

# Notice of meeting and agenda

## Pensions Committee

**2.00pm, Tuesday 6 December 2016**

Dunedin Room, City Chambers, High Street, Edinburgh

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

### Contact

Stuart McLean

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## **1. Order of business**

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

## **2. Declaration of interests**

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- 2.1 Members of the Committee and members of the 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**

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- 3.1 If any.

## **4. Minute**

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- 4.1 Minute of the Pensions Committee of 28 September 2016 – Submitted for approval as a correct record (circulated)

## **5. Reports**

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- 5.1 Referrals and Recommendations from Audit - Sub Committee – verbal update from the Convener of the Sub-Committee
- 5.2 Considerations and matters to be raised by the Pension Board regarding any items on the agenda
- 5.3 Agenda Planning – report by the Acting Executive Director of Resources (circulated)
- 5.4 Pension Fund Cost Benchmarking – report by the Acting Executive Director of Resources (circulated)
- 5.5 Stewardship – report by the Acting Executive Director of Resources (circulated)
- 5.6 Service Plan Update – report by the Acting Executive Director of Resources (circulated)
- 5.7 Lothian Pension Fund Discretions Policy – report by the Acting Executive Director of Resources (circulated)
- 5.8 Risk Management Summary – report by the Acting Executive Director of Resources (circulated)

## **6. Motions**

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- 6.1 If any

## **Kirsty-Louise Campbell**

Interim Head of Strategy and Insight

## **Committee Members**

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

## **Information about the Pensions Committee**

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

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If you have any questions about the agenda or meeting arrangements, please contact Stuart McLean, Committee Services, City of Edinburgh Council, City Chambers, High Street, Edinburgh EH1 1YJ, Tel 0131 529 4106, e-mail [stuart.mclean@edinburgh.gov.uk](mailto:stuart.mclean@edinburgh.gov.uk).

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

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

## Pensions Committee

**2.00pm, Monday 28 September 2016**

**Present:**

Councillors Rankin (Convener), Child and Orr; John Anzani and Richard Lamont.

**Pensions Board Members Present:**

Eric Adair, Jim Anderson, Sharon Dali, Thomas Carr-Pollock, John Rodgers, Paul Ritchie and Alan Williamson.

### **1. Declaration of Interest**

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Councillor Orr declared a general non-financial interest as a director (treasurer) of Friends of the Earth Scotland.

Councillor Rankin declared a general non-financial interest as a director of LPFE.

### **2. Deputation: Divest Lothian**

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The Committee agreed to hear a deputation from Matthew Crighton, a campaign organiser for Divest Lothian.

Mr Crighton stressed the importance of taking environmental and social governance issues into consideration when evaluating investment opportunities. The future wellbeing of pension fund members was considered to be under serious threat from climate change caused by the burning of fossil fuels, of which the Lothian Pensions Fund was an investor. Investment in fossil fuel companies was becoming increasingly risky and overvalued. There was therefore a need to consider other investment opportunities which could drive a shift to a cleaner more stable, low carbon economy.

**Decision**

The Convener thanked the deputation for their presentation and invited them to remain for the Committee's consideration of the report by the Acting Executive Director of Resources at item 3 below.

### **3. Fiduciary Duty**

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The Committee was asked to note that the Scheme Advisory Board (SAB) of the Scottish Local Government Pension Scheme had sought a legal report and opinion regarding Pension Committees in Scotland exercising their fiduciary duty (the Opinion). The Opinion had now been shared with the eleven Scottish administering authorities, together with guidance from the SAB, and sent to the Scottish Ministers for information.

#### **Decision**

- 1) To note the Legal Opinion and Report on Fiduciary Duty (Opinion) and the guidance from the Scheme Advisory Board (SAB) and its importance in investing pension fund monies.
- 2) To note that the Opinion and guidance from the SAB reaffirmed the present approach taken by the Committee in exercising its fiduciary duty generally and as regards its investment strategy.
- 3) To refer the report by the Acting Executive Director of Resources to the Corporate Policy and Strategy Committee of the City of Edinburgh Council.

(Reference – report by the Acting Executive Director of Resources, submitted.)

### **4. Minutes**

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#### **Decision**

To approve the minute of the Pensions Committee of 27 June 2016 as a correct record.

### **5. Referrals and Recommendations from Pensions Audit Sub Committee**

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Councillor Orr advised the Committee of the discussions and decisions taken at the Pensions Audit Sub-Committee on 27 September 2016.

#### **Decision**

To note the update.

### **6. Considerations and matters to be raised by the Pensions Board regarding any items on the agenda**

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#### **Decision**

To note the issues raised by the Pensions Board.

### **7. Agenda Planning**

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Details were provided of potential reports for future meetings of the Pensions Committee and Pensions Audit Sub-Committee meetings in December 2016 and March 2017.

#### **Decision.**

To note the agenda planning document.

(Reference – report by the Acting Executive Director of Resources, submitted.)

## **8. Audited Annual Report 2016 of the Lothian Pension Fund, Lothian Buses Pension Fund and Scottish Homes Pension Fund Annual Report 2016 (and Financial Statements) Unaudited Accounts**

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Audit Scotland had undertaken its statutory audit of the Annual Report 2016 of the three pension funds administered by the City of Edinburgh Council. The Accounts showed that the Lothian Pension Fund valuation had increased over the year by 6.4% to £5,434 million and Lothian Buses Pension Fund had increased by 2.2% to £394.4 million. The Scottish Homes Pension Fund had decreased by 2.9% to £150.3 million.

Approval was sought for the annual report and to refer it to the Council for information. The referral to the Council was considered best practice given the Council's statutory role as administering authority of the Lothian Pension Funds.

A representative from Audit Scotland was present for this item.

### **Decision**

- 1) To note the "Audit Scotland 2015/16 annual audit report to Members and the Controller of Audit" attached at Appendix 1 to the report by the Acting Executive Director of Resources.
- 2) To approve the audited Annual Report for the year ended 31 March 2016 for the Lothian Pension Fund, the Lothian Buses Pension Fund and the Scottish Homes Pension Fund attached at Appendix 2 to the report by the Acting Executive Director of Resources.
- 3) To communicate, to the Chartered Institute of Public Finance and Accountancy (CIPFA), Audit Scotland and the Scheme Advisory Board (of the Local Government Pension Scheme in Scotland), the Committee's concerns with the relaxation of the principle of full cost transparency of investment management fees, as explicit in CIPFA's revised guidance "Accounting for Local Government Pension Scheme Management Costs", dated March 2016.
- 4) To refer the report by the Acting Executive Director of Resources, for information, to the City of Edinburgh Council, in its role as administering authority of the Pension Funds.

(Reference – report by the Acting Executive Director of Resources, submitted.)

## 9. Annual Report on LPFE Limited and LPFI Limited

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Further to the establishment of LPFE Limited and LPFI Limited, as wholly owned and controlled subsidiaries of the City of Edinburgh Council an update on the business and operation of those entities was provided.

### Decision

- 1) To note that the remit of the Pensions Audit Sub-Committee had been amended by Council to include scrutiny of the Council companies associated with the pension fund.
- 2) To note the LPFE Limited annual accounts and the updates on LPFE and LPFI provided in the report by the Acting Executive Director of Resources.

(Reference – report by the Acting Executive Director of Resources, submitted.)

## 10. Update on Governance

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Approval was sought for changes to the Pension Board Constitution and the Attendance and Training Policy. Approval was also sought for the appointment of three new employer representatives to the Pension Board.

### Decision

- 1) To approve the Constitutional Updates.
- 2) To note and ratify the recent appointment of three new employer representatives to the Pension Board and the contribution of previous employer representatives, Linda Macdonald and Rucelle Soutar.

(Reference - report by the Acting Executive Director of Resources, submitted.)

## 11. Funding Update and Preparation for 2017 Actuarial Valuation

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The Committee was asked to approve the continued use of the Contribution Stability Mechanism (CSM) for long-term secure employers within Lothian Pension Fund for the 2017 actuarial valuation. An update on the funding positions for Lothian Buses Pension Fund and Scottish Homes Pension Fund was also provided.

### Decision

- 1) To approve the continued use of the Contribution Stability Mechanism (CSM) for long-term secure employers within Lothian Pension Fund for the 2017 actuarial valuation.
- 2) To note the advice from the Actuary to review the Contribution Stability Mechanism at the 2020 actuarial valuation.
- 3) To note the updated funding positions for the Lothian Buses Pension Fund and the Scottish Homes Pension Fund.
- 4) To note that greater oversight and scrutiny of pension funding plans by Scottish Ministers is expected and this could influence the approach to the 2017 actuarial valuation.

(Reference – report by the Acting Executive Director of Resources, submitted.)

## **12. Employers Participating in Lothian Pensions Fund**

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An update was provided on employers who were looking to join the fund, those employers leaving the fund and other matters affecting employers participating in the Fund.

### **Decision**

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

(Reference – report by the Acting Executive Director of Resources, submitted.)

## **13. 2016–2018 Service Plan Update**

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Details were provided on progress against the 2016–2018 Service Plan, performance indicators and the key actions to enable the Fund to meet its four key objectives, Customer First, Honest and Transparent, Working Together; and Forward Thinking.

### **Decision**

To note the progress of the Fund against the 2016 – 2018 Service Plan.

(Reference – report by the Acting Executive Director of Resources, submitted.)

## **14. Risk Management Summary**

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

### **Decision**

To note the Quarterly Risk Overview.

(Reference – report by the Acting Executive Director of Resources, submitted.)

## **15. Resolution to consider in private**

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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.

## **16. Collaboration Update**

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An update concerning the approach taken regarding investment collaboration with other LGPS funds was provided.

### **Decision**

Detailed in the Confidential Schedule, signed by the Convener, with reference to this minute.



(Reference – report by the Acting Executive Director of Resources, submitted.)

## **17. Employers leaving Lothian Pension Fund – Update on Age Scotland**

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An update on attempts made to recover payment of the cessation debt in respect of Age Scotland, a former Fund employer, was provided.

### **Decision**

Detailed in the Confidential Schedule, signed by the Convener, with reference to this minute.

(Reference – report by the Acting Executive Director of Resources, submitted.)

