for the last three years. CEM's global database comprises 320 funds representing £5.5 trillion in assets, three fifths of which are based in North America. It includes 28 UK pension funds with aggregate assets of £168bn. The size of the funds range between £35 million and £591 billion. The median fund size was £3.7bn, which compares with Lothian Pension Fund's assets under management of £4.8bn at 31 December 2014. However, care should be taken in deriving conclusions from the headline data. CEM itself states that "being high or low cost is neither good nor bad". What matters is whether a pension fund is receiving sufficient value for the costs incurred. This is reflected in the long term returns of pension funds, net of costs.

- 2.4 Chartered Institute of Public Finance and Accountancy (CIPFA) pensions administration benchmarking club has been used for a number of years to assess the costs of administration of the Lothian Pension Fund, Lothian Buses Pension Fund and the Scottish Homes Pension Fund. The outputs and analyses have served to supplement internal performance management information.

Main report

Investment Cost Benchmarking Analysis

- 3.1 The benchmarking provided by CEM aims to provide comparable data but is unable to capture all investment costs from all funds. Accordingly, it excludes transaction costs and private asset performance fees from its analysis. For this reason, and also because the data is collected on a calendar year basis rather than a financial year basis, the actual costs differ from those reported in Lothian Pension Fund's annual report.
- 3.2 CEM calculates a benchmark cost for Lothian Pension Fund reflecting the Fund's size, asset mix and domicile. Lothian's actual cost of approximately 0.39% was below the benchmark cost of 0.50%. The 0.11% difference amounts to approximately £5.5m per year, and is an improvement of 0.02% over the prior year.
- 3.3 CEM concludes that the primary reason for costs being low compared with the benchmark is almost certainly 'implementation style' – a relatively high percentage of assets are internally managed and fund-of-fund usage is less than average. External active management tends to be much more expensive than internal management, while fund-of-funds tend to be the most expensive type of external management.

CIPFA Pensions Administration Benchmarking Club

- 3.4 The CIPFA Pensions Administration Benchmarking Club aims to collect the transactional volumes and processing costs for administering members' LGPS benefits (i.e. excluding investment) using standard definitions. "Employing authority work" and any work associated with the administration of non-LGPS pensions are excluded.
- 3.5 Each administering authority has scope to select a suitable peer group for the "comparator report" and also the submission by any individual LGPS administering authority is also available through the club database "interactive" report. Of the eleven Scottish LGPS administering authorities, only four (including this Council) have chosen to participate. The selected peer group of 19 funds also comprises, as far as is possible, similar sized English and Welsh authorities (total memberships ranging from 56,000 to 104,000).

- 3.6 CIPFA has stated that, in order to protect its commercial interests, its report “Pensions Administration Benchmarking Club 2015” “cannot be put in the public domain. It is for internal uses only within the authority....and for contacting and communicating with other members of the club”. Accordingly, the full comparator and interactive reports have been provided, on a confidential basis, only to the Convener of the Pensions Committee, Convener of the Pensions Audit Sub-Committee and the Independent Professional Observer.
- 3.7 It is emphasised that it would be incorrect to derive definitive conclusions on the basis of apportioned costs. This is an inherent issue given the scale of central support costs which are typically apportioned to the pension fund by the host Councils, the extent of co-provision of employer services and also the bases of overhead apportionment to the pension administration function, as distinct from other activities within the Fund Accounts.
- 3.8 Recognising this caveat, summary findings on costs and other observations on differences in the make-up of the Fund are as follows:
- LPF cost per member of £21.76 is within the range of the 18 comparable funds, £15.84 to £24.33. LPF cost is higher than the peer group average of £19.17; Cost per member for LPF in 2014/15 has reduced by £3.14 (12.6%) from the previous year, in excess of the saving attained by the peer group of £1.11 (5.5%). In context, LPF cost and the average from a similar peer group from 2008/09, were £24.39 and £19.86 respectively;
 - Staff costs (administration and pensioner payroll) per member for LPF of £10.40 show similar results to those of total costs, both in terms of correlation to the peer group and also prior year;
 - Active members represent a higher percentage of overall membership for LPF (42.0%) than the peer group average (35.5%). The proportion of pensioners to total membership (28%) is again higher (than peer group of 23.9%), with the consequence being that the proportion of deferred members is lower than that of the typical fund. As deferred members are less demanding on administration services, these factors would tend to increase pension administration and payroll workload and therefore cost;
 - Previous benchmarking reports have showed LPF as having the highest number of employers (in 2008/09, approximately 170 compared to an average of 105). Recently in England, the average number of employers has increased significantly with the inclusion of academy schools as separate entities and now LPF’s number of employers is broadly comparable with the average.
 - Staff turnover was higher than the peer group at 23% compared to 13%.

Performance Benchmarking

- 3.9 CEM highlights that investment costs should be taken in the context of a fund's long term net returns. However, relevant comparisons of long-term returns are not readily available.

- 3.10 For pensions administration, CIPFA analysis shows that for key retirement calculation and payment processes, Lothian Pension Fund's performance is seen to exceed that of the peer group. Aspects of the service where attainment is weaker against the comparators are in respect of the calculation and notification of deferred benefits and also the notification of dependent's benefits. These administrative procedures will be the focus of review within Lothian Pension Fund in order to seek appropriate service enhancement aligned to best practice. Quotations to members in respect of transfers-out also lag in comparison to the peer group, although it is considered that the degree of rigour applied by the Fund in seeking to mitigate the risk of pensions liberation fraud is very relevant.

Measures of success

- 4.1 Benchmarking of costs provides management information, which serves to inform the service planning and budgetary process of the three Lothian Pension Funds.

Financial impact

- 5.1 There are no financial implications arising directly from this report. Out of the Lothian Pension Fund total cost of £28.7million for 2014/15, pension administration costs amounted to £1.78million, with the remaining largely attributable to investment. Continuous improvement initiatives will be met from the approved budget 2015/16.

Risk, policy, compliance and governance impact

- 6.1 The provision of summarised conclusions of benchmarking is intended to enhance the governance of the three Lothian 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 The Pension Board, comprising employer and member representatives, is integral to the governance of the Funds.

Background reading/external references

Not applicable

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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

Pensions Committee

2.00 p.m., Wednesday, 16 December 2015

Environmental Social and Governance Activity Report update (including class actions)

Item number	5.9
Report number	
Executive/routine	
Wards	All

Executive summary

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

This report also provides an annual update on the Funds' class action activity. A class action is a type of lawsuit in which a group (a class) sues another party. Typically, these actions happen in the US. The type of class action relevant to the Funds is one in which a group of shareholders collectively sues a company in order to recover a loss in share value, or to exert influence on the company. Since 2006 the fund has received US\$3.3 million in class action compensation.

Links

Coalition pledges

Council outcomes [CO26](#)

Single Outcome Agreement

Environmental Social and Governance Activity Report update (including class actions)

Recommendations

- 1.1 That Committee invites the Pension Board to raise any relevant matters or concerns which the Committee should consider.
- 1.2 That Committee notes the contents of this report.
- 1.3 That Committee endorses Councillor Cameron Rose's nomination to stand for re-election to the Local Authority Pension Fund Forum (LAPFF) Executive and also for the position of Vice Chair at the January 2016 AGM.

Background

- 2.1 The Funds pursue a policy of constructive engagement on issues, which is consistent with fiduciary duties. As an aside, the Scheme Advisory Board for LGPS Scotland has requested that a firm of solicitors prepare an overview of the existing advice south of the border on the exercise of "fiduciary duty" by administering authorities of LGPS funds with a view to pulling this together and also identifying any matters of Scots law which may be different. We will continue to update the Committee on any developments in this regards that might deviate from previous analysis by the Fund.
- 2.2 As previously reported to Committee, the ability of investors to seek redress via class actions in the US has been narrowed since 2010.

Main report

Voting and Engagement

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

Mandate	Voting and Engagement Arrangement
UBS (Emerging Markets - Lothian Pension Fund)	UBS
Baillie Gifford (Global - Lothian Buses Pension Fund)	Baillie Gifford

State Street Pooled Funds (for Scottish Homes Pension Fund)	State Street
All other listed equities	Hermes Equity Ownership Services (EOS)

- 3.2 The busiest voting season is the quarter ending 30 June (Q2). In Q2 2015 Hermes EOS voted on the Funds' behalf at 389 meetings on 5,772 resolutions. Hermes opposed 402 resolutions and supported management on 5,370.
- 3.3 Hermes EOS' recent engagement activity is detailed in Hermes' (Q2) quarterly report, which is available on the Funds' website. The report includes a section on the strategy of engagement with fossil fuel companies, which has met with some success. A number of fossil fuel companies are committing to more transparency on how their business would be affected if stronger public policies to tackle climate change were introduced.
- 3.4 There are bribery and corruption and labour rights concerns around the World Cup in Qatar in 2022. Hermes EOS is engaging with construction companies and Cup sponsors on these issues in order to promote anti bribery and corruption practices, protect fundamental human rights, ensure adequate labour standards and so avoid reputational damage to companies and their shareholders.
- 3.5 Uptake of good corporate governance practices by US companies has lagged behind European counterparts. Constructive engagement with boards in the US has had results and improvements are beginning to be seen. Hermes EOS reports greater scope for collaboration and cooperation between boards and long term investors.

Local Authority Pension Fund Forum (LAPFF)

- 3.6 Lothian Pension Fund was a founding member of the LAPFF when it was established in 1990. It promotes the long-term investment interests of local authority pension funds and aims to maximise their influence as shareholders to promote corporate social responsibility and high standards of corporate governance amongst the companies in which they invest, commensurate with statutory regulations. Its membership has increased over recent years (currently 65 of the 110 UK local government pension schemes).
- 3.7 LAPFF has again continued its work on accounting standards for the banking industry and has made significant progress. LAPFF has obtained and published further legal opinion that supports their position. Other recent efforts have included activity to improve corporate governance, to highlight and address carbon risk and to encourage the appointment of women to company boards. Further information, such as Quarterly Engagement Reports and Newsletters, is available on the LAPFF website.

3.8 Councillor Cameron Rose is currently Vice Chair of the Executive Committee of the LAPFF. The role entails participating in quarterly meetings of the LAPFF executive and also the quarterly Business meetings. Councillor Rose also participates in LAPFF’s engagement meetings with companies. Committee is asked to endorse Councillor Rose’s nomination to stand for re-election to the Executive and also for the position of Vice Chair at the AGM in January 2016. If successful, Council’s endorsement of the appointment will be sought. Councillor Rose will provide a verbal update to Committee on his role on the Executive.

Principles for Responsible Investment (PRI)

3.9 Lothian Pension Fund signed the PRI in 2008. The PRI is a global network for investors to publicly demonstrate their commitment to responsible investment, to collaborate and learn with their peers about the financial and investment implications of ESG issues, and to incorporate these factors into their investment decision making and ownership practices.

3.10 Signatories complete a self assessment each year to measure progress against the PRI principles and also to allow comparison with peers.

3.11 The 2014 assessment process was still at the pilot stage, but signatories are allowed to publish their feedback reports. The Fund’s report and scores are available on its website. The results are summarised below.

MODULE	Score	Comments
Overarching approach	A	Funds' overall ESG arrangements are good.
External Fund Managers		
Listed Equity Manager selection appointment & monitoring	A	ESG approach regarding external Fund Managers is good.
Internal fund Managers		
Listed equity incorporation	C	It is hoped that ESG integration in investment decision making will improve with systematic use of quantitative ESG data. (see below)
Listed equity active ownership	A	Voting and engagement for internal equity funds is good.
Fixed Income Government	E	These investments (<10% of the Fund) were in US and UK Government debt.

3.12 Previous assessments of the Fund's activities have generally been very good. Feedback on the Fund’s submissions has highlighted scope for improvement in ESG integration in investment decision making. As a result, the Fund reviewed options in this area for the internally managed equity portfolios leading to the procurement of an ESG research service. The systematic use of quantitative ESG data has been integrated into the decision making process for internal portfolios since March 2015. The improvement will be reflected in the next PRI

assessment score, which will cover the year to 31 December 2015. (It is not reflected in the table.)

- 3.13 The E rating in the table for Fixed Income Government is not a concern as the Fund's holding is in UK and US government debt which is not usually perceived as having any significant ESG risk. If in future the Fund invested in a wider range of instruments an ESG approach would be considered more appropriate.
- 3.14 In the past, the self assessment process was time consuming and complex and the value of the resulting report questionable. However, the Fund has worked with PRI to improve the process with some success - the process is quicker and the new assessment is also more relevant and useful.

