

Pensions Audit Sub Committee

2.00pm, Tuesday, 25 September 2018

Annual Report on LPFE Limited and LPFI Limited

Item number	5.3
Report number	
Executive/routine	
Wards	All
Council Commitments	Delivering a Council that works for all

Executive Summary

Further to the establishment of LPFE Limited and LPFI Limited, as wholly owned and controlled subsidiaries of the City of Edinburgh Council, in support of the administration of the pension funds that it administers, this report provides an update on the business and operation of those entities. This is in accordance with the revised remit of the Pensions Audit Sub-Committee which gives it the power to scrutinise the Council companies associated with the pension fund.

Regular reports will ensure compliance with the existing governance requirements of both companies under their own constitutions and broadly align the governance processes for these companies with new procedures overseen by the Council's Companies Hub for other Council companies.

Most notably:

- All the Fund staff are now employed by LPFE Limited, which has also appointed Leslie Robb as a non-executive director to its board.
- LPFI Limited continues to work collaboratively with other LGPS funds, including the Northern Ireland Local Government Officers' Superannuation Committee (**NILGOSC**), the Scottish Borders Council Pension Fund (**Scottish Borders**) and Fife Council Pension Fund (**Fife**), alongside the Fund's longstanding collaboration with the Falkirk Council Pension Fund (**Falkirk**).

Annual Report on LPFE Limited and LPFI Limited

1. Recommendations

Committee is requested to:

- 1.1 Note the business update on the operations of those two companies provided in this report.

2. Background

- 2.1 The Pensions Committee has previously considered and approved the establishment of a new corporate structure to facilitate the more efficient administration of the pension funds (**the Fund**) for which the City of Edinburgh Council (**CEC**) is responsible, reinforce the separate governance and statutory obligations of the Fund and enable the Fund to more effectively collaborate with other LGPS pension funds.
- 2.2 The structure, including two limited companies LPFI Limited (**LPFI**) (*regulated investments*) and LPFE Limited (**LPFE**) (*staffing*), was established in 2015/16 and relevant members of staff were transferred into the employment of LPFE in May 2015 (phase 1) and February 2018 (phase 2) respectively. A diagram of the corporate structure is set out in Appendix 1 for ease of reference. The costs and expenses of LPFE and LPFI are contained with the Fund's finances and incorporated into its annual budget and service planning process. LPFE and LPFI's audited financial accounts for 2017/18 were considered and approved by the respective boards on 28 May 2018. They are reported within the audit report on Committee's agenda.
- 2.3 Both LPFI and LPFE continue to be audited separately by Scott Moncrieff and their accounts consolidated with those of the Fund on an annual basis. Scott Moncrieff also provides tax advisory services to both LPFE and LPFI. CMS continues to provide low level company secretarial and registered office services to both companies.
- 2.4 Risk analysis for both LPFI and LPFE has been incorporated within the Fund's existing processes and quarterly reporting to the Pensions Committee (see separate paper).
- 2.5 Moore Stephens continues to carry out quarterly external compliance audits on LPFI to ensure best practice compliance with the Financial Conduct Authority (**FCA**) rules and guidance.

- 2.6 Both LPFE and LPFI have and will continue to be subject to review by internal audit.
- 2.7 A more detailed update on the Fund's collaborative efforts, including future plans of LPFI, will be provided to the meeting of the Pensions Committee on 26 September 2018.

3. Main report

LPFE Limited

- 3.1 LPFE was incorporated on 11 February 2015 and commenced trading on 1 May 2015, when the employment of certain members of the Fund's investment and senior management staff was transferred to it. LPFE has since provided senior management and investment staff resource to the Lothian Pension fund group responsible for administering the Funds, which includes CEC, LPFE itself and LPFI (**LPF Group**).
- 3.2 LPFE receives certain administrative business support services from CEC (information compliance, office support, IT etc) and also has in place a shareholder loan facility from CEC of up to £385,000 for the purpose of working capital support, incurring interest at a rate of 2% above the Royal Bank of Scotland base rate from time to time. The LPFE board approved the increase of this loan facility from £250,000 to the present amount on 28 May 2018 to reflect the increase in staff overheads resulting from the completion of the phase 2 transfer (see below).
- 3.3 The provision of payroll services to LPFE was transitioned to a new provider, Moorepay, in January 2018 reflecting the need for an enhanced provision following the phase 2 transfer. Payroll Outsourcing was the subject of an internal audit which was reported to the Audit Sub-Committee in December 2017.
- 3.4 LPFE continues to be admitted as an employer to the Lothian Pension Fund to ensure continuity of pension provision.
- 3.5 The LPFE board is made up of the following:

Role	Person	Dates to/from
Executive Director of Resources (Chair of LPFE)	Stephen Moir	6/9/17 to date
Convener of the Pensions Committee	Alasdair Rankin	24/2/15 to date
City of Edinburgh Council's Head of Finance	Hugh Dunn	Incorporation to date
City of Edinburgh Council's Head of HR	Katy Miller	24/10/16 to date
Chief Executive Officer of Lothian Pension Fund	Clare Scott	Incorporation to date
Non-executive director	Leslie Robb	19/3/18 to date

The Fund's Chief Risk Officer is LPFE's company secretary.

- 3.6 The LPFE board has met regularly since the company commenced trading to monitor the ongoing business of staffing the LPF Group and establish the company's HR systems, policies and procedures. Notably the LPFE board has now appointed Leslie Robb to serve as a non-executive director in order to provide increased resource and external scrutiny, and to support LPFE's linkage with the regulated business and requirements of LPFI.
- 3.7 As previously reported to Committee, with effect from 1 February 2018, all of the Fund's staff transferred into the employment of LPFE following consultation with staff and trade unions.
- 3.8 LPFE has agreed to enter into a voluntary recognition agreement (**VRA**) with UNISON and Unite, as part of the phase 2 transfer. The terms have been agreed, albeit the agreement has not yet been signed. LPFE will continue to liaise with the unions in line with the VRA and to progress the signing of the agreement.
- 3.9 LPFE is implementing a new performance based pay approach operated and determined by the board, acting as Remuneration Committee. This has been designed to align staff to the overall performance of the Fund and ensure the LPF Group is able to effectively retain staff and is sufficiently competitive in its recruitment strategy.
- 3.10 The LPFE board has established a detailed annual agenda cycle to support the operation of the annual performance review process and all other aspects of the LPF Group's human resources strategy. A copy of the cycle is included in Appendix 2.
- 3.11 LPFE has also appointed a senior HR manager to develop its new HR systems, structures and governance. The manager joined the Fund on a 12 month fixed term contract to February 2018, but the Fund is presently in the process of seeking to extend this appointment.
- 3.12 From 1 May 2016, LPFE has also been a party to the secondment arrangement with Falkirk Council, whereby it and the Fund together now provide certain limited staff secondment services to the Falkirk Council Pension Fund (**Falkirk**) in relation to LPFE and other fund staff. It is anticipated that this arrangement will shortly be terminated and reconstituted as a shared investment services arrangement between the Fund and Falkirk, delivered through the Fund's regulated vehicle LPFI. The Fund may look to keep an element of the secondment arrangement in place with Falkirk in relation to members of its legal team, but this remains under review.
- 3.13 Future business of the LPFE board includes:
- Finalise and implement its staff performance review process in time for implementation during the final quarter of 2018.
 - Finalise its review of remuneration schemes.
 - Finalise recruitment of a new Chief Executive Officer of the LPF Group.
 - Continue to enhance the LPF Group's HR processes and procedures.
 - Enhance the Lothian Pension Fund's market presence, to support recruitment activity.

- Terminate all or the substantial proportion of its secondment arrangement with Falkirk.

LPFI Limited

- 3.14 LPFI was also incorporated on 11 February 2015, but it remained inactive until it received the necessary permissions from the FCA in 2016 to carry out its function of providing regulated investment advisory and arranging services to CEC and collaborative partner funds.
- 3.15 Updates on the fund's collaboration with other funds have been provided to Committee on a regular basis. A further update, including future plans, is scheduled to be provided to the Pensions Committee on 26 September 2018.
- 3.16 LPFI receives certain administrative business support services from CEC (information compliance, office support, IT etc) and also has in place a shareholder loan facility from CEC of up to £250,000 for the purpose of working capital support, incurring interest at a rate of 2% above the Royal Bank of Scotland base rate from time to time. The LPFE board approved the increase of this loan facility from £75,000 to the present amount on 28 May 2018 to reflect the increase in HR intra-group costs and services resulting from the completion of the phase 2 transfer (see above).
- 3.17 The LPFI board is made up of the following:

Role	Person	Dates to/from
Head of Finance of The City of Edinburgh Council (Chair of LPFI)	Hugh Dunn	19/1/16 to date
Chief Executive of Lothian Pension Fund	Clare Scott	Incorporation to date
Chief Risk Officer of Lothian Pension Fund	Struan Fairbairn	Incorporation to date
Chief Investment Officer of Lothian Pension Fund	Bruce Miller	Incorporation to date
Chief Finance Officer of Lothian Pension Fund	John Burns	Incorporation to date
Non-Executive Director	Leslie Robb	7/2/17 to date

LPFI does not require a company secretary as the Fund's Chief Risk Officer is a member of the board. As above, LPFI does continue to receive low level company secretarial support from CMS.

- 3.18 The LPFI board has met regularly since the company commenced trading to monitor the ongoing business of the provision of services.
- 3.19 LPFI continues to instruct Moore Stephens to provide regulatory compliance services on an ongoing retainer basis. As part of this service, LPFI receives quarterly onsite compliance audits and reports around its systems, controls and compliance with the FCA rules and regulations, and the LPFI board oversees the monitoring of these reports and progress in implementing any recommendations

made. It is anticipated that Moore Stephens will continue to be retained on this basis, but that the frequency of onsite audits may reduce.

- 3.20 LPFI carries out a full onboarding process of all its clients for regulatory and anti-money laundering purposes. The LPFI board is kept regularly appraised of the position and has determined that due to the relative low risk surrounding its business and client base, from a money laundering process, these checks need only be refreshed annually.

4. Measures of success

- 4.1 The Committee are appropriately informed and up to date as to the ongoing business and operations of the LPF Group, including its corporate subsidiaries LPFE and LPFI.

5. Financial impact

- 5.1 None.

6. Risk, policy, compliance and governance impact

- 6.1 To satisfy the reporting requirements to City of Edinburgh Council, as the sole shareholder of both LPFE and LPFI.

7. Equalities impact

- 7.1 None.

8. Sustainability impact

- 8.1 None.

9. Consultation and engagement

- 9.1 The Pension Board, comprising employer and member representatives, is integral to the governance of the Fund and they are invited to comment on the relevant matters at Committee meetings.

10. Background reading/external references

- 10.1 A link to LPFI's details on the FCA's register - https://register.fca.org.uk/ShPo_FirmDetailsPage?id=001b000003LFGGaAAP

A link to LPFI's details on Companies House -
<https://beta.companieshouse.gov.uk/company/SC497542>

A link to LPFE's details on Companies House -
<https://beta.companieshouse.gov.uk/company/SC497543>