# Pensions Committee

2.00 p.m., Tuesday, 6 December 2016

## Agenda Planning

<b>Item number</b>	5.3
<b>Report number</b>	
<b>Executive/routine</b>	
<b>Wards</b>	All

### Executive summary

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

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

### Links

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**Coalition pledges**

**Council outcomes** [CO26](#)

**Single Outcome Agreement**

## Agenda Planning

### Recommendations

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Committee is requested to:

- 1.1 Invite the Pension Board to raise any relevant matters or concerns which the Committee should consider; and
- 1.2 Note the agenda planning document.

### Background

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- 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

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

#### March 2017

##### **Pensions Committee**

- Considerations and matters to be raised by the Pension Board regarding any items on the agenda
- Audit plans and reports (internal and external will be drafted in consultation with the Convener of the Audit-Sub Committee).
- Governance Update
- Assurance of the provision of non-audit services to LPFE Limited
- Investment Controls and Compliance (originally scheduled to be presented at the December 2016 Audit Sub Committee meeting this paper was delayed due to key information being unavailable)
- Employers Participating in Lothian Pension Fund
- Service Plan Update
- Budget for 2017/18
- Risk management summary

## June 2017

<b>Pensions Committee</b>	<b>Audit Sub Committee</b>
<ul style="list-style-type: none"><li>• Referrals / recommendations from Pensions Audit-Sub Committee</li><li>• Considerations and matters to be raised by the Pension Board regarding any items on the agenda</li><li>• LPF Annual Report (&amp; Accounts) Unaudited</li><li>• Statement of Investment Principles</li><li>• Investment Strategy Panel Activity</li><li>• Annual Investment Updates – Lothian Pension Fund, Lothian Buses Pension Fund and Scottish Homes Pension Fund</li><li>• Risk management summary</li></ul>	<ul style="list-style-type: none"><li>• LPF Annual Report (&amp; Accounts) Unaudited</li><li>• Risk management summary</li></ul>

### Future Pensions Committee and Audit Sub Committee dates:

<b>Pensions Committee</b>	<b>Pensions Audit Sub Committee</b>
<ul style="list-style-type: none"><li>• Wednesday 20 March 2017, 2pm Dunedin Room, City Chambers</li><li>• Wednesday 28 June 2017, 2pm Dunedin Room, City Chambers</li></ul>	<ul style="list-style-type: none"><li>• Tuesday 27 June 2017, 2pm Dunedin Room, City Chambers</li></ul>

## Measures of success

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- 4.1 The Committee and Pension Board have greater clarity regarding the content of the Committee Cycle.

## Financial impact

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- 5.1 None.

## Risk, policy, compliance and governance impact

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- 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

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

## Sustainability impact

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

## Consultation and engagement

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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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None.

## Hugh Dunn

Acting Executive Director of Resources

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## Links

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### Coalition pledges

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

### Single Outcome Agreement

**Appendices** Appendix 1 – Scheme of Committee Papers

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 (every 2 years)	N/A	
	Budget	N/A	March
	Governance Update	N/A	March
	Audit Sub-Committee Appointments	N/A	March
	LPF Annual Report (& Accounts) Unaudited	LPF Annual Report & Accounts (Unaudited)	June
	Statement of Investment Principles	N/A	June
	Investment Strategy Panel Activity	N/A	June
	Annual Investment Updates - Lothian Pension Fund, Lothian Buses Pension Fund and Scottish Homes Pension Fund.	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
	Annual Report by External Auditor	Annual Report by External Auditor	December (or September if available)
	Benchmarking	N/A	December
	N/A	EU Tax Claims & Income Recovery	December
N/A	Investment Income Review-Cross-Border withholding tax	December	
Stewardship	N/A	December	
N/A	Investment Controls & Compliance	December	
N/A	Global Custody Services Performance	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
	Considerations and matters to be raised by the Pension Board regarding any items on the agenda	N/A	March, June, September and December
Every 3 years	Actuarial Valuation: LPF/LBPF/SHPF Funding Strategy Statement		December or March
As required	Delegated authorities (provider appointments)	N/A	
	Discretions (death grants etc.)	N/A	
	N/A	Internal Audit Reports	
	Regulatory Update	N/A	
	Investment Strategy Reviews (at least every 3 years)	N/A	
	N/A	Risk management (in depth review)	

# Pensions Committee

2.00 p.m., Tuesday, 6 December 2016

## Pension Fund Cost Benchmarking

Item number	5.4
Report number	
Executive/routine	
Wards	All

### Executive summary

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The purpose of this report is to inform Committee of 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 297 global pension funds. Actual cost of 0.36% was below the benchmark cost of 0.45%. The 0.09% difference amounts to approximately £4.4m 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 of £22.42 for the three Funds is within the range of the 14 broadly comparable local authority funds, £12.93 to £26.69. However, the cost is higher than the peer group average of £18.89. In this context, it should be noted that the peer group average is being distorted by an outlier, whereby the lowest cost fund per member is £12.93, some £2.49 (16%) lower than the next lowest of £15.42. Had this been excluded, then the average peer group cost per member would have risen to £19.39.

### Links

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Coalition pledges

Council outcomes

[CO26](#)

Single Outcome Agreement



## Pension Fund Cost Benchmarking

### Recommendations

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Committee is requested to:

- 1.1 Invite the Pension Board to raise any relevant matters or concerns which the Committee should consider;
- 1.2 Note the report; and
- 1.3 Note that the CEM Investment Benchmarking Analysis 2015 and the CIPFA Pensions Administration Benchmarking 2016 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

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- 2.1 The annual report 2015/16 for the pension fund identifies £36.3 million of expenses 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 four years.
  - 2.3.1 CEM's global database comprises 297 funds representing £5.6 trillion in assets, 56% of which are based in North America.
  - 2.3.2 It includes 8 UK pension funds with aggregate assets of £152bn, which compares with 28 UK pension funds in last year's database. This reflects pooling developments in the Local Government Pension Scheme in England & Wales. It does not change the headline analysis or the basis on which CEM calculates the benchmark cost for the Fund.
  - 2.3.3 The size of the funds range from £122 million to £721 billion.

- 2.3.4 The median fund size was £4.5bn, which compares with Lothian Pension Fund's assets under management of £5.1bn at 31 December 2015.
- 2.3.5 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

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### 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 reported by CEM 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 0.36% was below the benchmark cost of 0.45%. The 0.09% difference amounts to approximately £4.4m per year. The equivalent figures for the prior year were 0.39% versus the benchmark cost of 0.50%.
- 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.
- 3.4 The annual report 2015/16 for the pension fund identifies £34.5m of investment management expenses, £29.5 million (85%) of which are external management fees. All other expenses, the largest of which are transaction costs, internal asset management costs, property operational costs and custody fees, amounted to £5m. External management fees represent 0.56% of average assets, while all other expenses represent 0.10% of average assets. The direct costs attributable to internal asset management are approximately 0.03% of average assets.

## **CIPFA Pensions Administration Benchmarking Club**

- 3.5 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.
- 3.6 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 in the CIPFA benchmarking exercise. The selected peer group of 14 funds also comprises, as far as is possible, similar sized English and Welsh authorities and only one of the other Scottish funds (total memberships ranging from 62,000 to 109,000, with this Council's being 82,000).
- 3.7 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, to the Convener of the Pensions Committee, Convener of the Pensions Audit Sub-Committee and the Independent Professional Observer.
- 3.8 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.
- 3.9 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 £22.42 is within the range of the 14 comparable funds, £12.93 to £26.69. LPF cost is higher than the peer group average of £18.80; It should be noted, however, that the peer group average is being distorted by an outlier, whereby the lowest cost fund per member is £12.93, some £2.49 (16%) lower than the next lowest of £15.42. Had this been excluded, then the average per group cost per member would have risen to £19.39.
  - Cost per member for LPF in 2015/16 was £21.76 hence costs have increased by £0.66 (3.0%) from the previous year, this reflecting the recruitment of trainee pension administrators, both to meet the additional demands of the new scheme and enhance workforce sustainability. The peer group average for 2015/16 was £19.17.
  - Active members represent a higher percentage of overall membership for LPF (40.3%) than the peer group average (35.3%). The proportion of

pensioners to total membership (28.4%) is again higher (than peer group of 22.5%), with the consequence being that the proportion of deferred members (20.5%) is lower than that of the typical fund (32.6%). As deferred members are less demanding on administration services, these factors would tend to increase pension administration and payroll workload and therefore cost.

### **Performance Benchmarking**

- 3.10 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.
- 3.11 For pension 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. The 2015/16 comparator report disclosed relatively low performance for the Fund in respect of the calculation and notification of deferred benefits and also the notification of dependants' benefits. These administrative procedures of the Fund were revised to align with best practice, with implementation effective from 1 April 2016. Performance, therefore, has improved from the data encompassed by the benchmarking report. Quotations to members in respect of transfers-out also continue to lag in comparison to the peer group. In this context, Lothian Pension Fund's published performance in respect of transfers out is 30 days as opposed to the CIPFA target of 10 days. The 30 day target is normally achieved, which is in full compliance with the Disclosure of Information regulations, whereby schemes have 3 months to provide a transfer out.

### **Measures of success**

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

### **Financial impact**

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- 5.1 There are no financial implications arising directly from this report. Out of the Lothian Pension Fund total cost of £34.4 million for 2015/16, pension administration costs amounted to £1.8 million, with the remaining largely attributable to investment. Continuous improvement initiatives will be met from the approved budget 2016/17.

### **Risk, policy, compliance and governance impact**

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- 6.1 The provision of summarised conclusions of benchmarking is intended to enhance the governance of the three Lothian Pension Funds.

## Equalities impact

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

## Sustainability impact

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

## Consultation and engagement

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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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Not applicable

### Hugh Dunn

Acting Executive Director of Resources

Contact: John Burns, Pensions & Accounting Manager

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Contact: Bruce Miller, Investment Manager

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## Links

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### Coalition pledges

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

**Single Outcome Agreement**

**Appendices**

# Pensions Committee

2.00 p.m., Tuesday, 6 December 2016

## Stewardship

Item number	5.5
Report number	
Executive/routine	
Wards	All

### Executive summary

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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 the stewardship of the assets of the Funds, including the approach to environmental, social and governance (ESG) issues. The Funds pursue a policy of constructive engagement on such issues, which is consistent with fiduciary duties. The Fund's voting and engagement provider is scheduled to present at the Committee meeting.