Fiduciary Duty

- 3.15 Committee discussed recent opinions on fiduciary duty at their meeting in June 2015 (one opinion for the Local Government Pension Scheme (LGPS) Shadow Scheme Advisory Board in England and Wales and the other from the Law Commission).
- 3.16 These developments do not strictly speaking apply to the Scottish Local Government Pension Scheme. Therefore the LGPS Scheme Advisory Board in Scotland has included consideration of fiduciary duty in its workplan. This is expected to be progressed in the first half of 2016.
- 3.17 The Fund will continue to monitor developments in the interpretation of fiduciary duty and potential changes to investment regulations.

Class Actions

- 3.18 In shareholder class actions one or more investors agree to act as lead plaintiff(s). A law firm acts on behalf of the class, with the lead plaintiffs being treated as the representatives of the class. In the US cases are typically taken on a "no win no fee" basis.
- 3.19 If a class action case is won, the compensation fund, net of legal fees approved by the court, is distributed to eligible shareholders who make a claim within the relevant time limit. The Funds claim for compensation on all relevant class action settlements. Compensation received by the Funds from class actions is shown in the table below:

Financial Year	US\$ (000's)
Prior to 31/03/12	2,140
2012/13	483
2013/14	285
2014/15	284
2015/16 [1]	102
TOTAL [1]	3,294

[1] To 05 November 2015

Lead Plaintiff and Opt-in Cases

- 3.20 In addition the Funds may act as a lead plaintiff on class actions. However a court ruling in the case of Morrison vs National Australia Bank (NAB) in 2010 narrowed the ability of investors to seek redress under the laws of the US, particularly where shares are purchased on non-US stock exchanges.
- 3.21 The Funds are not currently acting as Lead plaintiff, but have done in several cases in the past with little success and minimal compensation received. In some instances the case was difficult to prove and in others the settlement was a small proportion of overall shareholders' loss.
- 3.22 As a further result of the reduced ability to claim compensation in the US, investors are increasingly looking to claim through other jurisdictions where the legal process may require investors to "opt-in" to the case prior to the trial if they wish to participate.
- 3.23 Officers have reviewed a small number of such cases. Considerations have included the estimated financial loss, potential for recovery, the resource needed to monitor the case and the risk of further detriment to the Funds. The Funds have not entered into any of these cases.

Measures of success

- 4.1 Success of engagement with companies is very difficult to measure. The Funds' approach is essentially qualitative and is wide ranging. The impact is very difficult to quantify, especially in the short term. The Funds are signatories to PRI and complete the annual self assessment process which compares ESG activity with peers.

Financial impact

- 5.1 There is no financial impact as a result of this report. The costs of the Funds' ESG activity are included in the pension funds' budget. US class actions are conducted on a "no win no fee" basis. The Funds' are not involved in any non-US actions.

Risk, policy, compliance and governance impact

- 6.1 The ESG activity of the Funds, complies with the Statement of Investment Principles. The Funds' policy is to take ESG issues seriously and where appropriate to act upon them in a manner which is consistent with the paramount fiduciary duty to provide the highest standards of stewardship on behalf of the members, employers and tax payers. The Funds' policy of being responsible, informed and involved investors is expected to reduce risk.

Equalities impact

- 7.1 As much of the engagement activity is on equalities issues it is expected to have a positive impact and also to contribute to the sustainability of the Funds' investments.

Sustainability impact

- 8.1 As much of the engagement activity is on sustainability issues, it is expected to contribute to the sustainability of the Funds' investments.

Consultation and engagement

- 9.1 The Pension Board, comprising employer and member representatives, is integral to the governance of the Funds.

Background reading/external references

None

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Links

Lothian Pension Fund: http://www.lpf.org.uk/info/68/responsible_investment

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

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

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

Coalition pledges

Council outcomes CO26 - The Council engages with stakeholders and works in partnerships to improve services and deliver agreed

Single Outcome Agreement

Appendices None

Pensions Committee

2.00 p.m., Wednesday, 16 December 2015

Service Plan Update

Item number	5.10
Report number	
Executive/routine	
Wards	All

Executive summary

The purpose of this report is to provide an update on progress against the 2015 – 2018 Service Plan, performance indicators and the key actions to enable the Fund to meet its four key objectives:

- Customer First;
- Honest & Transparent;
- Working Together; and
- Forward Thinking.

Overall progress is being made against the service plan objectives.

Most performance indicators are meeting targets. However, the payment of employer contributions and customer satisfaction are both marginally behind target. Whilst only halfway through the year, it is possible that these performance targets will not be achieved by the end of the year.

Links

Coalition pledges

Council outcomes [CO26](#)

Single Outcome Agreement

Service Plan Update

Recommendations

- 1.1 That Committee invites the Pension Board to raise any relevant matters or concerns which the Committee should consider.
- 1.2 That the Committee note the progress of the Fund against the 2015-2018 Service Plan.
- 1.3 That the Committee note the Fund's change to the customer care service standard for paying retirement lump sums.

Background

- 2.1 The purpose of this report is to provide an update on the 2015 – 2018 Service Plan, performance indicators and the key actions to enable the Fund to meet its four key objectives:
 - Customer First;
 - Honest & Transparent;
 - Working Together; and
 - Forward Thinking.

Main report

- 3.1 Progress is being made against the service plan. The following areas are covered elsewhere on the agenda:
 - Internal Audit Reports;
 - Benchmarking of investment and pension administration costs;
 - Investment strategy reviews; and
 - Investment Controls and Financial Conduct Authority (FCA).

Other progress of particular note is shown below.

- 3.2 **Pension Administration:** As previously advised, from 1 April 2015, the processing of the transfer of members' pension benefits to other Funds had been postponed pending suitable update by the supplier to provide automatic calculation within its pension administration system. Following quality assurance testing of the new software by officers from Lothian Pension Fund and Strathclyde Pension Fund, these changes were implemented on the live system

on 30 September 2015. The backlog of work is now up to date but volumes of transfer enquiries continue to be higher than normal.

- 3.3 **Unitisation:** Procurement has now concluded for a system to enable the unitisation of investments. This should not only facilitate enhanced asset-tracking through recognition of cash-flows by individual employer, but offers the potential for more tailored investment strategies.
- 3.4 **Customer Service Excellence:** The annual assessment of Customer Service Excellence focuses on customer insight and feedback. As part of this, the Fund has carried out customer journey mapping within the retirement process which was recently changed. Five recently retired members attended a focus group to assist with the mapping. A survey was also issued to other recently retired members who couldn't attend the event to gain further insight. During the process, a change in the service standard for paying lump sums at retirement was proposed, increasing from 5 to 7 working days. Members were content with this proposal. Although the majority of payments will continue to be made within 5 working days the extra time will allow for processing when the payroll is being run. The Customer Service Excellence assessment will take place in early 2016.
- 3.5 **Customer Surveys:** The Fund has recently completed the Retired Members annual survey with over 600 responses, and over 100 positive comments received. Overall results were very good, including overall satisfaction of 89.6%, 92% find the information provided by the fund easy to understand and 87% found the website easy to use. There were 27 negative comments, including the retirement process including 'I found the system slow 'Club Together mailings comments including 'I don't like advertising junk mail' and the online service including 'I found it complicated to register'. The Fund is working with our pension online service provider to improve member experience.
- 3.6 **Staffing:** Appointments have been made for the vacancies of a bond Portfolio Manager, and two trainee pensions administrators. The Fund has also made some changes within the Pensions Administration area with a new Data Quality team established to bring together efforts to enhance data quality and performance measurement. Staffing costs remain within the agreed budget.
- 3.7 **Awards:** At the LGC Investment Awards held on 4th November 2015 Lothian Pension Fund won Fund of the Year (Over £5billion) and Lothian Buses Pension Fund won Fund of the Year (Under £750million). It is the fifth year running that the Lothian Buses Pension Fund has won this award. The awards cover all aspects of the running of the funds, from investment, pension administration, communications and governance.

The Fund was also highly commended in the LGPS Fund of the Year category at the recent LAPF Investment awards.

Performance Indicators

3.8 Performance Indicators for the first two quarters of the financial year are provided in the attached appendix.

3.9 Two indicators are highlighted as ‘amber’ and one as ‘red’:

- The payment of employer contributions for the quarter (97.27%) is behind target of 99%. This is due to a number of employers including Lothian Buses and Police Scotland who paid late and some smaller employers where there is only one member of staff dealing with payments who were off during July. For July contributions, Lothian Buses and Police Scotland both made their payments one day late which led to only 92.5% of payments being received within the 19 days. In August and September, 99% of contributions were paid in time.
- Customer satisfaction is also marginally behind target (85.6% compared to 87%). The annual Retired Members survey results showed 89.6% are satisfied. However, the overall satisfaction for the email survey (recently introduced into this performance indicator) was low at 50%. Work is being undertaken to improve responses to emails.
- The staff training indicator is currently red with 74.5% of staff having completed their pro-rata training target up to 30 September 2015. The Fund is comfortable that the target should be achieved by the end of the year.

Performance indicators also worth noting are:

3.10 **Staff survey:** The 2015 staff survey has been undertaken and 49 members out of 54 staff responded to the survey a higher response rate than seen in previous years. Overall satisfaction increased marginally to 73%, exceeding the target of 67%. The equivalent satisfaction figures for 2013 and 2014 were 63% and 65% respectively. The following table provides more detail. An action plan is being developed.

Staff Survey - % who agree or strongly agree	2013 %	2014 %	2015 %
My manager listens to and is open to suggestions	79	70	77
My manager motivates me to achieve my full potential	61	59	69
My line manager delegates responsibility effectively	64	54	75
The reasons for change are well communicated	58	57	73
Have a say on changes that affect me before they are made	41	46	51
Feel that change affecting our service area is well managed	56	49	65
Have confidence in the decision made by the senior management team	69	62	77

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 2015/16 is shown in the table below:

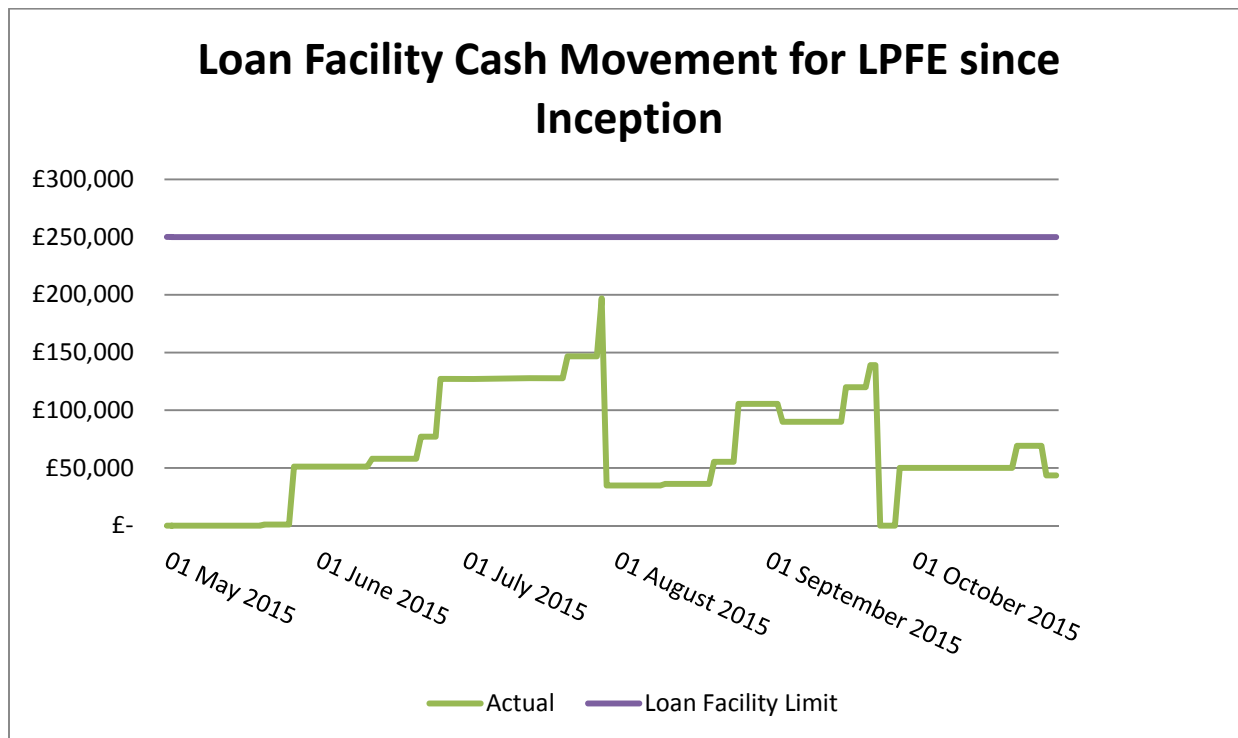
Category	Approved Budget £'000	Projected Outturn £'000	Projected Variance £'000	Budget to date £'000	Actual to date £'000	Variance to date £'000
Employees	2,489	2,252	(237)	1,452	1,229	(223)
Transport & Premises	225	261	36	131	134	3
Supplies & Services	1,095	1,090	(5)	639	537	(102)
Investment Managers Fees	8,100	7,700	(400)	4,725	4,612	(113)
Other Third Party Payments	1,286	1,000	(286)	750	328	(422)
Central Support Costs	276	315	39	161	184	23
Depreciation	80	91	11	47	54	7
Direct Expenditure (Invoiced)	13,551	12,709	(842)	7,905	7,078	(827)
Income	(1,657)	(1,065)	592	(967)	(757)	(210)
Net Expenditure (Invoiced)	11,894	11,644	(250)	6,938	6,321	(617)
Indicative Expenditure (Un-invoiced Manager Fees)	18,924	19,174	250	11,039	11,185	146
Total Cost to the Funds	30,818	30,818	-	17,977	17,506	(471)

- 5.2 The financial outturn includes year to date budget, actual expenditure and variance as at the end of October 2015. Year to date actual expenditure includes provision for services incurred but for which no invoice has yet been received. Uninvoiced expenditure (i.e. investment management costs deducted from capital) is generally assumed to be in-line with the budget. With delays in splitting out research costs from brokers fees (see below) a £250k overspend in un-invoiced fees has been forecast.
- 5.3 The Fund is projected to be broadly on budget. The key variances for each category in the budget are:

- Investment Managers Fees - **£400k underspend**. Manager fees are based on market values. An 8% increase in market values was projected however year to date market prices have fallen.
- Other Third Party Payments - **£286k underspend**. Underspend due to delays in the splitting out research costs from broker's fees. As mentioned above these costs have been offset in the Un-invoiced expenditure.
- Employees - **£237k underspend**. This is mainly due to unfilled posts across the division during the period from April to October 2015. Recruitment processes have been progressed.
- Central Support Costs (CSC) - **£39k overspend**. Budgeted figures produced from forecasted 2014/15 figures. Final 2014/15 CSC was actually £50k higher. Work commencing to have service level agreements in place instead of CSC allocation to provide more certainty of actual costs.
- Transport & Premises - **£36k overspend**. Property costs paid in advance and a rebate paid if costs for the quarter are less, it is assumed that no rebate will be given. The Fund will continue to monitor property expenditure closely.
- Income - **£592k below budget**. This relates to stock lending commission. The budget was modelled on Northern Trust projections based on last year's income. 50% of last years revenue was derived from one stock. The income from this stock was less reliable in the first quarter of the year and was sold (unrelated to stock lending revenue) during the second quarter.

5.4 Contained within the table of 5.1 are the expenses in relation to LPFE Limited. LPFE is the company that employs the key investment personnel of the Fund. To date the total expenditure of LPFE is £394k with projected outlays for the year expected to be below £1m.

5.5 The 2015/16 budget also contained a £250k provision for a loan facility within LPFE. This financing arrangement provides the company with sufficient operational flexibility within the overall financial controls and framework of the Council. Cash is drawn-down from the loan facilities (not beyond the £250k provision) when required and interest is charged on the net amount drawn down, with the rate linked to the Royal Bank of Scotland base rate. The Fund does not expect to use this full provision as after the initial setup of the company, loan balances will be kept to a minimum. The graph below shows the cash flows of LPFE's loan facility since inception.



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 Pension Board, comprising employer and member representatives, is integral to the governance of the Funds.

Background reading/external references

[LPF Service Plan 2015-2018](#)

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Deputy Chief Executive

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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 – Performance Indicators

Service Plan Performance Indicators – Targets & Actual Performance

	Q1 April to June	Q2 July to Sept	Target	Status
Customer First				
Maintain Customer Service Excellence Standard	Annual assessment expected early 2016		Retain CSE Award	Not yet known
Overall satisfaction of employers, active members and pensions measured by surveys	Rolling 12 month performance is 85.6%		87%	
Proportion of active members receiving a benefit statement and time of year when statement is issued	98% issued on 28 August		Over 96% by end August	
Forward Thinking				
Performance and Risk of Lothian Pension Fund	Actual 8.6%pa, Benchmark 7.2%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.	
Proportion of critical pensions administration work completed within standards	91.5%	91.8%	Greater than 90%	
Honest & Transparent				
Audit of annual report	Achieved		Unqualified opinion	
Percentage of employer contributions paid within 19 days of month end	98.96%	97.27%	99%	
Data quality – compliance with best practice as defined by the Pensions Regulator	Assessment will be made at year-end		Fully compliant	Not yet known
Monthly Pension Payroll paid on time	Yes	Yes	Yes	
Working Together				
Level of sickness absence	1.45%	0.28%	4%	
Annual staff survey question to determine satisfaction with present job	73%		67%	
Percentage of staff that have completed two days training per year.	61%	74%	100%	

Pensions Committee

2.00 p.m., Wednesday, 16 December 2015

Communications Policy and Pensions Administration Strategy update

Item number	5.11
Report number	
Executive/routine	
Wards	All

Executive summary

Following the introduction of a new Local Government Pension Scheme from 1 April 2015, Lothian Pension Fund is required to formulate and publish a statement setting out its policy on communicating with certain key stakeholders. The Fund has also reviewed and updated its Pensions Administration Strategy for regulatory changes and to further enhance data quality and service standards.

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Communications Policy and Pensions Administration Strategy update

Recommendations

That Committee:

- 1.1 invites the Pension Board to raise any relevant matters or concerns which the Committee should consider.
- 1.2 approves the Communications Policy as attached in Appendix 1.
- 1.3 notes that the Fund has consulted with employers on the proposed changes to the Pensions Administration Strategy.
- 1.4 approves the revised Pensions Administration Strategy as attached in Appendix 2.

Background

- 2.1 A Communications Policy has not previously been a requirement under Scottish LGPS regulations. However to assist with delivery of service, the Fund introduced a Communications Policy in 2013.
- 2.2 The Local Government Pension Scheme (Scotland) Regulations 2014 introduced a requirement for all administering authorities to publish a statement setting out its policy on communicating with certain key stakeholders.
- 2.3 Following the introduction of the relevant provisions into the Local Government Pension Scheme (Administration) (Scotland) Regulations 2008, Lothian Pension Fund adopted a Pensions Administration Strategy effective from 1 April 2010. This was developed in order to:
 - Deliver a high quality pension service to Scheme members;
 - Continually develop and improve efficient working arrangements.
- 2.4 The Pensions Administration Strategy sets out the standards for pension administration against which performance is assessed. Performance results are reported to employers by way of an annual performance report and more frequently for larger employers.
- 2.5 The Fund is required to keep the Pensions Administration Strategy under review.

Communications Policy

- 3.1 Following the introduction of the new Scheme regulations, the Fund is now required to set out a policy concerning communication with:
- Members;
 - Representatives of members;
 - Prospective members; and
 - Scheme employers.
- 3.2 The policy must cover the provision of information to each of these groups and outline the frequency and method of distributing such information. The policy must be published and kept under review.
- 3.3 As a result of this legislative change, the Communications Policy has been reviewed to ensure compliance with the new requirements. The draft policy is attached in Appendix 1 for approval by Committee. It sets out the Fund's Communication objectives and the communications tools used to distribute information to the Fund's stakeholders..

Pensions Administration Strategy ('the Strategy')

- 3.4 Following the introduction of a new Local Government Pension Scheme from 1 April 2015, the Strategy has been updated to incorporate revised legislative references. In addition, changes have been made in response to experience since the Strategy was introduced and employer feedback on performance standards. Key changes are as follows:

Ill-health retirement

- 3.5 The Strategy sets out standards for the provision of certain information from employers, and performance against these standards is monitored and reported on a quarterly basis. The standards include the provision of retirement information which should be communicated to the Fund 20 days before the member retires to allow time for benefits to be processed and for members to make decisions regarding payment.
- 3.6 Performance against this standard has been particularly poor for ill-health retirements: in the first two quarters of the 2015/16 a total of 68 ill-health retirements have been received, of which only 2 were received within the target timescale. Feedback from employers has indicated that, in general, such advance notification of ill-health retirements is impractical.

Year-end information

- 3.7 The Local Government Pension Scheme Regulations (Scotland) 2014 now require the Fund to issue members with a pension forecast by 31 August each year. This is in line with over-riding legislation – the Public Service Pensions Act 2013. Failure to meet this standard would require the Fund to report a breach of duties under the Pensions Regulator's Code of Practice for Public Service

Pension Schemes. The Fund has previously targeted 95% of members to provide pension forecasts by 31 August. However the standard for performance required under the Act is 100%.

- 3.8 To ensure this timescale is achieved, it is important that all employers provide year end information on time and that any queries arising from the information provided are dealt with by employers quickly. To this end, the Strategy has been amended to reduce the timescale for dealing with year-end queries from 20 working days to 10 working days.
- 3.9 The Strategy now also clarifies the standard for provision of additional information required in order to provide members with annual pension savings statements by 6 October each year. These statements show members whether or not their pensions savings made within the Fund exceed the statutory annual allowance, which is the maximum amount of pensions savings an individual can make each year that benefits from tax relief.

Employer costs

- 3.10 Committee agreed in September 2014 to pass on costs of poor employer performance from employers in the following areas from April 2015:
- Contributions received later than the regulatory standard;
 - Not regularly addressing membership data queries;
 - Consistently and repeatedly failing to meet service standards for new starts, leavers, retirements and deaths as per the PAS and no clear commitment to improve; and
 - Not submitting monthly pension contributions via pensionsWEB.
- 3.11 The draft Strategy has include specific reference to charges in 4 key areas as follows:

Failure to pay monthly contributions to the Fund by the statutory deadline of 19 th of the month following deduction of the contributions	Interest calculated in accordance with Regulation 69(4) of the Local Government Pension Scheme (Scotland) Regulations 2014
Failure to provide the Fund with year-end return and fully completed AB2 schedule by 19 th April each year	£200 initial fee plus 5p per member per working day from 20 April to date return is received.
Failure to provide the Fund with information required to calculate members' pension input amounts (for pensions savings statements) by the statutory deadline of 6 July following the end of the tax year.	£200 initial fee plus £10 per member per working day from 7 July to date information is received.
Failure to submit monthly contribution return via PensionsWEB bulk process	£50 fee per occurrence plus 5p per member. Charges to be levied on an annual basis at the discretion of the Fund.

- 3.12 These areas are particularly important as contribution payments and timely year-end data are required in order to ensure compliance with legislation. In addition,

the use of the pensionsWEB monthly contribution process (already used by the majority of our employers) has led to enhanced data quality, which is even more important following the change to a career average benefit arrangement.

- 3.13 Charges for late payment of contributions are as stated in the Scheme regulations whilst the other charges have been set to reflect the additional time spent in resolving data queries and following up on late submission of information.
- 3.14 The draft Strategy has been subject to formal employer consultation from 19 November. A verbal update on the consultation responses will be provided to Committee. Subject to responses, Committee is asked to approve the Pensions Administration Strategy as provided in Appendix 2.

Measures of success

- 4.1 The Communications Policy should ensure compliance with regulatory requirements and also continue to demonstrate best practice in communicating with stakeholders.
- 4.2 The Pensions Administration Strategy aims to achieve compliance with requirements of the Public Sector Pension Scheme Code of Practice and to ensure that targets are met by the Fund and employers in all areas of information provision.

Financial impact

- 5.1 There is no direct financial impact aside from potential recovery of costs in the event of employer failure to provide specified information within required timescales. The revised Pensions Administration Strategy should improve information flow from employers which will lead to fewer delays in service to members.

Risk, policy, compliance and governance impact

- 6.1 In formulating a Communications Policy, the Fund will ensure compliance with regulatory requirements and also continue to demonstrate best practice in communicating with stakeholders.
- 6.2 The changes made to the Pensions Administration Strategy will ensure that the Fund meets regulatory requirements regarding provision of information to members and will therefore reduce the risk that the Fund breaches the requirements of the Public Sector Pension Scheme Code of Practice.