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\$3.4 million in class action compensation.

### Links

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Coalition pledges

Council outcomes

[CO26](#)

Single Outcome Agreement

## Stewardship

### Recommendations

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Committee is requested to:

- 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 considers nominating a member to stand for election to the Local Authority Pension Fund Forum (LAPFF) Executive at the January 2017 AGM (the appointment being subject to approval by Council).

### Background

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- 2.1 The Funds pursue a policy of constructive engagement on issues, which is consistent with fiduciary duties. As reported in September 2016, the Scheme Advisory Board of the Scottish Local Government Pension Scheme has shared the legal opinion on the exercising of fiduciary duties by Pensions Committees in Scotland that it had received. The opinion essentially reaffirms the position taken by Senior Counsel in England & Wales, confirming that the advice is also applicable in Scotland. This in turn reinforces the approach taken by the Funds to date.
- 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

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#### Voting and Engagement

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

<b>Mandate</b>	<b>Voting and Engagement Arrangement</b>
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 Details of voting and engagement during the financial year 2015/16 can be found in the Fund's annual report. From the beginning of the financial year 2016/17, Hermes has voted on behalf of Lothian Pension Fund at 367 meetings covering 5,292 resolutions. Of these, 56% of votes were cast in support of management, 43% against with 1% abstention. Of the 1,300 resolutions voted against or abstained, 23% was on board structure, 22% on remuneration, and 35% was against resolutions brought by shareholders.
- 3.3 On behalf of the Funds and other like-minded investors, Hermes EOS undertakes engagement with companies on behalf of shareholders, covering a broad array of environmental, social and governance matters. Hermes Public Engagement Reports provide information on engagements and a link to the reports is provided later in this report.
- 3.4 Executive remuneration remains a key engagement theme. Shareholder revolts with regards executive pay have been seen in 2016, including WPP and Deutsche Bank. Hermes EOS is leading calls to simplify the pay packages of top executives, clearly delineate performance pay and explain how it is structured, and encourage significant parts of variable packages to be paid in restricted shares, that would have to be held far longer than an executive's tender.
- 3.5 Corporate governance practices in Japan have long lagged behind the example set by Europe. Recently, the Japanese financial regulator introduced the Principles for Responsible Institutional Investors, which was followed by the country's first Corporate Governance Code. The Code requires boards to have at least two independent directors. Hermes EOS has been engaging on this topic with Japanese companies for many years, achieving some notable success. While the rules are not yet perfect, they are a step in the right direction and Hermes EOS intend to engage on greater board independence and diversity.

#### **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 71 of the 110 UK local government pension schemes).
- 3.7 LAPFF, alongside Carbon Tracker, recently released the paper *Engaging for a Low Carbon Transition* (available on the LAPFF website). The report argues that the rise in global temperatures through global warming should be limited to 2 degrees and efforts be made for a 1.5 degree limit. This involves a different kind of engagement, pushing for better targeted investment in oil and gas. This is on the basis that high levels of investment will lead to a glut of reserves on company balance sheets, and that these reserves could never be fully utilised due to carbon emission limits, thereby destroying shareholder value through overinvestment. Further to this, the Transition Pathway Initiative has been



developed by a group of asset owners including Environment Agency Pension Fund and the Church of England to support effective engagement on the transition to a low carbon economy. It aims to provide a simple but rigorous, freely available, transparent framework to track engagement and analyse company responses to climate and carbon risk. LAPFF has agreed to support the initiative and participate in its ongoing development.

- 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. Councillor Rose will provide a verbal update to Committee on his role on the Executive.
- 3.9 Committee is asked to consider nominating a member to stand for election to the Executive at the AGM in January 2017. If successful, Council's approval of the appointment will be sought.

### **Principles for Responsible Investment (PRI)**

- 3.10 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.
- 3.11 Signatories complete a self assessment each year to measure progress against the PRI principles and also to allow comparison with peers.
- 3.12 Previous assessments of the Fund's activities have generally been very good. They have 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 which is used by portfolio managers to aid decision making.
- 3.13 The Fund's 2016 report and scores are available on its website and a link is provided at the end of this report. The results are summarised below.

	<b>Assets as % of Fund</b>	<b>Module name</b>	<b>LPF Score</b>	<b>Median Score</b>
Indirect – Manager selection, appointment & Monitoring	n/a	Strategy & Governance	A	B
	10-50%	Listed Equity	A	B
Direct and Active ownership	10-50%	Listed Equity – Incorporation	C	A
	>50%	Listed Equity – Active Ownership	A	B

- 3.14 With the exception of Direct Listed Equity, all areas assessed were scored “A”, with a top score of “A\*” available. These are above the median score of “B” for the peer group. The full assessment shows sub-sections where it is possible to improve our performance further and these are being considered.
- 3.15 For Direct Listed Equity, while the systematic use of quantitative ESG data has been integrated into the decision making process since March 2015, they have not been sufficiently well reported to the pension fund members and the employers, leading to no improvement in the “C” score. We are looking at ways to enhance reporting to stakeholders.

**Class Actions**

- 3.16 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.
- 3.17 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:

<b>Financial Year</b>	<b>US\$ (000's)</b>
Prior to 31/03/12	2,140
2012/13	483
2013/14	285
2014/15	284
2015/16	124
2016/17*	106
<b>Total*</b>	<b>3,422</b>

\* to 4 November 2016

**Lead Plaintiff and Opt-in Cases**

- 3.18 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.
- 3.19 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.
- 3.20 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.
- 3.21 Officers continue to monitor the potential for such cases but the Funds have not entered into any of these 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.

## Measures of success

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- 4.1 Success of engagement with companies is very difficult to measure. The Funds' approach is essentially qualitative and is wide ranging. While the impact is very difficult to quantify, research has shown that companies that undergo active engagement tend to outperform. For example, the "CalPERS Effect" shows that companies engaged with by the CalPERS pension fund outperformed by 14.4% in the five years after engagement started.
- 4.2 The Funds are signatories to PRI and complete the annual self assessment process which compares ESG activity with peers.

## Financial impact

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- 5.1 There is no financial impact as a result of this report. The costs of the Funds' stewardship activities 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

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- 6.1 The stewardship activity of the Funds complies with the Statement of Investment Principles. The Funds' policy is to take environmental, social and governance 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

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- 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

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- 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

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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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Hermes public engagement reports are available to download at <https://www.hermes-investment.com/uki/stewardship/eos-literature/>

LAPFF Carbon report [http://www.lapfforum.org/Publications/latest-research/files/LAPFF CTI Engaging for a Low Carbon Transition.pdf](http://www.lapfforum.org/Publications/latest-research/files/LAPFF_CTI_Engaging_for_a_Low_Carbon_Transition.pdf)

2016 UNPRI assessment report is available at <http://www.lpf.org.uk/lpf1/info/76/unpri>

The CalPERS Effect <https://www.calpers.ca.gov/page/newsroom/calpers-news/2014/company-performance>

### Hugh Dunn

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## Links

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Lothian Pension Fund: [http://www.lpf.org.uk/info/68/responsible\\_investment](http://www.lpf.org.uk/info/68/responsible_investment)

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., Tuesday, 6 December 2016

## Service Plan Update

Item number	5.6
Report number	
Executive/routine	
Wards	All

### Executive summary

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The purpose of this report is to provide an update on progress against the 2016– 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, staff training and customer satisfaction are both marginally behind target. Whilst only halfway through the year, it is likely that the staff training indicator will be met. However, it is possible that the customer satisfaction target will not be achieved by the end of the year.

### Links

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Coalition pledges

Council outcomes [CO26](#)

Single Outcome Agreement

## Service Plan Update

### Recommendations

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Committee is requested to:

- 1.1 Invite the Pension Board to raise any relevant matters or concerns which the Committee should consider;
- 1.2 Note the progress of the Fund against the 2016-2018 Service Plan;
- 1.3 Note the responses on the issue of the full cost transparency of investment management fees from CIPFA and the Scheme Advisory Board.

### Background

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- 2.1 The purpose of this report is to provide an update on the 2016 – 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

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- 3.1 Progress is being made against the service plan. The following areas are covered elsewhere on the agenda for Committee and the Audit Sub-Committee:
  - Cost benchmarking
  - Stewardship.

Other progress of particular note is shown below.

- 3.2 **Preparation for the 2017 actuarial valuation:** Following the review of the Contribution Stability Mechanism by Committee in September, preparations continue:
  - **Unitisation:** Implementation of the new HEAT system is progressing well. The 2017 actuarial valuation results for individual employers will be based on this information and details of the system will be provided to employers with the draft results later in 2017. HEAT has two main purposes: improving the triennial actuarial valuations in terms of speed of

preparation and accuracy; and allowing appropriate investment strategies to be applied to individual employers.

- **Employer Covenant Analysis:** A questionnaire has been issued to the employers in the Fund for completion by the end of November. This will enable covenant analysis to be undertaken which will be a consideration in setting contributions at the valuation.
- **Employer Annual Meeting:** The annual briefing for employers is scheduled to be held in December. The agenda includes an update from the Actuary on funding since the 2014 actuarial valuation, the Contribution Stability Mechanism and the covenant analysis. Other topics include the legal opinion on fiduciary duty issued by the Scheme Advisory Board and Brexit.
- **Employer Cessation Debt:** The Fund continues to engage with a number of smaller employers regarding a potential funding agreement to repay cessation debt. As previously agreed by Committee, the agreement aims to avoid employer default or insolvency but will allow for repayment over longer terms, and if necessary for repayment of less than the cessation debt.
- **Scottish Homes Pension Fund:** Meetings have been held with the Actuary and investment adviser to pursue the review of the funding arrangement. Liability cashflow projections are currently being updated and a meeting scheduled with Scottish Government in December.

3.3 **Monitoring of Additional Voluntary Contribution (AVC) Providers:** The Fund is due to report to the Investment Strategy Panel on its annual review of the AVC providers.