Equalities impact

7.1 There is no equalities impact.

Sustainability impact

8.1 There is no sustainability impact.

Consultation and engagement

- 9.1 As required under Regulation 57(4) of the Local Government Pension Scheme (Scotland) Regulations 2014, the Fund is required to consult with employers and other appropriate stakeholders on the Pensions Administration Strategy. The draft Strategy has been issued to employers with a request for comments and feedback.
- 9.2 The Pension Board, comprising employer and member representatives, is integral to the governance of the Funds.

Background reading/external references

Alastair D Maclean

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Links

Coalition pledges

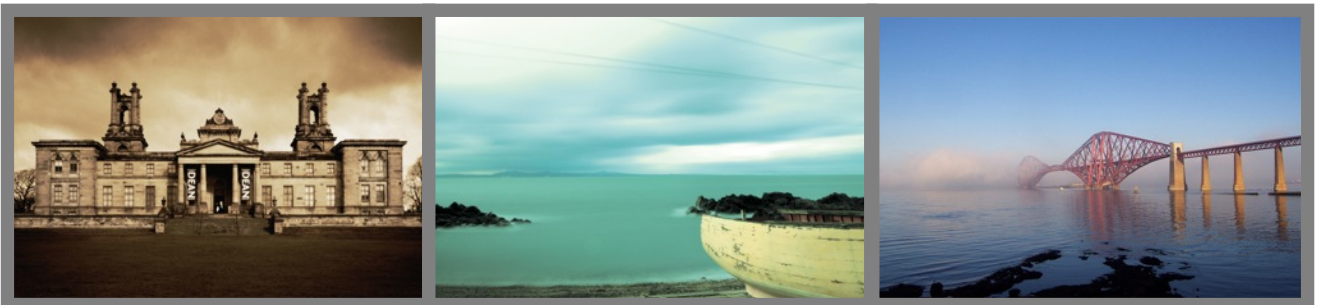
Council outcomes CO26 - The Council engages with stakeholders and works in partnerships to improve services and deliver agreed

Single Outcome Agreement

Appendices Appendix 1: Lothian Pension Fund Communications Policy
Appendix 2: Lothian Pension Fund Pensions Administration Strategy

Lothian Pension Fund

Communications Policy



Our policy

We provide a pension service for members of Lothian Pension Fund, Lothian Buses Pension Fund and Scottish Homes Pension Fund, local government employers and associated bodies within Edinburgh and the Lothians.

Regulation 59 of the Local Government Pension Scheme (Scotland) Regulations 2014 requires the following information to be published.

Section 59

(1) An administering authority must prepare, maintain and publish a written statement setting out its policy concerning communications with—

- (a) members;
- (b) representatives of members;
- (c) prospective members; and
- (d) Scheme employers.

(2) In particular the statement must set out its policy on—

- (a) the provision of information and publicity about the Scheme to members, representatives of members and Scheme employers;
- (b) the format, frequency and method of distributing such information or publicity; and
- (c) the promotion of the Scheme to prospective members and their employers.

(3) The statement must be revised and published by the administering authority following a material change in their policy on any of the matters referred to in paragraph 2.

The policy summarises how the Fund communicates with its employers, scheme members and other stakeholders.

Communication objectives

The overall objectives of the communications policy are to ensure that:

- pension regulations and the Fund's policies are communicated in a clear and informative way
- clear information is provided to allow members to take decisions relating to their pension
- the most appropriate way of communicating with stakeholders is used
- the differing needs of our stakeholders are taken into account
- the scheme is recognised as an important part of employers' remuneration package for employees
- our business partners provide clear communications, for example our Additional Voluntary Contributions providers
- communications are evaluated and feedback used to ensure their effectiveness
- to provide a secure real-time member online service allowing 24 hour access to personal pension data, allow changes to address, model retirement benefit and access scheme and member documents including benefit statements. The service is supported on multiple devices.

The Fund is committed to providing different channels of communications to all members and stakeholders to provide an efficient and effective service. This policy outlines the main communications channels and when they are used.

Who do we communicate with?

- Scheme members
- Scheme employers
- Prospective scheme members
- Lothian Pension Fund Pension Board
- LGPS (Scotland) Scheme Advisory Board
- Scottish Public Pensions Agency
- Audit Scotland, Fund auditor
- Trades Unions
- HMRC
- AVC providers
- Other stakeholders and bodies

Communications tools and channels

By post

- Every year we send newsletters to our active, deferred and pensioner members.
- We send correspondence as necessary for example, new members, payslips, transfers and at retirement.
- Certain communications are available by post on request.

By email

- Our e-newsletter is sent to all members where we hold an email address.
- Statements and letters can be password protected and emailed to members on request.

By phone

- Our dedicated pension helpline during office hours is the first point of contact for all pension enquiries. Our out of hours answering service provides 24 hour cover for those members who phone outside our normal office hours.

Online

- Our website www.lpf.org.uk has pension information for members and other stakeholders. For members it include access to our online service, calculators, scheme guides, leaflets and videos.
- The My Pension Online service provides a secure real-time member online service with 24 hour access to personal pension data. Members can update their address, model retirement benefits and access scheme and member documents including benefit statements. Our retired members can access their monthly pension payments and P60 details
- The Pensions Committee and Audit Sub-Committee papers are available online at www.edinburgh.gov.uk/cpol

Roadshows/presentations

- We visit employer workplaces and attend roadshows, seminars, induction and pre-retirement presentations on request.

Visit our office

- Members can visit our offices within office hours and speak to a member of our pension administration team about their pension.

Social media

- We have both a Twitter and Facebook presence and cover topical and scheme pension matters. Follow on twitter [@lothianpension](https://twitter.com/lothianpension) or on Facebook at www.facebook.co.uk/lothianpensionfund.

Communications matrix - members

The section below shows how the Fund communicates with each audience.

	Frequency	By post	Online/ email/ website	Active members	Deferred members	Retired members
New member welcome letter	Ongoing	<input checked="" type="checkbox"/>		<input checked="" type="checkbox"/>		
New member welcome pack	Ongoing	On request	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>		
Website	On demand		<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
My pension online service	On demand		<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Newsletter including Annual Report summary	Annual	On request	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	
Alternative formats including translation		On request		<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Presentations and roadshows	On request					
Annual benefits forecast	Annual	On request	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	
Customer care charter including service standards		On request	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
E-newsletter updates	As required		<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Scheme guides		On request	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Leaflets, policies and forms		On request	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Retirement pack	As required	<input checked="" type="checkbox"/>				<input checked="" type="checkbox"/>
Penfriend newsletter	Twice a year	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>			<input checked="" type="checkbox"/>
Club Together newsletter	Twice a year	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>			<input checked="" type="checkbox"/>
Payslip	Twice a year	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>			<input checked="" type="checkbox"/>
P60	Annually	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>			<input checked="" type="checkbox"/>
AVC members statement	Sent by provider	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	
Prospective member information	Ongoing	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>			

Communications with employers

We have over 100 employers who range from one active member in the fund to over 10,000. We therefore use a number of different communications tools in dealing with our employers to ensure they carry out their statutory duties in relation to the scheme and can deal with day to day enquires.

We have a Pensions Administration Strategy (PAS) which sets out the obligations of both the Fund and employers. The PAS also sets out performance targets. Data including monthly contribution returns is transferred to the fund via a secure electronic portal

We host a range of events for employers including:

- Annual finance update
- Annual seminar
- User groups for payroll/HR staff.

We also provide training for employers on request.

The Fund has a dedicated team to deal with employer queries and a dedicated employer e-mail address: employer.pensions@edinburgh.gov.uk

The Fund issues a monthly bulletin to keep employers informed of Fund activities, any regulatory updates and other points of interest. Other updates are issued as required including consultation on regulation and policy changes.

Other resources are available online:

- Dedicated area of the website: www.lpf.org.uk
- Employer administration guide

External communications

The Fund issues media releases and comments on non-political pension fund related matters to both general and pensions and investment specific media. The primary purpose is to ensure accurate reporting of the Fund policies and financial position, enhancing its reputation and helping to develop the Fund's profile.

How we evaluate and improve our communications

Evaluation and feedback are essential tools in improving the services provided by the Fund. We survey key stakeholder groups regularly, and include questions on communications including our joining material, forms, booklets and our website. We monitor results and take corrective action to improve communications based on the feedback received.

Freedom of Information and Data Protection

Freedom of Information

The Fund follows the Freedom of Information policy of the administering authority, the City of Edinburgh Council. It can be accessed at www.edinburgh.gov.uk

Freedom of Information or Data Protection requests can be made direct to the Fund or through the City of Edinburgh Council in a number of ways including through the Fund or Council's website, email or in writing.

The Fund's website www.lpf.org.uk includes a list of all Fund publications as a guide to information we publish or that can be requested.

Data protection

The City of Edinburgh Council acts as administering authority for Lothian Pension Fund and is registered under the Data Protection Act 1998. The Council's Data Protection policy also applies to the Fund and it can be accessed at www.edinburgh.gov.uk.

This allows members to check that their details held are accurate. The Fund may, if it chooses, pass certain details to a third party, if the third party is carrying out an administrative function of the Fund.

The Fund has a duty to protect the public funds it administers, and to this end may use information for the prevention and detection of fraud. It may also share this information with other bodies administering public funds for these purposes.

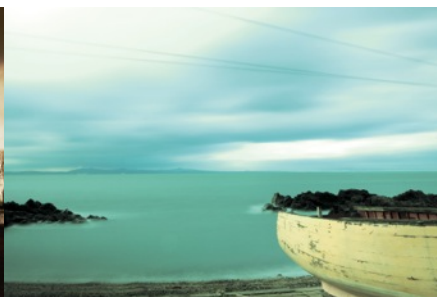
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**PENSIONS ADMINISTRATION
STRATEGY
*DRAFT***

PAS DECEMBER 2015

Pension Administration Strategy

1 Introduction

1.1 The City of Edinburgh Council administers the Local Government Pension Scheme (the Scheme) on behalf of employers participating in the Scheme through the Lothian Pension Fund (the Fund), the Lothian Buses Pension Fund and the Scottish Homes Pension Fund. The scheme is governed by statutory regulations.

1.2 References to the Fund should be regarded as meaning The City of Edinburgh Council as Administering Authority of the Lothian Pension Fund, Lothian Buses Pension Fund and Scottish Homes Pension Fund.

1.3 The scheme is governed by statutory regulations:

- The Local Government Pension Scheme (Scotland) Regulations (as amended);
- The Local Government Pension Scheme (Transitional Protections & Savings) (Scotland) Regulations 2014 (as amended);
- The Local Government (Discretionary Payments and Injury Benefits) (Scotland) Regulations 1998 (as amended).

1.4 In discharging their roles and responsibilities under these regulations, the Fund and employers are also required to comply with any pertinent overriding legislation, such as:

- The Pensions Act 1995 and associated disclosure legislation
- The Disability Discrimination Act 1995
- The Age Discrimination Act 1998
- The Freedom of Information Act 2000
- The Finance Act 2004
- The Public Service Pensions Act 2013
- The Pension Schemes Act 2015;

and take appropriate cognisance of any regulatory guidance or Code of Practice issued by:

- The Pensions Regulator
- Scottish Public Pensions Agency
- Scottish Government

1.5 The Fund is committed to providing a high quality pension service to both members and employers and particularly to ensuring members receive their correct pension benefit entitlement. These aims are best achieved where the Fund and employers work in partnership and are clear about their respective roles and responsibilities. The quality of service provided to members is therefore dependent on both parties meeting high standards of accuracy and timeliness of information supplied.

2 Pension Administration Strategy

2.1 This document:

- sets out the roles and responsibilities of both the Fund and employer;
- specifies the level of services the parties will provide to each other and the performance measures used to evaluate them.

2.2 This strategy is an over-arching agreement between the Fund and all its employers, but it is also supplemented by specific individual agreements in respect of the Lothian Buses Pension Fund and the Scottish Homes Pension Fund.

2.3 This strategy has been produced in consultation with employers and is effective from 16 December 2015. The statement will be kept under review and revised where appropriate. Changes will be subject to consultation with employers. The strategy will be published to all participating employers and the Scottish Ministers.

2.4 Strategy principles - in agreeing this strategy, all parties commit to:

- achieving a high quality pension service to employees;
- continually developing and improving efficient working arrangements;
- striving to exceed the Fund's service standards.

In addition, the Fund will:

- publish an annual report of performance;
- keep the pension administration strategy under review.

3 Roles and responsibilities

3.1 Employers' duties, responsibilities and discretions are listed in Appendix A to this Strategy, and the Fund's duties, responsibilities and discretions are listed in Appendix B.