3.4 **Staffing:** There have been a number of recent staffing changes which are outlined below. Staffing costs remain within the agreed budget:

- In 2015, data quality improvement efforts were consolidated into a Data Quality team for a trial period to deal with increasing data requirements arising from greater scrutiny from the Pensions Regulator and the new career average scheme. The work undertaken by the team has proved to be extremely worthwhile, resulting in the majority of employers sending us monthly contribution breakdown and over 99% of annual benefit statements being issued before the regulatory deadline. However, efforts need to continue and therefore a post of Deputy Pensions Operations Manager has been advertised on a permanent basis.
- Following successful completion of the training and examinations by trainee pensions administrators, plans are in place to recruit two further trainee pension administrators.
- It has been agreed that as part of the Council's Legal trainee rotation, they will spend time with the Fund and a trainee joined the Fund in October.

- An appointment has been made for the vacancy of a Portfolio Manager in the investment team. The new member of staff will commence in January 2017.

**3.5 Pension Board insurance liability:** Further to the Committees previous consideration of this matter in September and the legal opinion given to the Local Government Association (LGA), the Fund has researched the insurance market to provide a further update for the Committee and Pension Board. The Fund has identified two insurance groups that are considering insurance liability for Pension Board Members, AON and Zurich. Zurich are currently working on a solution for Local Government Pension Boards. The view from their insurer is that although the legal relationships are now understood the risk exposure seems very limited. They are also researching whether insurance cover would actually address the risk of exposure to Pension Board Members, for example, if a fine was imposed by the regulator the insurance policy may not limit the exposure because, in general, fines are uninsurable. Zurich are continuing to work on this and to consider all the options including the extension to existing corporate insurance programmes of the administering authority. They will notify the fund of the outcome of the research. AON has offered some cover, however, because the risk is unknown the premium is high. Like Zurich, AON also concede that the risk is viewed as remote however Pension Boards are new therefore their underwriters have taken a cautious approach. Overall insurance options are currently very limited. A further update will be provided to Committee when there is a further update from Zurich.

**3.6 Investment management fees – full cost transparency :** The Fund is committed to full cost transparency and at its meeting on 28 September 2016, the Pensions Committee agreed to communicate to the Chartered Institute of Public Finance and Accountancy (CIPFA), Audit Scotland and the Scheme Advisory Board (of the Local Government Pension Scheme in Scotland), the Committee's and Convenor's disquiet with the relaxation of the principle of full cost transparency of investment management fees, as explicit in CIPFA's revised guidance "Accounting for Local Government Pension Scheme Management Costs", dated March 2016. Responses have been received from Mike Ellsmore, Chair, CIPFA Pensions Panel and from the Scheme Advisory Board. These are shown in full at Appendices 2 and 3. A reply from Audit Scotland is awaited and Committee will be advised in due course

The substance of the response from CIPFA is not unexpected in that it reiterates their assertion that certain indirect investment management fees do not meet the International Financial Reporting Standards (IFRS) definition of liabilities. As Committee is aware, this opinion is not shared by Lothian Pension Fund.

Following receipt of the letter from the Scheme Advisory Board, they wrote to all Scottish pension funds endorsing a Code of Transparency for asset managers which has been the equivalent board in England and Wales, requesting that pension funds promote the use of the Code. The communication can be found on their website <http://lgpsab.scot/circular-012016-transparency-code/>



## **Performance Indicators**

- 3.7 Performance Indicators for the first two quarters of the financial year are provided in the attached appendix.
- 3.8 Only two indicators are highlighted as 'amber':
- The staff training indicator shows that 75% of staff had completed their pro-rata training target up to 30 September 2016. The Fund is comfortable that the target should be achieved by the end of the year.
  - Customer satisfaction for the 12 months to 30 September is marginally behind target (87.7% compared to 88%). 87.7% is the average of satisfaction of pensioners (89.6%), employers (85.7%) and members' satisfaction with specific transactions (71.6%). The lower satisfaction with transactions is primarily due to email service and efforts are continuing to improve this aspect of the service. Further, the response rate from new members is currently very low and efforts are ongoing to get more feedback from these customers as well as encouraging use of the on-line system. Plans are also in place to survey members who have contacts the Fund via telephone survey and those whose complaints have been upheld and these will be included in the overall satisfaction in future.
- 3.9 Since 30 September, the Fund has completed the annual pensioner and employer surveys and the results will be included in the performance indicators in the next report to Committee.
- 3.10 There were over 1,000 responses to the pensioner survey, which is more than double that in 2015. Overall results were very good, 91% were satisfied with how the Fund with their query, 85% found the information provided by the fund easy to understand and 87% found the website easy to use. However, overall satisfaction was behind target at 85.2%. There were 157 positive comments including 'I can't praise LPF enough' and 'fund is very efficient'. There were also 66 negative comments regarding the retirement process, monthly payslips and the online service. The Fund is working with our pension online service provider to improve member experience. 22 of the negative comments were specifically about Club Together mailing which is an arrangement which has been in place for 4 years whereby Club Together issues their magazine and associated offers to retired members, alongside the Fund's newsletter. In October Club Together informed the Fund that they were ceasing trading and therefore additional postage costs of £10K have been incurred. This is being contained within the current budget for 2016/17 and mailing options are being reviewed to contain costs in the future.
- 3.11 The annual survey for employers shows satisfaction of 96.3%. The detailed results are currently being analysed and will be reported to Committee in March 2017.

## **Membership and Cashflow monitoring**

- 3.12 Officers of the Fund continue to monitor movements in membership numbers in order to assess potential implications upon cashflow. Early retirement initiatives

could trigger significant and immediate outflows due to the payment of tax free lump sums and pensions and reductions in contributions received. However payment of strain costs by the employer helps to mitigate current cashflow pressures.

- 3.13 The summary below details the cash flows as at the end of September and projections for the financial year. This has been prepared on a cash flow basis (compared to the accruals basis of the year end financial statements and budget projections).

<b>Lothian Pension Fund</b>	<b>2016/17 YTD</b>	<b>2016/17 Projected</b>
<b><u>Income</u></b>	<b>£'000</b>	<b>£'000</b>
Contributions from Employers	69,830	145,000
Contributions from Employees	19,950	40,000
Transfers from Other Schemes	2,235	4,700
	<b>92,015</b>	<b>189,700</b>
<b><u>Expenditure</u></b>		
Pension Payments	(69,785)	(142,000)
Lump Sum Retirement Payments	(33,800)	(60,000)
Refunds to Members Leaving Service	(435)	(800)
Transfers to Other Schemes	(4,000)	(8,000)
Administrative expense	(950)	(1,865)
	<b>(108,970)</b>	<b>(212,665)</b>
<b>Net Additions/(Deductions) From Dealings with Members</b>	<b>(16,955)</b>	<b>(22,965)</b>

<b>Lothian Buses Pension Fund</b>	<b>2016/17 YTD</b>	<b>2016/17 Projected</b>
<b><u>Income</u></b>	<b>£'000</b>	<b>£'000</b>
Contributions from Employers	3,775	7,600
Contributions from Employees	1,055	2,100
Transfers from Other Schemes	10	30
	<b>4,840</b>	<b>9,730</b>
<b><u>Expenditure</u></b>		
Pension Payments	(4,185)	(8,450)
Lump Sum Retirement Payments	(1,880)	(3,500)
Refunds to Members Leaving Service	(10)	(25)
Transfers to Other Schemes	(95)	(72)
Administrative expense	(58)	(112)
	<b>(6,228)</b>	<b>(12,159)</b>
<b>Net Additions/(Deductions) From Dealings with Members</b>	<b>(1,388)</b>	<b>(2,429)</b>

<b>Scottish Homes Pension Fund</b>	<b>2016/17 YTD</b>	<b>2016/17 Projected</b>
<b><u>Income</u></b>	<b>£'000</b>	<b>£'000</b>
Contributions from Employers	<b>675</b>	<b>675</b>
<b><u>Expenditure</u></b>		
Pension Payments	(3,412)	(6,880)
Lump Sum Retirement Payments	(261)	(520)
Transfers to Other Schemes	(58)	(100)
Administrative expense	(25)	(55)
	<b>(3,756)</b>	<b>(7,555)</b>
<b>Net Additions/(Deductions) From Dealings with Members</b>	<b>(3,081)</b>	<b>(6,880)</b>

- 3.14 Owing to the City of Edinburgh Council's ongoing transformation project, there continues to be a significant number of leavers. As a result, it is expected that Lothian Pension Fund will have a negative cash flow position at the end of the year, whereby pension payments exceed total contributions received. The Fund has targeted increased investment income in recent years which is expected to exceed net cashflow for the foreseeable future. It is therefore not anticipated that the sale of assets will be required to meet this funding requirement.
- 3.15 In Lothian Buses and Scottish Homes Pension Funds, expenditure is anticipated to continue to exceed income. A combination of investment income and asset sales are used to fund this shortfall.

## Measures of success

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- 4.1 Measures of success include meeting targets for performance indicators and progressing the actions set out in the Service Plan.

## Financial impact

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- 5.1 A summary of the projected and year-to-date financial outturn compared to the approved budget for 2016/17 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	2,906	2,500	(406)	1,453	1,228	(225)
Transport & Premises	236	254	18	118	130	12
Supplies & Services	1,195	1,180	(15)	598	550	(48)
Investment Managers Fees	7,120	5,000	(2,120)	3,560	2,400	(1,160)
Other Third Party Payments	1,375	1,125	(250)	687	253	(434)
Central Support Costs	300	300	-	150	150	-
Depreciation	87	88	1	44	44	-
<b>Direct Expenditure (Invoiced)</b>	<b>13,219</b>	<b>10,447</b>	<b>(2,772)</b>	<b>6,610</b>	<b>4,755</b>	<b>(1,855)</b>
Income	(977)	(788)	189	(489)	(477)	12
<b>Net Expenditure (Invoiced)</b>	<b>12,242</b>	<b>9,659</b>	<b>(2,583)</b>	<b>6,121</b>	<b>4,278</b>	<b>(1,843)</b>
<b>Indicative Expenditure (Uninvoiced)</b>	<b>18,800</b>	<b>19,050</b>	<b>250</b>	<b>9,400</b>	<b>9,400</b>	<b>-</b>
<b>Total Cost to the Funds</b>	<b>31,042</b>	<b>28,709</b>	<b>(2,333)</b>	<b>15,521</b>	<b>13,678</b>	<b>(1,843)</b>

5.2 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 experienced in separating research costs from brokers fees (see below) a £250k overspend in uninvoiced fees has been forecast.