3.2 Full information and guidance on employer administrative responsibilities are set out in the Employers' Guide available from the Fund's website www.lpf.org.uk and also on the secure data transmission portal, "pensionsWEB".

4 Service standards

4.1 Service standards expected from the employer

General information

Employers must provide the following information concerning their administration of the Scheme:

Information required	Format	Timescale
Confirmation of <ul style="list-style-type: none"> - of named contact within the employer who will act as liaison with the Fund - understanding of responsibilities and statutory obligations under the Scheme Regulations. 	Completed compliance statement signed by designated contact	Annually
Policy statement on exercise of discretionary provisions	Copy of statement signed by designated person	Following regulatory changes, with revised statements sent following any subsequent review.
Confirmation of appointed person designated to receive appeals from members on 'first instance' decisions taken by the employer under the Regulations	Contact details	As required

Membership information

Information required relating to members must be provided using the online pensionsWEB system. This secure portal allows employers to send information using either on-line forms or via bulk process routines as specified below. The pensionsWEB system allows employers to review member information and the bulk process routines will also highlight discrepancies to allow the employer to rectify these before submission to the Fund.

Employers should provide the information below within the agreed timescales shown. More guidance on the information required is set out in the Employer Guide.

It is the employer's responsibility to provide correct information about their members. The Fund is not responsible for checking the accuracy of any information provided by the employer. However, the Fund will inform the employer of any differences between information provided by the employer and information already held.

Payment of pension contributions

Employers are responsible for collecting, paying over and accounting for the following:

Type of contribution	Payment method	Timescale
Member and employer pension contributions (including any additional member contributions but not AVCs – see below)	Electronic payment	By the 19 th of the month following deduction from pay
Member Additional Voluntary Contributions (AVCs)	Electronic payment with information as specified by AVC provider	By the 19 th of the month following deduction from pay

Online forms

For the following processes, online forms available should be completed and submitted to the Fund via pensionsWEB.

Process	Information required	Timescale
Retirement	Completed retiral form and where appropriate also upload: <ul style="list-style-type: none"> • signed letter authorising early payment of benefits completed by authorised signatory • previous year's pay information via spreadsheet found on pensionsWEB if a certificate of protection is held 	At least 20 working days before the member's date of leaving.
Ill Health Retirement	Completed retiral form and signed ill-health certificate completed by approved IRMP	No later than 5 working days after the member's date of leaving
Early leaver <i>(where the member is age 60 or over please process as a retirement)</i>	Completed early leaver form or cancellation of membership form as appropriate and also upload previous year's pay information if a certificate of protection is held	No later than 20 working days after the member's date of leaving
Death in Service	Completed death in service form and also upload a certified copy of death certificate if available	No later than 10 working days after the member's date of death
Queries raised/further information requested by the Fund in dealing with a member's retirement	Any further information as required should be provided using the online secure message form.	No later than 5 working days after request for information has been sent to the employer
Any other queries (except those relating to year end)	Any further information as required, using the online secure message form or other online forms or uploaded documents as applicable.	No later than 10 working days after the query has been sent to the employer

Annual contribution information

The Scheme regulations require the Fund to issue annual pension forecasts to members no later than 31 August each year. To comply with over-riding legislation on pensions taxation, the Fund must also calculate pension input amounts in order to provide members with annual pension savings statements by 6 October each year. To ensure these timescales are achieved, employers must provide the following information:

Type of return	Information required	Timescale
Year-end information (format will be specified by the Fund)	<ul style="list-style-type: none"> Completed AB2 schedule (reconciliation of employee contributions paid during the year) signed by Director of Finance or equivalent; Sufficient year end information to 31st March as required by the Scheme regulations. 	by the 19 th of April each year
Year end queries	Any further information as required using the online secure message form or other online forms or uploaded documents as applicable	no later than 10 working days after the query has been sent to the employer
Further pay information (format and members affected will be specified by the Fund)	Information required to enable the Fund to work out members' pension input amounts	by 6 July following the end of the tax year.

Bulk processes

For the following processes, the bulk process facility on pensionsWEB should be used to provide the information needed.

Process	Information required	Timescale
New starts	Information to create a new member record	Within 20 working days of the month end in which the member joins
Change in circumstances	Details of new circumstances (including changes in working hours, move to 50:50 section of the Scheme etc)	Within 20 working days of the month end in which the change occurs
Monthly contributions	Amounts of contributions paid by each employee (including any additional contributions)	By the 19 th of the month after these have been deducted from pay

4.2 Service standards employers can expect from the Fund

The Fund aims to provide the information below within the agreed timescales shown. A reduced timescale may be agreed in exceptional cases at an employer's request. In such instances, this may lead to additional costs and these costs will be recharged to the employer.

Employer requests

- Once all required information is received, the Fund will provide the employer with ad-hoc estimates of benefits **within 10 working days** of the receipt of the request.
- Where more than 20 estimates are required, the employer should consult with the Fund to reach an agreed timescale.
- Multiple requests relating to an individual member may be restricted.
- Large bulk estimate exercises may incur a charge depending on timescales required.
- The Fund will respond to a pension-related query raised by employers **within 10 working days** of its receipt.

Information to members

- Statements, leaflets and other correspondence will generally be issued directly to members' home addresses where available.
- The Fund will advise employers of the general content and planned issue date of such material in advance.
- Where the Fund is unable (or it is not desirable) to distribute Fund information directly to members' home addresses, with the agreement of the employer, the employer shall distribute the information **within 10 working days** of its receipt.

General administration

- As the body administering the Scheme on behalf of the employer, the Fund will consult with its employers on major issues affecting their participation in the Fund and provide updates on relevant information through:
 - website www.lpf.org.uk
 - regular employer bulletins, including coverage of Pensions Committee and Pension Board meetings
 - employer events
 - pensionsWEB
- The Fund will provide requisite training, guidance and support to employer staff members that have pension related duties.
- The Fund will maintain and develop training information on pensionsWEB (user guides and training videos) as required.

5 Costs

5.1 The Fund's charging policy is set out in the Funding Strategy Statement (FSS) which summarises the Fund's approach to funding liabilities. The FSS can be found on the Fund's website at www.lpf.org.uk

5.2 The costs of administration, including actuarial fees for routine work, are charged directly to the Fund. These costs are taken into account in assessing employers' contribution rates.

5.3 Where additional services (actuarial or other) are required by, or result from the actions of, the employer and costs are incurred by the Fund, the employer will be required to reimburse the Fund for the costs involved. Where appropriate, an estimate of these costs will be provided and the employer's agreement obtained before proceeding to instruct the service provider.

5.4 Where additional costs arise due to employers requiring information within reduced timescales (see section 4.2 above), an estimate of the costs will be provided in advance.

6 Performance measurement and reporting

6.1 Fund performance against Customer Charter and Service Standards

The Fund will carry out its duties and responsibilities to members in accordance with its service standards (as published within its "Customer Charter and Service Standards"). It will also monitor, measure and report on its performance against those standards and its performance targets.

6.2 Fund and Employer performance against agreed service standards

On a regular basis, the Fund will monitor, measure and report on both the Fund's and employers' compliance with the agreed service standards outlined in this document, on a total Fund basis, and will share that report quarterly with Employers. Individual reports will be produced on a quarterly basis for our larger employers and other employers will receive details of their own performance on an annual basis, with more regular reports on request. Full performance measures to be reported are detailed in Appendix C.

7 Procedures for improving employer performance

The Fund will seek, at the earliest opportunity, to assist employers in identifying any areas of poor performance. The Fund will:

- Provide regular reports of employer and Fund performance, identifying any areas for improvement (see section 5.2 above);
- Remind employers of the required standards (both regulatory and Fund);
- Provide training and guidance for employers (see section 4.2 above);
- Offer to meet with the employer to discuss the area(s) of poor performance and how they can be addressed.

8 Circumstances where costs might be recovered as a result of poor performance

The cost of administering the Fund is met by all employers, however when additional costs arise due to the poor performance of one employer, it is fair that these are attributed to the relevant employer.

8.1 Circumstances where direct costs can be recovered from employers:

- In the event of a failure to meet its requirements, under the Occupational Pension Schemes (Disclosure of Information) Regulations, the Fund may be penalised by the Pensions Regulator. If this failure is due to the default, omission or otherwise negligent act of the employer, the sum concerned will be recharged to the employer.
- Where any orders or instruction issued by The Pensions Regulator or the Pensions Ombudsman requires financial compensation or a fine to be paid from the Fund, or by any officer responsible for it, and it is due to the default, omission or otherwise negligent act of the employer, the sum concerned will be recharged to the employer.

8.2 Circumstances where indirect costs can be recovered from employers

If as a result of an employer's poor performance, additional and disproportionate resources are deployed by the Fund, the cost of the additional resources may be recharged to the employer in accordance with powers available under Regulation 68.

- In particular, the Fund will charge employers for the following failures:

Failure to pay monthly contributions to the Fund by the statutory deadline of 19 th of the month following deduction of the contributions.	Interest calculated in accordance with Regulation 69(4) of the Local Government Pension Scheme (Scotland) Regulations 2014
Failure to provide the Fund with year-end return and fully completed AB2 schedule by 19 th April each year.	£200 initial fee plus 5p per active member per working day from 20 April to date return is received.
Failure to provide the Fund with information required to calculate member(s) pension input amounts (for pensions savings statements) by the statutory deadline of 6 July following the end of the tax year.	£200 initial fee plus £10 per member per working day from 7 July to date information is received.
Failure to submit monthly contribution return via PensionsWEB bulk process by 19 th of the month following deduction of the contributions.	£50 fee per occurrence plus 5p per active member. Charges to be levied on an annual basis at the discretion of the Fund from April 2016.

In addition, where persistent and ongoing failure occurs in relation to other administration requirements and no improvement is demonstrated by an employer, and/or unwillingness is shown by the employer to resolve the identified issue(s), the following sets out the steps that will be taken in dealing with the situation in the first instance:

- The Fund will write to the Chief Executive (or equivalent) of the Scheme employer, setting out the area(s) of poor performance and the potential consequences including any costs which may be incurred.
- Where no improvement has been demonstrated by the employer, or where there has been a failure to take agreed action by the employer, the Fund will issue a formal written notice to the employer, setting out:
 - the area(s) of poor performance which have been identified
 - steps taken to resolve the problem(s)
 and giving notice that additional costs may now be reclaimed.
- The Fund will explain the calculations of any loss or additional costs incurred by the Fund taking account of time and resources incurred in resolving the specific area of poor performance.
- The Fund will recharge the employer for these costs, setting out reasons for doing so, the basis of the calculation of the amount, and the relevant part of this statement which, in the Fund's opinion, has been contravened.

9 Other actions which the Fund may be required to take

- The Fund may appeal to Scottish Ministers against a decision, or failure to make a decision, under scheme regulations by an employer.
- Where the employer fails to comply with statutory contributions payment requirements the Fund will inform the Pensions Regulator, as required of Scheme Administrators by the Pensions Act 1995.
- Where the employer fails to comply with their scheme duties etc., including

- failure to make payment of contribution by 19th of the month following deduction from pay;
- failure to provide requisite year-end information to enable the Fund produce an annual pension forecast to the member as required with the Pensions Regulator's Code of Practice;
- failure to provide requisite information to enable the Fund to calculate the member's pension input amounts by the statutory deadline of 6 July following the end of the tax year,

the Fund reserves the right to notify the member(s) involved and to notify all members employed by the employer in the event of serious or persistent failure.

- The Fund will also include in the annual report contains details of employers who have failed
 - meet monthly contribution remittance standards during the year
 - provide year-end information by 19th April

APPENDIX A – the role and responsibilities of the Employer

1. Main duties under scheme regulations

New members

- To decide those employees eligible to become members of the Scheme.
- If eligible, a new employee must be treated as a member unless he/she elects otherwise.
- To advise employees of their rights under Auto Enrolment legislation.
- To determine a member's pay for the purposes of pension contributions.