5.3 The key variances for each category in the budget are:

- Investment Managers Fees - **£2,120k underspend**. The budget for external fund management costs was set prior to the in-sourcing of a global equity portfolio in March 2016.
- Employees - **£406k underspend**. This is mainly due to unfilled posts across the division during the period from April to September 2016. Recruitment processes are progressing as outlined above.
- Other Third Party Payments - **£250k underspend**. Underspend due to delays in the separating research costs from brokers' fees. As mentioned above these costs have been offset in the Uninvoiced expenditure.
- Transport & Premises - **£18k overspend**. A historical rates charge relating to 2013/14 has come to light which has resulted in the overspend.
- Income - **£189k below budget**. This relates to stock lending commission. The budget was modelled on the original projections by the global custodian. Following the Brexit referendum and the UK's subsequent downgrading stock lending revenue has fallen. A further update to the projection has been sought from the custodian.

## **Risk, policy, compliance and governance impact**

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- 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**

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- 7.1 None

## **Sustainability impact**

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- 8.1 None

## **Consultation and engagement**

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- 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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[LPF Service Plan 2015-2018](#)

### **Hugh Dunn**

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**Coalition pledges**

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










**Single Outcome Agreement****Appendices**

Appendix 1 – Performance Indicators

Appendix 2 – Investment management fees – full cost transparency, letter from Mike Ellsmore, Chair, CIPFA Pensions Panel, dated 24 October 2016

Appendix 3 – Investment management fees – full cost transparency, letter from Scottish Government Pension Scheme Advisory Board, dated 18 November 2016

## Service Plan Performance Indicators – Targets &amp; Actual Performance

	Q1 April to June	Q2 July to Sept	Q3 Oct to Dec	Target	Status
<b>Customer First</b>					
Maintain Customer Service Excellence Standard	Annual assessment will be carried out early in 2017			Retain CSE Award	Not yet known
Overall satisfaction of employers, active members and pensions measured by surveys	Rolling 12 month performance is 87.7%			88%	
Proportion of active members receiving a benefit statement and time of year statement is issued	99.9% issued by 31 August 2016			100%	
<b>Forward Thinking</b>					
Performance and Risk of Lothian Pension Fund	Actual 10.4%pa, Benchmark 8.4%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	92.4%	90.3%		Greater than 90%	
<b>Honest &amp; Transparent</b>					
Audit of annual report	Achieved			Unqualified opinion	
Percentage of employer contributions paid within 19 days of month end	98.8%	99.2%		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	
<b>Working Together</b>					
Level of sickness absence	0.72%	1.27%		4%	
Annual staff survey question to determine satisfaction with present job	-			75%	Not yet known
Percentage of staff that have completed two days training per year.	62.5%	75.3%		100%	

24 October 2016

Stuart McLean  
City of Edinburgh Council  
Business Centre 2:1  
Waverley Court  
4 East Market Street  
Edinburgh  
EH8 8BG

Dear Stuart,

### **Full cost transparency**

Many thanks for your letter dated 7 October 2016 and I am sorry to hear of the Committee's disquiet over our approach to the accounting for investment management fees.

I would like to reassure the Committee that CIPFA remains committed to the cost transparency agenda for investment management expenses. The Institute has a long history of leading on improving the transparency of management costs. In 2014 the Institute published guidance, *Accounting for Local Government Pension Scheme Management Costs*. We are also very supportive of the initiative being led by the Scheme Advisory Board in England to develop a Code of Transparency for Investment Managers, which will inform the reporting and disclosure of these costs.

The 2014 CIPFA guidance in this area led to significant improvements in the reporting of management expenses particularly where Pension Funds had been previously "netting off" these costs from their investment returns. This was a positive step forward but clearly there was more that could be done and the 2016 *CIPFA Accounting for Local Government Pension Scheme Management Expenses* requires further disclosure of investment management expenses in order to identify transaction costs along with ad valorem fees and performance fees.

Local Authority Accounts (including Pension Fund Accounts) are prepared under the CIPFA Code of Practice of Practice on Local Authority Accounting in the United Kingdom (the Code) which requires preparers to 'have regard' to the Guidance on Management Expenses. The Code is based upon International Financial Reporting Standards (IFRS) which require entities to define the elements of financial reports as assets, liabilities and equity. Liabilities are defined as:

*"...present obligations of the authority arising from past events, the settlement of which is expected to result in an outflow from the authority of resources embodying economic benefits or service potential"*

In identifying the indirect costs associated with investment management transactions it is clear that a number of these "costs" do not meet this definition and hence would not be required to be reported in the Pension Fund Accounts.



However, CIPFA does not suggest that these “costs” are unimportant and believes they should be identified and reported to all relevant stakeholders. To support this the 2016 Guidance includes a recommendation that the Pension Fund Annual Report can be used to report the costs of operating and managing the pension fund in more detail, in line with local priorities. The Guidance includes the following section on Investment Policy and performance:

*70. The investment policy and performance section of the annual report demonstrates how the investment strategy has been put into practice during the year. Part of this is understanding the total cost of the supply chain involved in managing the pension fund's investments, and the relationship between risk and return.*

*71. Many financial instruments contain costs which will not be reported in the pension fund accounts as they do not meet the recognition criteria under the Code. However being able to identify these in order to engage with fund managers and external advisors is a key step in decision making and in delivering effective and efficient pension fund management.*

*72. The level of detail reported is one for local discretion, but the aim should be to enable readers of the annual report to understand the effectiveness of the fund's investment management arrangements by reference to the returns and risks associated with the pension fund portfolio. This should be consistent with the financial instrument risk disclosures reported in the pension fund accounts.*

CIPFA remains committed to full cost transparency to assist all stakeholders in determining the value for money of a Pension Funds investment strategy and its implementation. It will continue to support the development of the Code of Transparency, and where appropriate review the Guidance on Management Expenses to ensure this meets the expectations of the Government and regulators in this area.

I hope this provides the Committee with the reassurance that CIPFA is fully committed to the transparency agenda.

The CIPFA Pensions Panel have been made aware of your letter and this response and would be happy to engage further on this matter.

Kind Regards

Michael Ellsmore  
**Chair CIPFA Pensions Panel**



18 November 2016

Stuart McLean  
Committee Clerk  
Committee Services, Strategy and Insight, Chief  
Executive  
City of Edinburgh Council

Dear Stuart

**CITY OF EDINBURGH COUNCIL**

Thank you for your letter of 7<sup>th</sup> October 2016 with regard to your Council's Pensions Committee. We note the decision of your Committee to communicate its concerns to CIPFA, Audit Scotland and the Scheme Advisory Board, in relation to the relaxation of the principle of full cost transparency of investment management fees.

The SAB is aware of and shares your Pension Committee's concerns that the CIPFA revised guidance is at odds with promoting greater transparency. For your information the SAB recently agreed to issue a voluntary code on transparency of investment management fees and a circular covering this has just been issued to each Pension Fund/ Committee. We have also informally given indication to Audit Scotland that we consider the revised CIPFA circular as reversing good practice around transparency and we have raised our concerns with SPPA.

We believe that a further discussion at the next SAB meeting is merited, as to any further action required, and we will ensure that this is on the agenda for their next meeting on 23<sup>rd</sup> February 2017.

We trust that this gives you assurance of the SAB's shared concerns with regard to this issue. On behalf of the SAB we are more than happy for you to make our response available at your next Pensions Committee.

Kind Regards

Jonathan Sharma  
pp LGPS SAB Joint Secretaries

**Employers Side Secretary**

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**Trade Union Side Secretary**

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# Pensions Committee

2.00 p.m., Tuesday, 6 December 2016

## Lothian Pension Fund Discretions Policy

Item number	5.7
Report number	
Executive/routine	
Wards	All

### Executive summary

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The Lothian Pension Fund's (Discretions) Policy has been reviewed and minor amendments proposed to align with the administrative experience, following the introduction of the new Local Government Pension Scheme (LGPS) in 2015.

### Links

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Coalition pledges

Council outcomes [CO26](#)

Single Outcome Agreement

## Lothian Pension Fund Discretions Policy

### Recommendations

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Committee is requested to:

- 1.1 Invite the Pension Board to raise any relevant matters or concerns which the Committee should consider.
- 1.2 Approve the amended Lothian Pension Fund's Discretions Policy, as shown at Appendix 1.

### Background

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- 2.1 Discretions exist within the Local Government Pension Scheme (Scotland) Regulations 2014. The City of Edinburgh Council, as administering authority for Lothian Pension Fund, is responsible for exercising those discretions.
- 2.2 On 25 March 2015, Pensions Committee approved the Policy to accord with the new LGPS regulatory requirements effective from 1 April 2015.

### Main report

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- 3.1 The Fund has reviewed its Discretions Policy and minor proposed revisions are shown in full at Appendix 1. For clarity, the existing policy has been shown in italics below each revision. Amendments reflect the administrative experience following the introduction of the new LGPS regulations in 2015, with the objectives of enhancing both transparency and fairness.

### Measures of success

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- 4.1 Clarity of the policy should ultimately serve to enhance customer satisfaction and make administration easier.

### Financial impact

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- 5.1 There are no financial implications arising directly from this report.

## Risk, policy, compliance and governance impact

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- 6.1 Regular review of the Discretions Policy is an integral to good governance. The clarity and detail of this policy serve to mitigate the risk of challenge to decisions made by the Fund

## Equalities impact

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- 7.1 The proposed revisions to the discretions policy should serve to ensure equality in the delivery of the administration service needs of the Fund's members and employers.