During the course of a member's Scheme membership

- To supply timely and accurate information to the Fund regarding new members, leavers and changes in employment required for pension administration purposes (as detailed in the Employer Guide).
- To determine annually a member's contribution rate on the basis of the member's rate of pensionable pay having regard to guidance issued by the Scottish Ministers and to deduct pension contributions from an employee's pay.
- To issue a Certificate of Protection of Pension Benefits if asked to do so by scheme member within 12 months of a material reduction in the member's pay, (or a restriction in the rate by which it may be increased), where the reduction or restriction arose otherwise than by virtue of the member's own volition. A copy of the Certificate should be kept on file, with another sent to the Fund.
- If a Certificate of Protection of Pension Benefits is issued, to keep a record of the member's pay for the period commencing 3 years before the effective date of the certificate and ending 10 years after the effective date of the certificate.
- To comply with relevant auto-enrolment legislation regarding members who have previously opted out of the Scheme and those who have elected for the reduced contributions option ('50:50' section), including auto-enrolling such members again as required.
- To use an Independent Registered Medical Practitioner (IMRP) qualified in Occupational Health Medicine, (who has been approved by the Fund), in determining ill-health retirement and provide the Fund with a relevant certificate where appropriate.

General

- To provide any member electing to pay reduced contributions ('50:50' section) with information about the effect on benefits of that election.
- To notify a member, in writing, whose rights or liabilities are affected by a 'first instance' decision made by the employer under the Regulations
- To appoint a person designated to receive appeals from employees on 'first instance decisions' taken by the employer under the Regulations.
- When issuing any statement issued to an employee relating to any decision made about the scheme, to include a notice drawing the employee's attention to their right of appeal under the LGPS. However the Fund will normally issue, on behalf of the employer, a Statutory Notice detailing when a

member joins the Fund or where there is a change in a member's pension records. This Statutory Notice includes details of the employee's right of appeal against the decisions made at these times.

When an employee leaves the Scheme

- To determine a member's entitlement to benefit on cessation of scheme membership, employment or on a member's application for early release of benefits or flexible retirement and provide early retirement authorisation as and when appropriate.
- If an employee opts out of the Scheme within the timescale for auto-enrolment, the employer must:
 - ensure that pension contributions deducted previously are refunded previously
 - advise the Fund via the appropriate pensionsWEB form that the employee has opted out and should be treated as never having been a member of the Scheme
- To determine final pay for the purposes of calculating benefits due from the Scheme.

Payments

- To collect, pay over and account for the deduction of the correct rate of pension contributions payable by both the members and the Employer by the 19th of the month following deduction from pay.
- If notified of a member's election to pay Additional Voluntary Contributions, to deduct from the member's pay the specified amount and to pay over those amounts to the relevant AVC provider by the 19th of the month following deduction from pay. To notify the Fund of any subsequent election to vary or cease paying AVC contributions
- To ensure that final payments are deducted made to the provider before a member's retirement. So that retirement benefits can be paid on time, no AVC deductions should be made from the last month's salary.

2. Responsibilities

In addition to the duties above, the employer's responsibilities are summarised as follows:

New employees

- To provide prospective members with basic information about the Scheme using, where appropriate, material provided by the Fund.
- To ensure those not joining are fully aware of the benefits given up and that equalities principles are met.

General administration

- To maintain employment records for each scheme member for the purposes of determining membership and entitlement to pension benefits.
- To ensure members' National Insurance contributions are made at the contracted out rate.
- To decide whether to award additional benefits under the Discretionary Regulations. At the request of the employer, the Fund will calculate and pay the benefits arising as a result of the employer awarding additional compensatory years along with the main scheme benefits, and the employer will

reimburse the Fund for all such amounts paid. Where the Fund is not reimbursed within the agreed timescale, the payment of such additional benefits may cease until the matter is resolved to the satisfaction of the Fund.

- To provide details of officers or representatives who are to receive employer communications issued by the Fund. Details should be kept up to date as necessary.
- To provide details of senior officers or representatives authorised to sign early retirement authorisation letters/memos.
- To ensure that all relevant officers (eg HR/Payroll) can access pensionsWEB in order to submit forms and other information and advise the Fund of any leavers or other staff to whom access should be permitted.

Supplying information to the Fund

- To ensure all information is provided as required regarding members' employment, using the secure online pensionsWEB system. Data provided should comply with Data Protection legislation.
- To provide additional information as required for actuarial valuation, year-end exercises, data-matching or communication purposes. The specification for such exercises will be provided by the Fund and may, after consultation, be modified from time to time.
- To respond to Fund queries resulting from the annual year end routines by the date determined by the Fund to facilitate the preparation of annual benefit statements.
- To provide any such information required to enable the Fund to work out members' pension input amounts by 6 July following the end of the tax year.
- To ensure the Fund is informed about, and Government guidance is followed in respect of, any transfer of members in respect of an outsourcing of service arrangement, and any subsequent changes to that arrangement which would impact on those members.
- To inform the Fund of any planned changes to their pension provision for employees, including whether the scheme is open to new employees, bulk transfers of employments or any redundancy exercises as soon as known.
- Annual report and account information should be provided to the Fund within the timescales provided by the Fund.
- To maintain awareness and understanding of the Fund's Employer Guide, Governance Policy, Actuarial Valuation Reports and Funding Strategy Statement (FSS) and take part in consultations on strategic issues.
- Employers must complete and return a compliance certificate on an annual basis. This document confirms that employers understand their responsibilities and statutory obligations under the Scheme Regulations.

Communication with members

- To inform members awarded additional compensatory years that the payment of the award will be subject to restriction should they take up further employment with an employer participating in the LGPS.

Payments

- To pay the Fund, by lump sum and within prescribed time limits, any amounts arising as a result of the employer's decision to increase total membership and/or increase annual pension under the Regulations.
- To pay the Fund, by lump sum payment and within prescribed time limits, any strain cost arising from a decision made by the employer to award early payment of benefits.
- To pay monthly contributions due to the Fund by electronic payment method.
- To account to HMRC for any tax liability on the total of all termination payments, including the lump sum element of any Compensatory Added Years awarded, made to employees over the allowed limit (currently £30,000).

3. Discretions

3.1 The employer must make, and keep under review, policies on the discretions available under the Scheme regulations. These policies must be contained and published in a policy statement. A copy of that statement, and any subsequent amendment to it, must be provided to the Fund. The current statement must also be made available to any scheme member upon request.

3.2 Employers who are Scheduled Employers (i.e. who are not participating by means of an Admission Agreement) must also make and keep under review policies as necessary under the Discretionary Regulations.

3.3 Other employers may adopt the provisions of the Discretionary Regulations in order to mirror the powers available to Scheduled Employers.

3.4 Guidance on preparing and establishing any policies is available from the Fund on request.

APPENDIX B – the role and responsibilities of the Fund

1. Main duties under scheme regulations

Funding

- To maintain the Lothian Pension Fund.
- To invest pension contributions received and account for and manage the Fund's assets.
- To arrange for the triennial actuarial valuation of the Fund and send copies of the resulting report to employers by the first anniversary of the valuation date.

New members

- To set up and maintain a record for each member which contains all the necessary information for the production of an accurate benefit calculation.

During the course of a member's Scheme membership

- To decide how any previous service or employment of an employee is to count for pension purposes, and whether such service is classed as a 'period of membership'.
- To notify members of decisions regarding the counting of service or additional pension.
- To calculate and pay the appropriate benefits, based on the member's record, and the termination and pay details provided by the employer when a member leaves pensionable employment.
- To calculate and process transfers of members' pension rights inwards and outwards.
- To supply members with a Statutory Notice on commencing membership, or on an increase in membership following a transfer of pension rights.
- To supply survivor beneficiaries with notification of their entitlements including the method of calculation.

General administration

- To appoint a suitable person for the purposes of the scheme's internal dispute resolution procedure.
- To increase pensions annually in accordance with the provisions of Pensions Increase Acts and Orders.
- To produce annual pension forecasts for members.
- To produce and dispatch information relating to pension input periods to Scheme members in line with the statutory deadline (ie 6 October following the end of the tax year).
- To publish and review the Fund's Governance & Compliance Policy, the Fund's Communications Policy, Funding Strategy Statement and the annual report and accounts.

2. Responsibilities

In addition, the responsibilities of the Fund in administering the Scheme are as follows:

- To appoint an actuary for the purposes of the triennial valuation of the Fund and to provide periodical actuarial advice when required.
- To appoint Additional Voluntary Contributions provider(s).
- To comply with any orders or instructions issued by The Pensions Regulator or the Pensions Ombudsman. Where the order or instruction requires financial compensation or a fine to be paid from the Fund, or by any officer responsible for it, and it is due to the default, omission or otherwise negligent act of the employer, the sum concerned shall be recharged to the employer (see 7above).
- To provide forms, newsletters, booklets and such other materials as are necessary in the administration of the Scheme, for members and for use by employers..
- To provide accurate, timely data to the Fund actuary for the purposes of the triennial actuarial valuation of the Fund and for employer accounting reports (e.g. FRS102/IAS19) requested.
- Where appropriate, to pay benefits based on additional compensatory service awarded by an employer in accordance with the provisions of the Discretionary Regulations.
- To provide assistance to employers in regard to the pension implications of outsourcing services and to deal with any related bulk transfers of pension rights.
- To comply with HMRC reporting requirements regarding pension benefits. This includes providing HMRC with details of early leavers for contracting-out purposes
- To ensure that sufficient information is issued in the form of newsletters, booklets and other materials to satisfy the requirements of the Occupational Pension Schemes (Disclosure of Information) Regulations 2013.
- To ensure that steps are taken at all times to pay benefits to appropriate beneficiaries only and to reduce the possibility of fraud.

Data

- To ensure compliance with Data Protection legislation including use of appropriate secure data transfer methods.
- To approve employer users who request access to pensionsWEB and to maintain up-to-date access rights and remove employer staff leavers (as notified by employers).

3. Discretions

Under the Scheme Regulations each employer must have a policy on certain regulations. It is recommended that employers also formulate their policy in respect of some other regulations.

The Policy must be published (made known to members) and a copy sent to Lothian Pension Fund. It must be kept under review and revised following any change in policy. Any revisions must be published and a copy sent to the Fund within 1 month of the revision. In formulating their policy, employers must have regard to the extent to which the exercise of its policy could lead to a serious loss of confidence in the public service. The Fund has published a draft policy statement which can be downloaded from our website or pensionsWEB.

APPENDIX C – Performance Measures**EMPLOYER PERFORMANCE MEASURES**

Service Standards

Standard	Number	%age in target	Previous year %age
New starts notification – within 20 wd			
Changes notified – within 20 wd			
Retirement info – at least 20 wd before			
Ill Health Retirements – no later than 5 wd after retiral date			
Early leaver notification – within 20 wd			
Death in service notification – within 10 wd			
Query responses – within 10 wd			
Year-end queries – within 10 wd			
Receipt of information required to calculate pension input amounts for pensions savings statements (if applicable) – by 6 July each year			
Contribution payments – by 19th of month following deduction of the contributions			
Submission of monthly contribution returns via pensionsWEB bulk processes			

Other measures

Area	Number	%age received/ sent in target	Previous year %age
Employer Policy - LGPS			
Employer Policy - Discretionary Regulations			
Leaver Forms outstanding			
Year-end queries outstanding			

ADMINISTERING AUTHORITY PERFORMANCE MEASURES

Service Standards

Standard	Number	%age in target	Previous year %age
Estimates supplied – within 10 wd			
Query responses – within 10 wd			

Other measures

Area	Number	Previous year
Employer Events		
Employer Training events		
Employer briefings		
Employer bulletins		

Key Administration Tasks: as published within Lothian Pension Fund Customer Charter (latest period)

Task	Target	Total received	% Completed in target	Previous year %age
New entrants				
Early leavers				
Retirements				
Deaths in service				
Transfers				
Estimates				



Compliance Certificate

On behalf of my organisation, I confirm that **I am the** named contact who will act as liaison with Lothian Pension Fund (LPF) within my organisation.

I understand that we have various **statutory obligations** in relation to the Local Government Pension Scheme (LGPS) and **employer obligations** under the Pension Administration Strategy.

I confirm (unless I have detailed otherwise and included the reason "why not" in the "additional information" box below) that:

1. **We calculate, apply and deduct tiered employee contribution rates** (and take account of benchmark rates for variable allowances) for each member employed by us in accordance with the statutory guidance. We specifically deduct and remit contributions separately in respect of each of our members' concurrent employments.
2. **We remit all contributions including employer contributions at the appropriate rate for the scheme year in question** to be received by LPF by the 19th of the month following the month of deduction.
3. **We have notified our members of their tiered contribution rate for this year** in writing.
4. We deduct and remit additional regular contributions (**ARCs**) and contributions in respect of the purchase of added years from our members where applicable.
5. We deduct and remit additional voluntary contributions (**AVCs**) to the Prudential or Standard Life and the payments are received by Prudential or Standard Life **by** the 19th of the month following the deduction from the member.
6. We are aware of the various pension administration forms and spreadsheets available from the pensionsWEB online system and of what events cause their need to be completed and will submit them accurately within the required timescales.
7. We have **published an up to date employer policy statement** for all employer discretions under the LGPS Regulations and have forwarded this to LPF.
8. We are **keeping abreast of the range of material** available on www.lpf.org including the underlying legislation, the LGPS guide and the monthly Employer Bulletins.

Organisation:	
Name (please print):	(Optional) Secondary contact Name (please print):
Position held:	Position held:
Telephone no:	Telephone no:
e-mail address:	e-mail address:
Date:	Date:

(Additional information sheet follows on next page)

Additional Information

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Pensions Committee

2.00 p.m., Wednesday, 16 December 2015

Risk Management Summary

Item number	5.12
Report number	
Executive/routine	
Wards	All

Executive summary

In line with the pension funds' ongoing risk management procedures, this paper provides an overview of the risk analysis for Q3 2015/16 for consideration by the Committee.

Links

Coalition pledges

Council outcomes [CO26](#)

Single Outcome Agreement

Risk Management Summary

Recommendations

- 1.1 That Committee invites the Pension Board to raise any relevant matters or concerns which the Committee should consider.
- 1.2 That the Committee notes the Quarterly Risk Overview.

Background

- 2.1 The pension funds' risk management procedures require us to:
 - 2.1.1 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
 - 2.1.2 produce a summary report of the risk register for the Pensions Committee and the Pensions Audit Sub-Committee which highlights the material risks facing the pension funds and identifies any new risks/concerns and the progress being made over time by the officers in mitigating the relevant risks (the "**Quarterly Risk Overview**").

Main report

- 3.1 The Operational Risk Register has been issued to the conveners of the Pensions Committee and the Pensions Audit-Sub Committee and the Independent Professional Observer.
- 3.2 The Quarterly Risk Overview, as at 19 November 2015, is set out in the appendix to this report for consideration.

Measures of success

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

- 4.2 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

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

Risk, policy, compliance and governance impact

- 6.1 Please see the Quarterly Risk Overview appended to this report.

Equalities impact

- 7.1 None

Sustainability impact

- 8.1 None

Consultation and engagement

- 9.1 The Pension Board, comprising employer and member representatives, is integral to the governance of the Funds.

Background reading/external references

None

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Deputy Chief Executive

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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 Summary, as at 19 November 2015

QUARTERLY RISK OVERVIEW

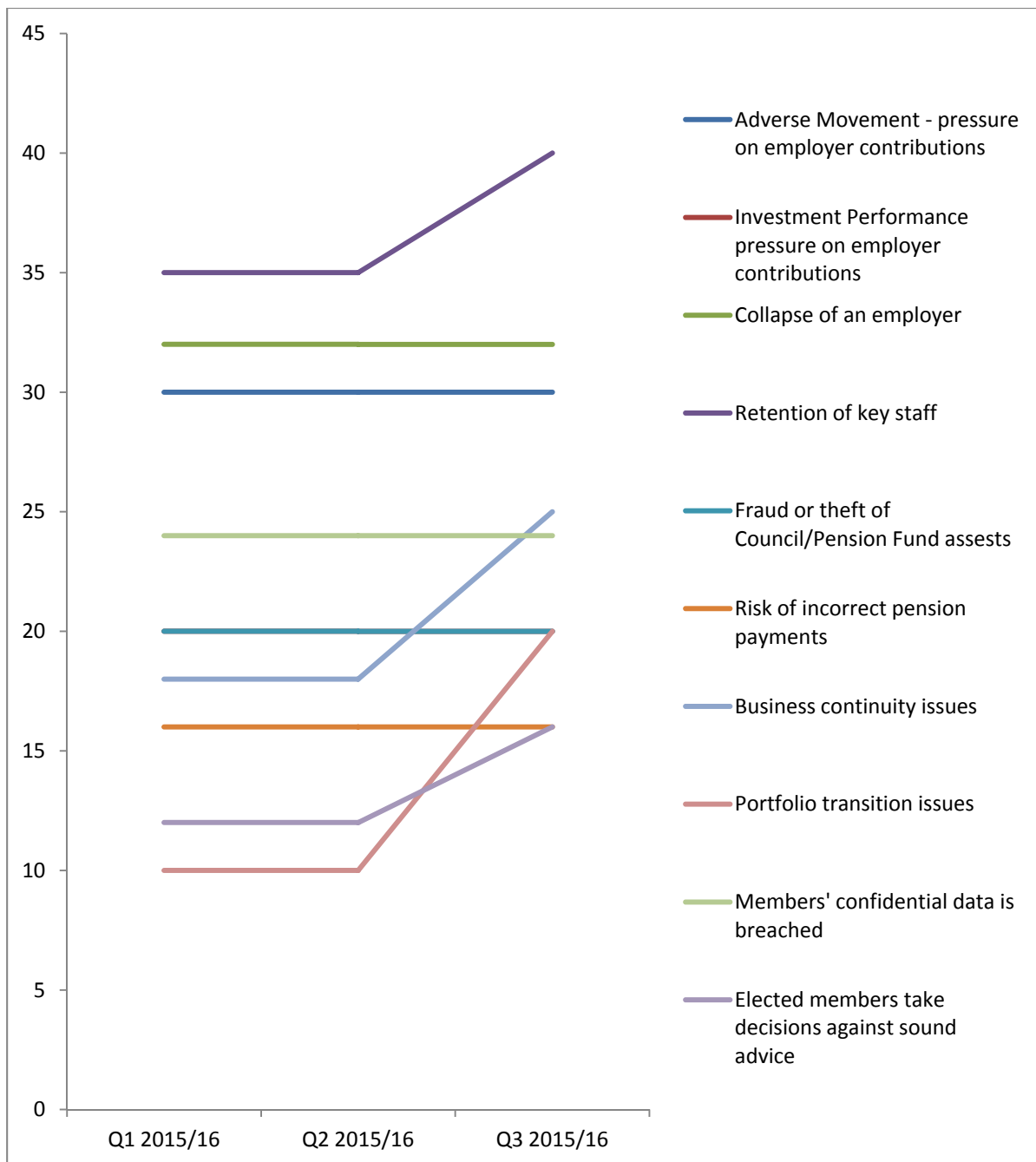
19 November 2015

UPDATE ON MOST NOTABLE RISKS

Risk & Reference Number	Update	Trend/RAG
Adverse Investment performance leading to pressure on employer contribution (1)	<p>Implementation of the new lower volatility investment strategy continues according to plan. The strategies were recently reviewed at a special meeting of the Investment Strategy Panel (ISP) in October 2015.</p> <p>A review of the Lothian Buses Pension Fund strategy is also progressing in conjunction with the ISP, with ongoing liaison with the City of Edinburgh Council's finance team and the senior management of Lothian Buses.</p>	<p>Static</p> 
Adverse movement against non-investment funding assumptions leading to pressure on employer contributions (2)	<p>The 2014 actuarial valuation is complete and experience against funding assumptions and employer contributions has been assessed. The Funding Strategy Statement (FSS) has been revised.</p>	<p>Static</p> 
Collapse/restructuring of an employer body leading to pressure on other employers (3)	<p>The revised funding approach for employers close to exiting the Fund reduces the overall risk to the Fund and the other employers.</p> <p>The Fund continues to engage with a group of smaller employers regarding the potentially adverse financial impact of the revised funding strategy, with the Pensions Committee having recently held a special additional meeting to consider certain appeals. The outcomes from this appeals process will now be implemented in conjunction with the respective employers. Where appropriate, the Fund will be pursuing guarantees and securities from the employers in order to further mitigate this risk.</p> <p>This risk will continue to be closely monitored over the coming months in the context of the overall Fund. In particular, the Fund will monitor and assess (i) the impact of the arrangements agreed with those employers participating in the appeals process, (ii) any guidance from the Scheme Advisory Board or Scottish Government.</p>	<p>Static</p> 
Recruitment and retention of key staff (4)	<p>This risk remains high and has increased given the continued improvement in UK economic and market conditions in the private sector. It is anticipated that the risk may reduce in Q4 of the 2015/16 financial year once revised terms and conditions have been implemented by LPFE Limited, which will include more appropriate notice periods etc.</p>	<p>Increase</p> 

Risk & Reference Number	Update	Trend/RAG
Regulatory Breach (20)	<p>The Fund is continuing to monitor the changing regulatory landscape for investment and pensions business within the UK and its potential impact on its internal investment operations. Recent focus has been on the MiFID II regulations and the proposed new Investment Management Regulations for the LGPS in England & Wales (each dealt with in more detail elsewhere in the agenda).</p> <p>The Fund has also recently requested that Internal Audit review its regulatory compliance in certain key areas (e.g. European derivative regulations and the Scottish Investment Management Regulations) and has now sought to analyse and address substantially all of the findings of that report. The report was considered by the Audit Sub-Committee, with any views having been separately reported to the Committee.</p>	<p>Static</p> 
Business continuity issues (11)	<p>The Fund understands that the new IT service provision from CGI will begin in April 2016, but awaits details as to the service specification in order to assess the likely impact on its core systems. Given the Fund's reliance on internal and complex third party hosted IT systems, and the adverse effect that any outage or issues may have on internal business operations and the external member experience, the risk has been increased until the position is clearer.</p>	<p>Increase</p> 
Acting out-with proper authority/delegations (23)	<p>The Fund has identified that a number of governance matters need to be updated (including its sub-delegations) following the departure of the Deputy Chief Executive, Chief Operating Officer in the new year and to address the new City of Edinburgh Council structure. The Fund is in the process of progressing this within the City of Edinburgh Council in order to have these addressed as a priority. This is of particular importance for the Fund, given its ongoing investment business with third parties in the financial services sector.</p>	<p>Increase</p> 
Over-reliance on single service provider for core functions (31)	<p>The Fund continues to monitor the position in relation to its core providers and is presently reviewing new entrants to certain service provision markets relevant to its operations.</p>	<p>Static</p> 

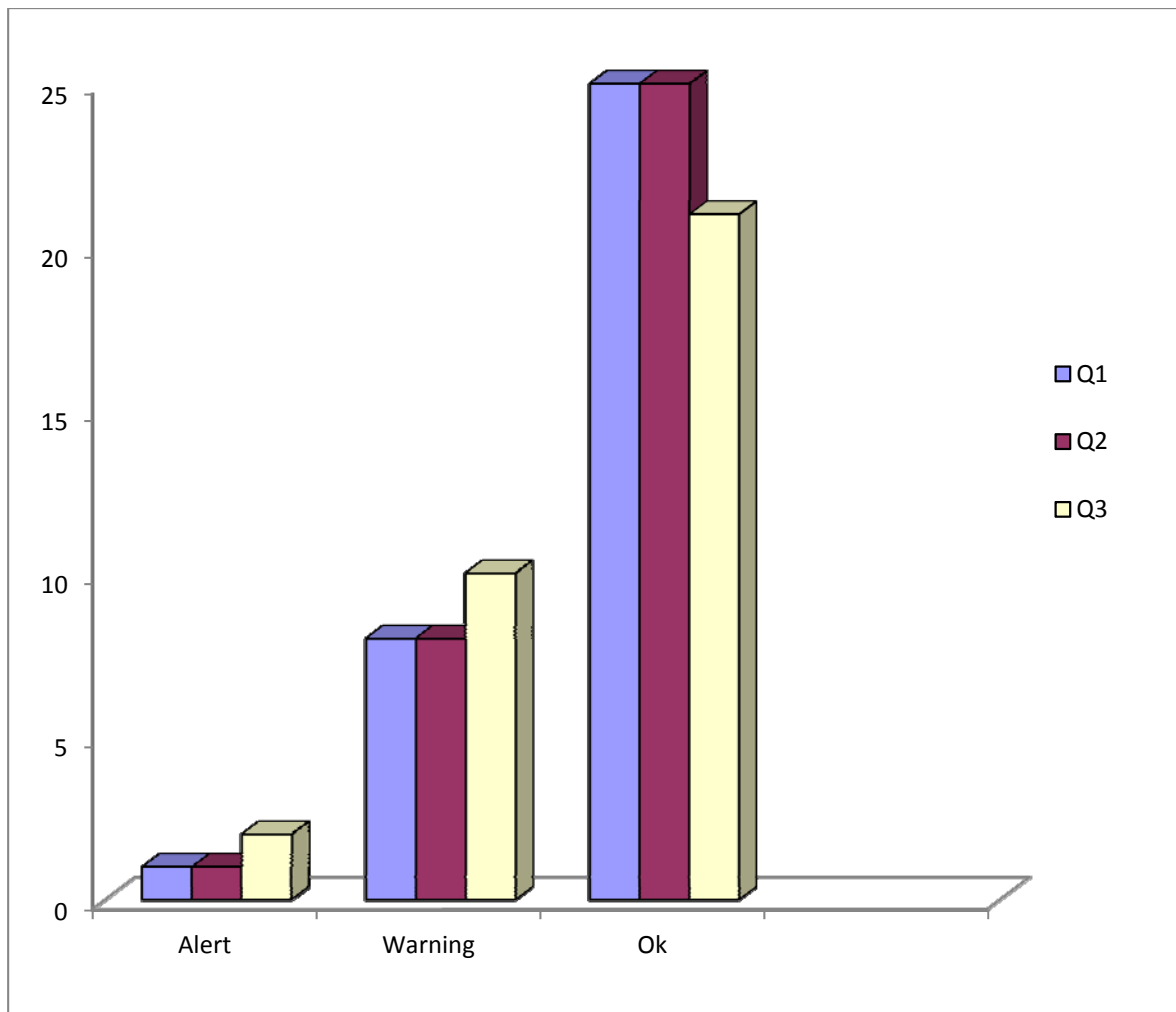
NOTABLE RISKS: PROGRESSION OF CURRENT RISK (ACCOUNTING FOR CONTROLS) IN LAST THREE QUARTERS