## Sustainability impact

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

## Consultation and engagement

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- 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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[Lothian Pension Fund Discretions policy - June 2015](#)

### Hugh Dunn

Acting Executive Director of Resources

Contact: Carole Thomson, Pensions Operations and Development Manager

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## Links

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### Coalition pledges

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

### Single Outcome Agreement

**Appendices** Appendix 1 – Lothian Pension Fund Pensions Discretions Policy – Proposed Amendments

# Lothian Pension Fund Pensions Discretions Policy – Proposed Amendments

## Appendix 1

	<b>Local Government Pension Scheme Administering Authority Discretions/Decisions</b>	<b>Revised Policy / Current Policy</b>
21	Decide, in the absence of an election from the member within 12 months of ceasing a concurrent employment, which ongoing employment benefits from the concurrent employment which has ceased should be aggregated (where there is more than one ongoing employment).	If no option is received Lothian Pension Fund will aggregate the terminated concurrent employment to the active account that is most beneficial to the member.
21 Existing	<i>Automatically aggregate terminated concurrent employments with active concurrent employment if no option is received from the scheme member within one month of being notified of the option to aggregate.</i>	<i>Lothian Pension Fund will automatically aggregate terminated concurrent employments with active concurrent employments if no option is received from the scheme member within one month of being notified of the option.</i>
30	Can pay death grant due to personal representatives or anyone appearing to be beneficially entitled to the estate without the need for confirmation, grant of probate/letters of administration.  Decide to whom a death grant is paid.	As required Lothian Pension Fund will use its absolute discretion in accordance with the regulations and in the first instance consider the member's expression of wish form. Where no valid nomination exists or is considered inappropriate, before deciding to whom the death grant should be paid the fund will gather background information including any valid will. Where a will has been made consideration will be given to the deceased's wishes. Where no valid will exists, payment may be made to obvious beneficiaries i.e. spouse, children, dependant, relative, executors or any other person who makes a valid claim. In cases where a number of potential beneficiaries exist, dependency and intestate law will be considered as a guide to determining claims
30 Existing	<i>Can pay death grant due to personal representatives or anyone appearing to be beneficially entitled to the estate without the need for confirmation, grant of probate/letters of administration.  Decide to whom a death grant is paid.</i>	<i>As required Lothian Pension Fund will use its absolute discretion in accordance with the regulations and in the first instance consider the member's expression of wish form. Where no valid nomination exists, payment may be made to an obvious beneficiary i.e. spouse, children, dependant, relative, executors or any other person who makes a valid claim. In cases where a number of potential beneficiaries exist, dependency and intestate law will be considered as a guide to determining claims.</i>

# Lothian Pension Fund

## Administering Authority Discretions Policy

	<b>Local Government Pension Scheme Administering Authority Discretions/Decisions</b>	<b>Revised Policy / Current Policy</b>
39	Decide evidence required to determine financial dependence of co-habiting partner on scheme member or financial interdependence of co-habiting partner and scheme member	Lothian Pension Fund will require at least one of the following evidence from at least two years prior to the date of death: <ol style="list-style-type: none"> <li>1. Joint tenancy agreement/mortgage statement</li> <li>2. Council tax charges</li> <li>3. Joint bank account that shows regular utility payments i.e. rent, mortgage, shopping etc</li> <li>4. Utility bills</li> </ol>
39 Existing	<i>Decide evidence required to determine financial dependence of co-habiting partner on scheme member or financial interdependence of co-habiting partner and scheme member</i>  (This discretion is being amended because the interpretation of "cohabiting partner" is defined in Schedule 1 of The Local Government Pension Scheme (Scotland) 2014 therefore condition 1, 2 and 4 is not required.)	<i>Lothian Pension Fund will require the following documentary evidence from at least two years prior to the date of death:</i> <ol style="list-style-type: none"> <li>1. <i>Proof that the scheme member and co-habiting partner were free to marry each other</i></li> <li>2. <i>Proof of co-habitation</i></li> <li>3. <i>Proof of financial interdependency</i></li> <li>4. <i>A declaration from the co-habiting partner that neither they nor the scheme member had been living with someone else as if they were husband and wife or civil partners.</i></li> </ol>
45	For members <i>subject to the provisions of earlier regulations</i> , decide whether to commute pension on grounds of serious ill-health	Subject to the member's wishes and medical certification that life expectancy is less than one year, Lothian Pension Fund will commute pension on grounds of serious ill-health.
45 Existing	<i>Decide whether to commute pension on grounds of serious ill-health.</i>	<i>Subject to the member's wishes and medical certification that life expectancy is less than one year, Lothian Pension Fund will commute pension on grounds of serious ill-health.</i>



# Lothian Pension Fund

## Administering Authority Discretions Policy

Other Discretions (not covered under the provisions of the LGPS)		
53	<p><b><u>DELETE</u></b> - Scheme members who have a deferred Scottish local government benefit and rejoin the LGPS, doesn't aggregate benefits and leaves again within two years.</p> <p>This discretion is no longer required due to legislation changes from 1 April 2015 making a refund not possible. LGPS 2014 clarifies that members who left with a deferred benefit and rejoins LGPS 2014 will have qualifying service of two years if they already hold a deferred benefit or are in receipt of a pension.</p>	<p>To avoid making unauthorised payments, Lothian Pension Fund will <b>not</b> subsequently pay a short service refund lump sum to the member on leaving.</p>

# Pensions Committee

2.00 p.m., Tuesday, 6 December 2016

## Risk Management Summary

Item number	5.8
Report number	
Executive/routine	
Wards	All

### Executive summary

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

### Links

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Coalition pledges

Council outcomes

[CO26](#)

Single Outcome Agreement

## Risk Management Summary

### Recommendations

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Committee is requested to:

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

### Background

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- 2.1 The pension funds' risk management procedures require the Fund 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

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- 3.1 The Operational Risk Register is issued to the conveners of the Pensions Committee and the Pensions Audit-Sub Committee and the Independent Professional Observer on a quarterly basis.
- 3.2 The Audit Sub-Committee is scheduled to consider an in-depth risk analysis and the Operational Risk Register at their meeting on 5 December 2016.
- 3.3 The Quarterly Risk Overview, as at 25 October 2016, is set out in the appendix to this report for consideration.

### Measures of success

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- 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**

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

## **Risk, policy, compliance and governance impact**

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

## **Equalities impact**

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- 7.1 None.

## **Sustainability impact**

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- 8.1 None.

## **Consultation and engagement**

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- 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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None

## **Hugh Dunn**

Acting Executive Director of Resources

Contact: Struan Fairbairn, Chief Risk Officer

E-mail: [struan.fairbairn@edinburgh.gov.uk](mailto:struan.fairbairn@edinburgh.gov.uk) | Tel: 0131 529 4689

## Links

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**Coalition pledges**

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




**Single Outcome Agreement**

**Appendices** Appendix 1 – Quarterly Risk Summary, as at 25 October 2016





## QUARTERLY RISK OVERVIEW

25 October 2016


## UPDATE ON MOST NOTABLE RISKS

Risk & Reference Number	Update	Trend / RAG
<b>Adverse Investment performance leading to pressure on employer contribution (1)</b>	<p>Implementation of the Lothian Buses Pension Fund strategy is being planned with the Investment Strategy Panel, together with the review of the merger of the Fund with Lothian Buses Pension Fund.</p> <p>The Fund has been monitoring and assessing risk associated with the US election, primarily with a focus on the currency position of the portfolio, on an ongoing basis.</p>	Static 
<b>Adverse movement against non-investment funding assumptions leading to pressure on employer contributions (2)</b>	<p>Continued pressure on bond yields due to Brexit has resulted in the adverse movement against non-investment funding assumptions and warrants keeping the risk at its current level.</p> <p>Preparations are underway for the 2017 actuarial valuation and the contribution stability position was agreed at the September 2016 Committee.</p> <p>Communications on funding with employers are scheduled for the annual seminar in December.</p>	Static 
<b>Collapse/restructuring of an employer body leading to pressure on other employers (3)</b>	<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 and to implement the outcomes from the appeals process and the Pensions Committee decision in this regard. 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>The employer's admission agreements continue to be updated on an ongoing basis.</p>	Static 