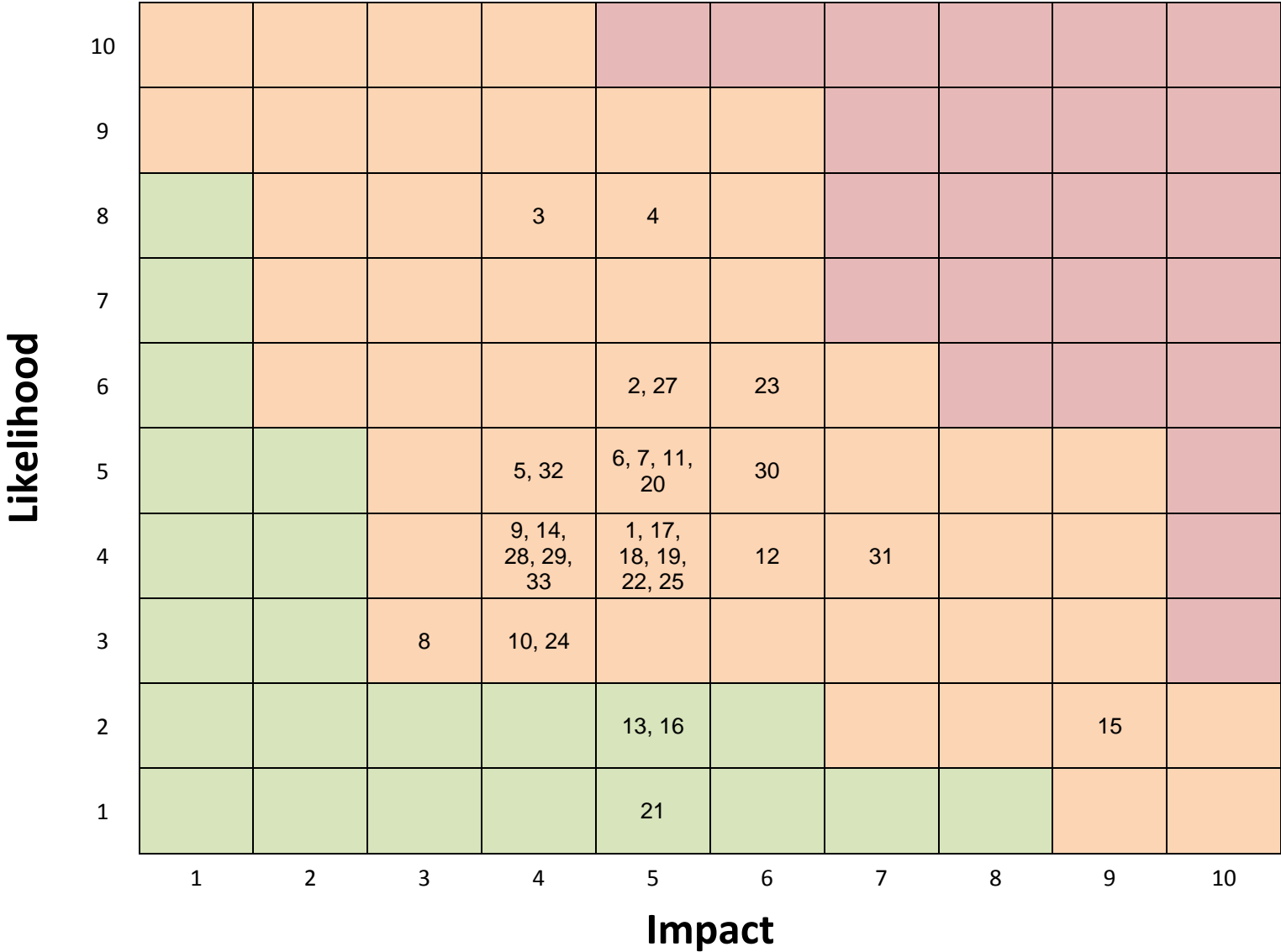
OTHER KEY POINTS

	Comments
New significant risks	None. We do however note that the employer appeals processes has required additional vigilance around conflicts of interest, separate duties of the Pensions Committee etc. (9)
Other new risks	None.
New controls	<p>Western Union oversees pensioner existence check service in place. (5)</p> <p>A stock lending review is now included in the annual audit visit to the custodian, currently being The Northern Trust Company. (13)</p> <p>The Fund now has systems in place to allow it to monitor and check that the appropriate reconciliations and reporting is being done around derivative transactions by its external managers and the Northern Trust Company for the purpose of the EMIR regulations. (20)</p> <p>Successful recruitment of a Portfolio Manager for Bonds has been concluded and the individual is now in post. (32)</p> <p>The provider of the pensions administration system has provided a fix for Scottish websites which now allows transfer calculations to be completed automatically. (7)</p>
Eliminated risks	The specific 'Non-compliance with the new LGPS' has been removed and will be dealt with in the broader Regulatory Breach category. (26,20)
Notable initiatives / actions	<p>Internal Audit's review of the Fund's approach to Fraud was completed satisfactorily with only one recommendation to monitor a potential conflict between internal manager monitoring and external manager procedures. (5)</p> <p>The telephone recording system has now been tested and is in operation. (16)</p> <p>Internal Audit reviewed compliance with the Scottish LGPS Investment Management Regulations and foreign exchange contract regulation/EMIR. (20)</p> <p>Investment team continue to review research unbundling and ongoing cost analysis. (30)</p> <p>Recruitment of Legal & Compliance support ongoing. (32)</p> <p>Work to disable the extra Scott-Shield fire alarm system and install additional sensors for Protec system to remove auto-lock of our offices during alarms/tests and thereby align our systems to the rest of the Atria building has been completed. (33)</p> <p>Continuing to liaise with the City of Edinburgh Council's insurer for clarity on the position around the personal liability of Pension Board members. (10)</p>
Material Litigation	None.

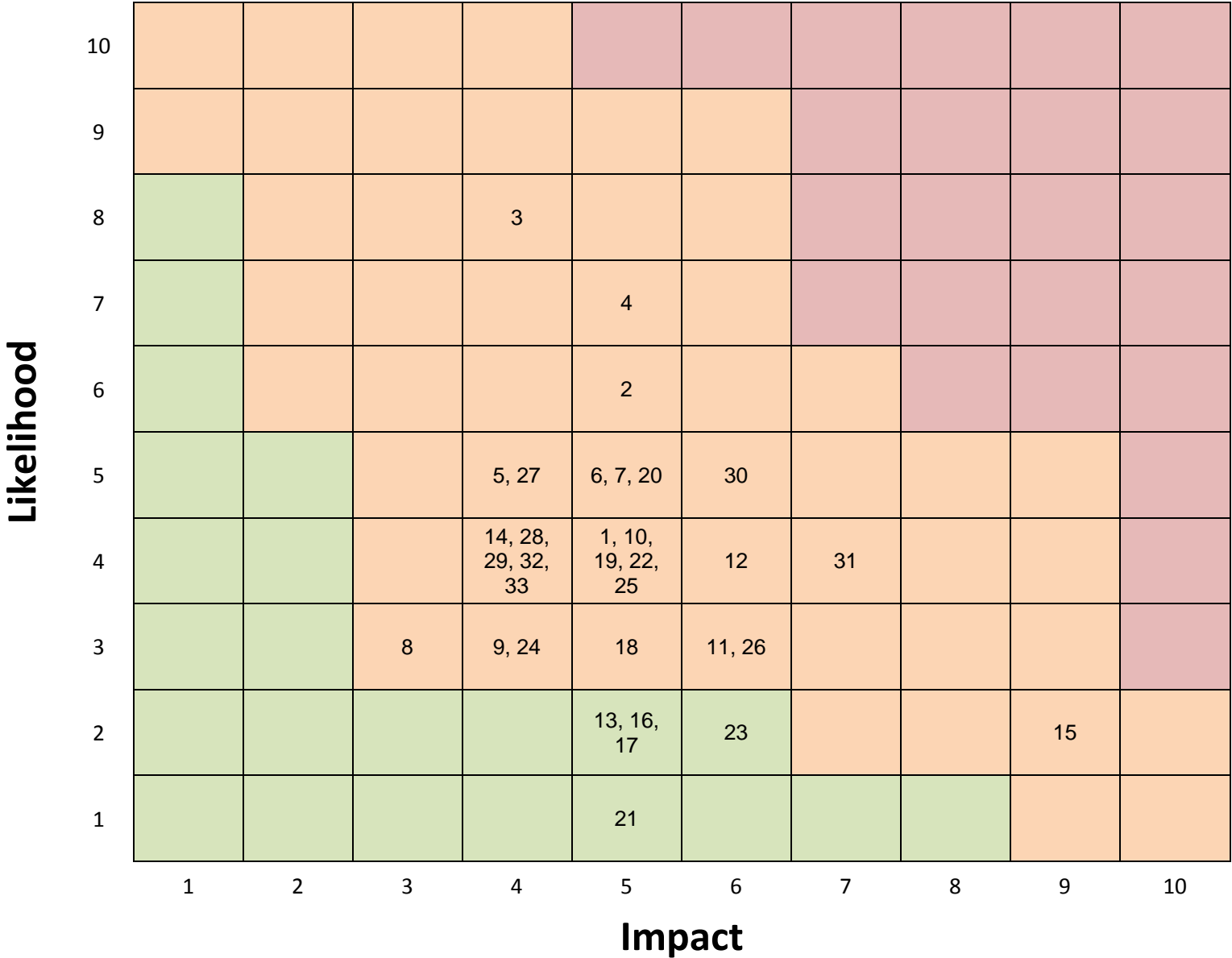
All Risks: Status Overview



Q3 (2015/16) All Risks: Impact and Likelihood Overview



Q2 (2015/16) All Risks: Impact and Likelihood Overview



Key: Risks by Number

- Adverse Investment Performance - pressure on employer contributions
- 1** Adverse Movement of non-investment funding assumptions- pressure on employer contributions
- 2** Collapse of an employer
- 3** Recruitment and retention of key staff
- 4** Fraud or theft of Council/Pension Fund assets
- 5** Staff negligence
- 6** Failure of IT systems
- 7** Employers HR decisions without consideration of fund
- 8** Committee members take decisions against sound advice
- 9** Pension Board not operating effectively
- 10** Business continuity issues
- 11** Members' confidential data is breached
- 12** Loss due to stock lending default
- 13** Risk of incorrect pension payments
- 14** Late payment of pension
- 15** Market abuse by investment team or others
- 16** Portfolio transition issues
- 17** Disclosure of confidential information
- 18** Material breach of contract
- 19** Regulatory breach
- 20** FOI process not in accordance with law
- 21** Incorrect communication with members
- 22** Not acting in accordance with proper authority/delegations
- 23** Inappropriate use of pension fund monies
- 24** Procurement/framework breach
- 25** *Not in use*
- 26** Claim or liability arising from shared services
- 27** Unauthorised access to PensionsWEB
- 28** Incorrect data from Employers leading to fines etc.
- 29** Inadequate contractual protection for services
- 30** Over reliance on single core service provider
- 31** HR insufficient to carry out active projects
- 32** Breach of Health and safety regulations
- 33**