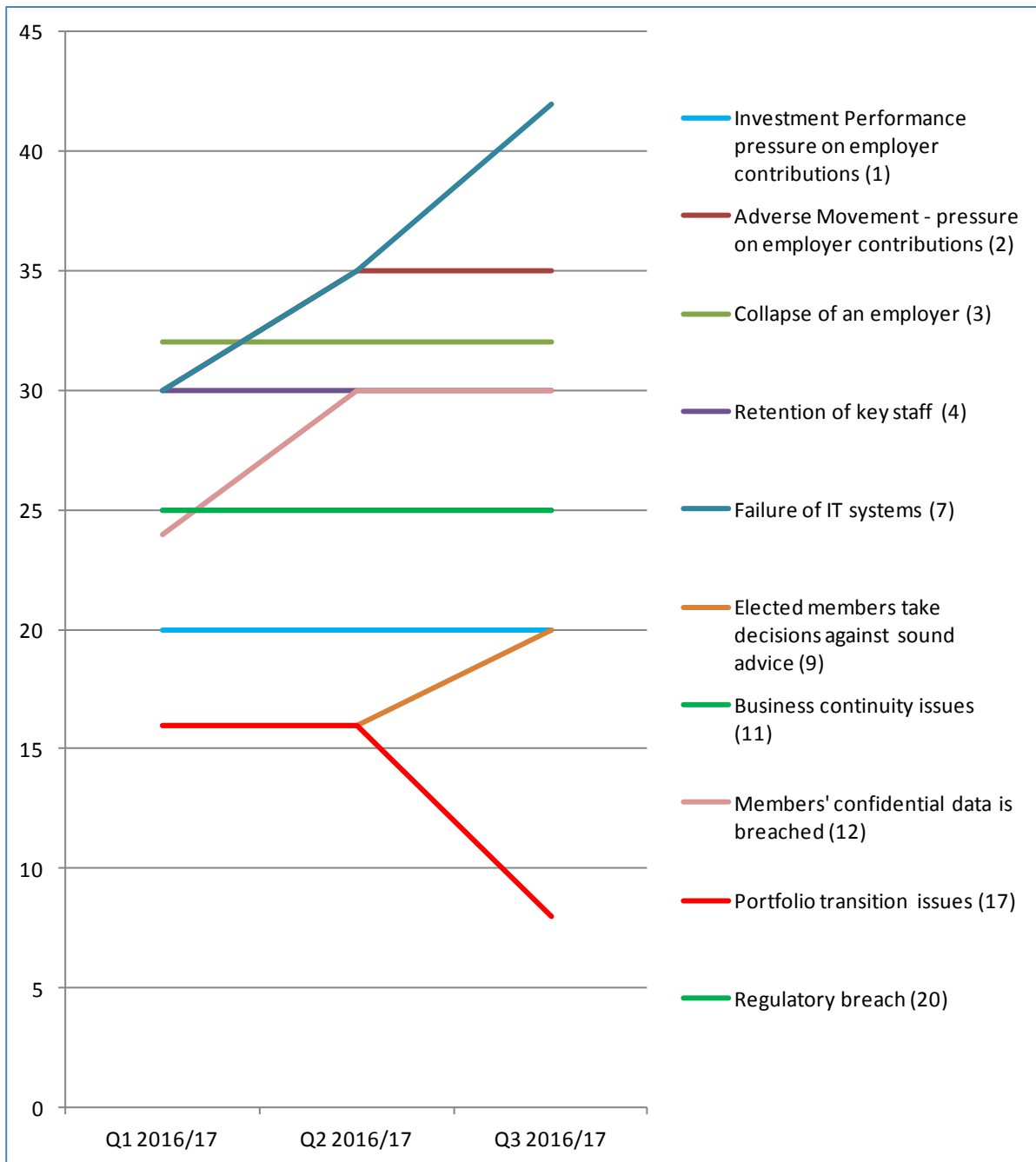
Risk & Reference Number	Update	Trend / RAG
<b>Recruitment and retention of key staff (4)</b>	<p>The Fund’s management team continue to monitor the immediate impact of the revised HR policies and procedures for investment staff who were transferred to LPFE Limited. The risk therefore remains on “warning” until such time as the new HR structure is finalised and bedded in.</p> <p>A review of the possibility of the transfer of other Fund staff into LPFE Limited is about to be undertaken as part of the anticipated “phase 2” and in conjunction with other wider collaboration projects.</p> <p>A new portfolio manager has now been recruited to the investment team and will start in January 2017.</p> <p>The Fund has also now secured a full time legal trainee, which will enable the current trainees recruited into the City of Edinburgh Council (CEC) to join the Fund on a six monthly rotational basis. The intention is to also fill the vacant post for a newly qualified solicitor in due course by retaining one of the trainees who spend time within the Fund. Short term secondments are being looked at to address any resourcing risk that may arise in the interim.</p> <p>The recruitment of pensions administrators, investment analysts and a trainee accountant is in process.</p>	<p><b>Static</b></p> 
<b>Failure of IT leading to poor ICT responsiveness, legal exposure and cost/risk implications (7)</b>	<p>The Fund continues to closely monitor the outcome and process for CEC to embed the new global IT services provider, CGI, to ensure existing systems and IT will continue to be supported. The Fund is ensuring that all issues are reported to CGI and to the senior contract manager within CEC. The Fund is also looking to schedule a meeting with the senior contract manager to discuss ongoing issues and delays in service provision and ensure these are sufficiently addressed.</p> <p>The Fund is currently awaiting the necessary IT requirements to ensure they can complete the registration process for the ‘tell us once’ initiative. In the interim the workload of frontline staff has increased, and our lack of participation in the ‘tell us once’ initiative has been published in a recent LGC bulletin. The risk has been raised until the conclusion of the implementation of any required measures are in place.</p> <p>Recent systems glitches in Altair around misuse of the soft-screen facility have highlighted the need for the Fund to ensure the pensions administration ‘procedure version control’ spreadsheet is updated and used to control and authorise all amendments to the Altair system and, in particular, ensure a sufficient trial period is in place for some changes before roll out to the rest of the team.</p> <p>The Fund is also looking to address certain matters raised in the recent Internal Audit (separately reported) as a priority.</p> <p>The CEC accounts system is still scheduled to be transferred to a new system, which may cause transitional difficulties for the Fund’s finance team but with no major impact on the Fund’s systems. This project has currently been delayed; the date of transfer to the new system is to be confirmed.</p> <p>Following the loss of computer and phone connectivity on 22 August, an increased service response time has been agreed with CGI.</p>	<p><b>Increase</b></p> 

Risk & Reference Number	Update	Trend / RAG
<p><b>Elected member take decisions against sound advice (9)</b></p>	<p>Arrangements are being put in place to ensure that induction training for any newly appointed members to the Pension Committee is in place after the Council elections in May 2017 and before their first Pension Committee.</p> <p>The legal opinion on fiduciary duty has been referred to and considered by the Corporate Policy and Strategy Committee of the City of Edinburgh Council.</p> <p>The Fund continues to provide information and communications in response to queries regarding its investment strategy and has received an increasing number of queries or approaches regarding both its infrastructure and local investments and on other socio, economic and environmental matters.</p>	<p><b>Increase</b></p> 
<p><b>Business continuity issues (11)</b></p>	<p>Review of business continuity plans (with particular reference to Health and Safety) are currently underway. The Fund is also ensuring that home-working contracts and relevant health and safety procedures are adhered to across the board and, where necessary, continue to be enhanced in line with current practice.</p>	<p><b>Static</b></p> 
<p><b>Members' confidential data is lost or made public. Breach of Data Protection Act (12)</b></p>	<p>Business process reviews are now complete and an action plan is being developed to strengthen the pensions administration printing and posting processes and in reaction to consistent, albeit minor, breaches in the process. Until changes are implemented this risk remains at an increased level to reflect the fact that minor errors in this area can lead to meaningful reputational and other exposure. The Fund is also aware of the more onerous Data Protection legislation coming into force and the growing trend of class actions in this sector.</p>	<p><b>Static</b></p> 
<p><b>Portfolio Transition Issues (17)</b></p>	<p>There are currently no outstanding actions and as a result the risk has reduced for portfolio transition issues. The risk is now meeting its target and so will cease to be notable until a further transition arises.</p>	<p><b>Decrease</b></p> 



Risk & Reference Number	Update	Trend / RAG
<p><b>Regulatory breach (20)</b></p>	<p>The Pensions and Lifetimes Savings Association (<b>PLSA</b>) has fed back that it continues to lobby the Financial Conduct Authority (<b>FCA</b>) regarding the implementation of MiFID II within the UK resulting in LGPS funds stepping down to Retail Investor status. The Fund has been tracking this for some time and believes it would be in a strong position to “opt-up” to Professional Investor status in light of it recently receiving and operating an FCA authorised structure (having been diligenced in the current FCA regime) and long history and track-record of its in-house investment team. Nevertheless, close scrutiny of this continues to be needed to ensure (i) awareness and input to the “opt-in” criteria, (ii) there are no regulatory constraints or issues associated with the new regulation, and (iii) there is no market practice or distinction around the treatment of opted-up Professional Investors (there should not be, as this is binary in nature) as has been loosely suggested by some in the market. It will also be important to keep track of this with regard to the Fund’s collaborative initiatives and the impact of this on other LGPS funds. The Fund has fed in its views to the PLSA and will pick up directly with its FCA case officer if it looks as though there is any uncertainty or concerns developing in this area.</p> <p>The potential conflict of interest arising in relation to Scott Moncrieff becoming the external auditor of CEC and currently being the auditor of LPFE Limited and LPFI Limited has been explored and addressed to the Fund’s satisfaction. Scott-Moncrieff will be using different teams to provide audit services to LPFI Limited and LPFE Limited and separately the wider Fund as part taking over the wider audit mandate from Audit Scotland.</p> <p>The Fund is also monitoring the collaboration project and structuring, to ensure regulatory compliance and appropriate systems and governance are in place prior to any subsequent material change in business scope.</p> <p>The Fund’s delegations continue to be reviewed and updated.</p>	<p><b>Static</b></p> 

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

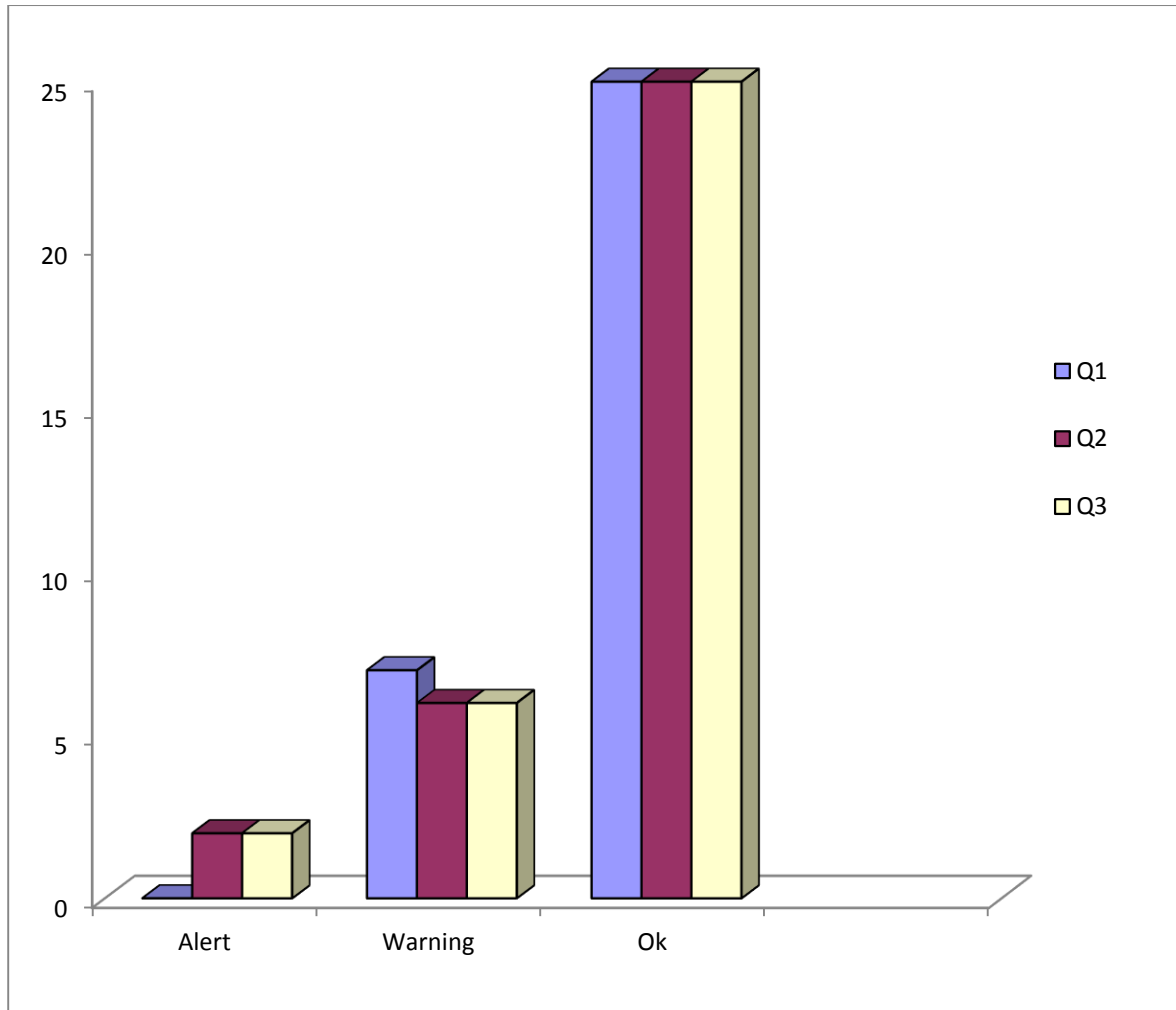


PLEASE NOTE, OVER THE LAST THREE QUARTERS RISK '11 – BUSINESS CONTINUITY' AND RISK '20 – REGULATORY BREACH' HAVE SHARED THE SAME RISK SCORE.

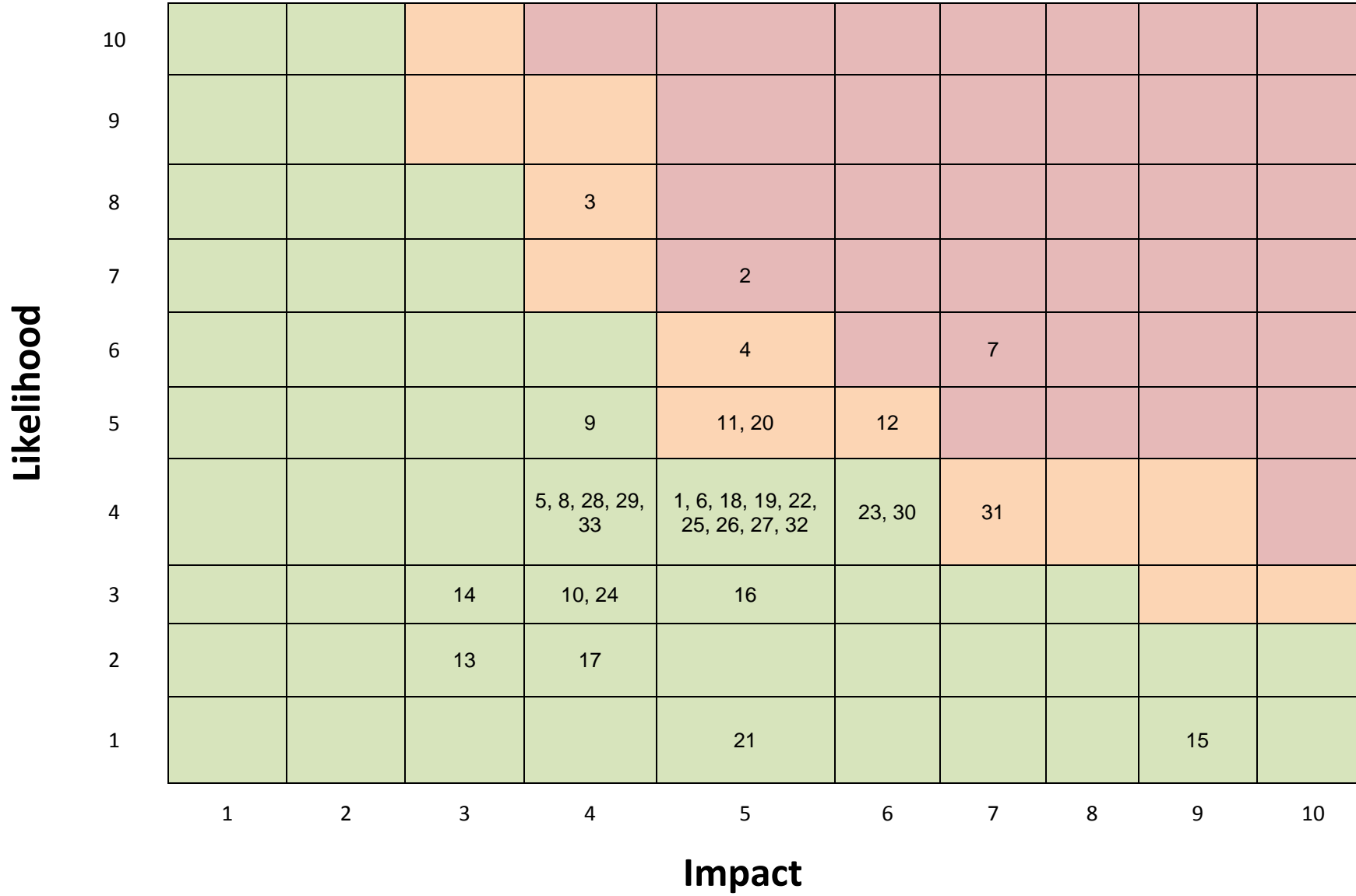
**OTHER KEY POINTS**

	<b>Comments</b>
<b>New significant risks</b>	None.
<b>Other new risks</b>	None.
<b>New controls</b>	<p>Moore Stephens contracted to provide regulatory compliance filing support and training as part of its annual compliance retainer. (6)</p> <p>The Fund and CGI have agreed that response times to address faults will be reduced to within one hour, during working days.(7)</p>
<b>Eliminated risks</b>	None.
<b>Notable initiatives / actions</b>	<p>The Fund is presently liaising with two insurers Aon and Zurich to ascertain the merits of insurance provision for the Pension Board. An update into recent findings is included in the Service Plan update paper. (10)</p> <p>The Fund is currently revising its delegation letter to take into account certain recommendations arising from the Internal Audit of investment operations and controls. (23)</p> <p>The extent of turn-over of HR directors and its impact on LPFE business is under review. Close monitoring of the governance and compliance processes are in place as LPFI goes live. (26)</p> <p>Discussions with Falkirk Council are underway regarding a review of the current shared services structure, in light of developing business objectives of both the Fund and Falkirk. (27)</p>
<b>Material Litigation</b>	None, but there is a possibility of litigation to recover cessation liabilities from an employer in the coming months.

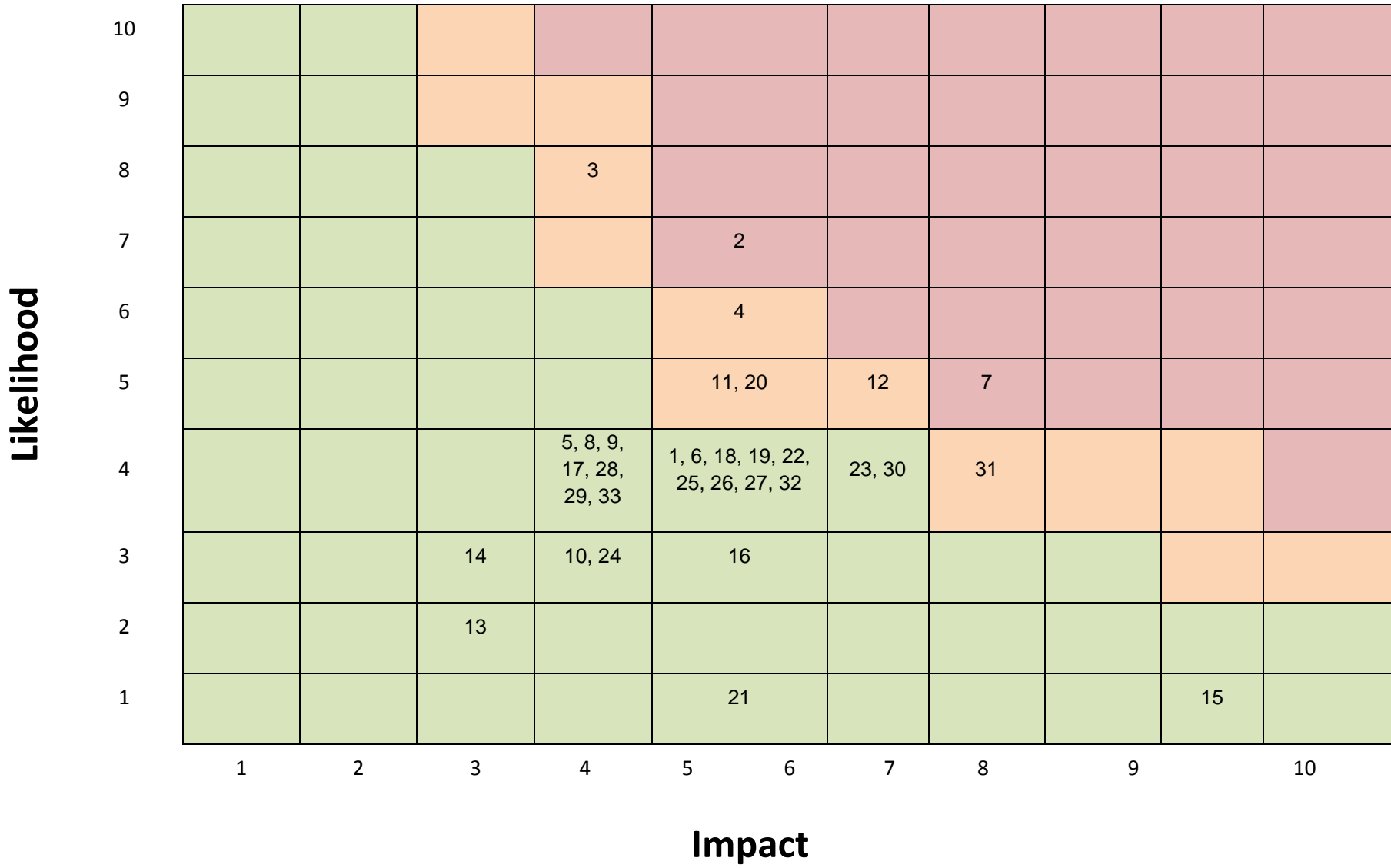
## All Risks: Status Overview



### Q3 2016/17 All Risks: Impact and Likelihood Overview



## Q2 2016/17 All Risks: Impact and Likelihood Overview



## Key: Risks by Number

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