Stephen S. Moir

Executive Director of Resources

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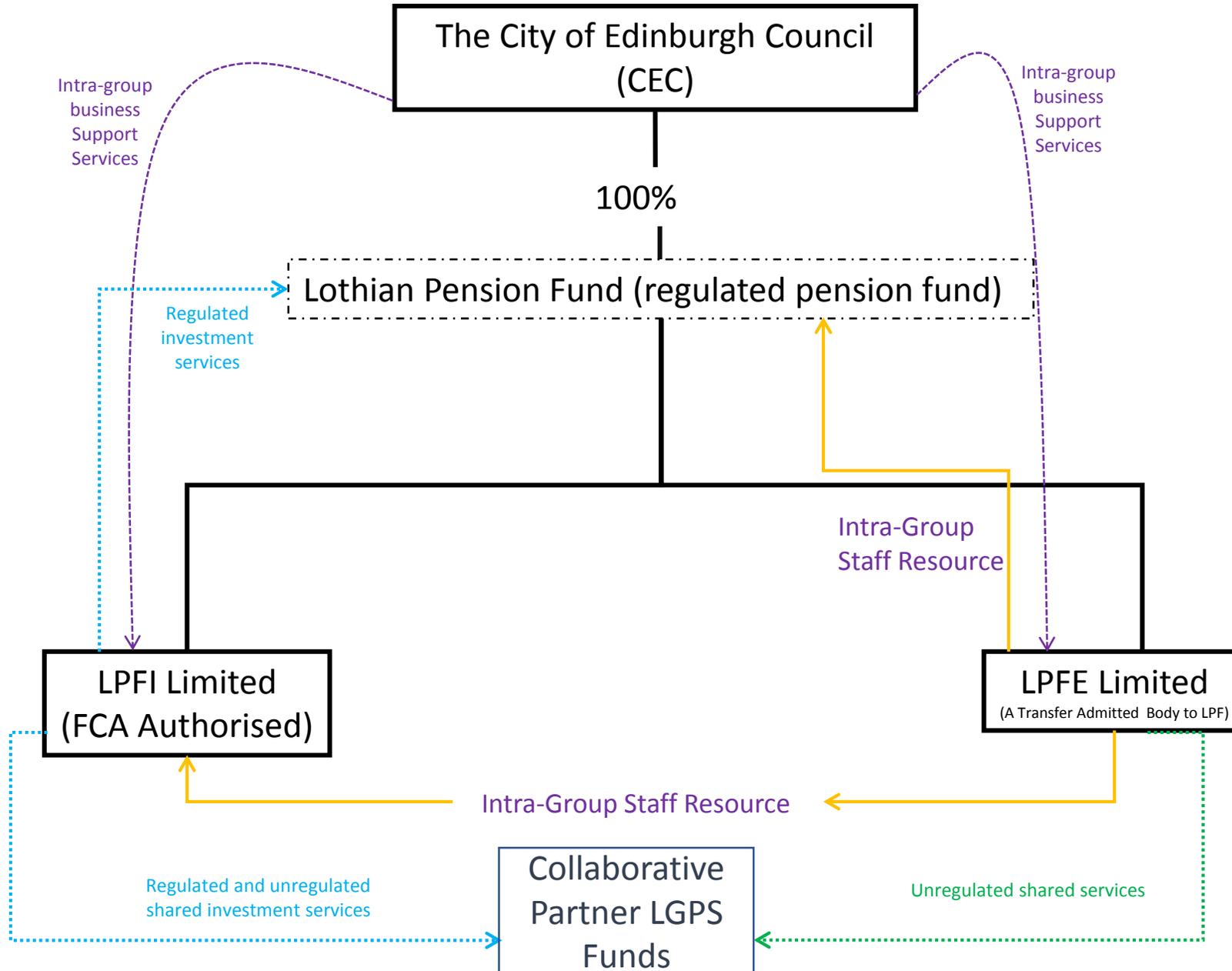
11. Appendices

Appendix 1 – LPF Group Structure

Appendix 2 – LPFE Annual Agenda Cycle

LPF GROUP - STRUCTURE AND SERVICES

Appendix 1



LPFE BOARD AGENDA PLANNING

Frequency		Month
Each meeting	Standing items:	February
	Declaration of conflicts and confirmation of quorum.	May
	Review of minutes of previous meeting.	August
	CEO update on relevant LPF Group business and staffing matters.	October
	Any other business.	December
Annual	Review and calibration of staff appraisals and overall business performance reporting from LPF management.	October
	Staff regulatory or other breach, negligence, performance issue reporting.	
	Resource gap analysis (including a review of HR systems and resources and succession planning).	
	Key person risk analysis.	
	Review management report on LPF's annual performance, external climate ¹ , business requirements.	December
	Review benchmarking ² or other external consultancy papers (if any).	
	Review and approve annual award proposal for LPF staff.	
	Consider and set annual awards for LPF management team.	
	Set tone for CEO Update to staff.	
	Management feedback from annual award process.	February
Annual review of performance, award and benefits structure.		
Celebrating staff and business success and team events.		
Board directors' Atria One floor walk.		
Review and approval of LPFE Limited annual accounts.	May	
Staff policies and procedures and handbook update (if any).		
Staff development, knowledge and training gap analysis.		
Non-executive director 'annual insights' report.	August	
Review and approval of LPFE Limited financial statements.		
Risk and compliance update including, HR implications for Financial Conduct Authority (FCA) compliance, HR systems, data protection.		

¹ To include accurate independently sourced data on inflation, economic climate and markets, local markets, wider institutional markets and public sector awards.

² A refresh of the external benchmarking exercise for all posts in the LPF group is to be carried out at appropriate intervals.

LPFE BOARD AGENDA PLANNING

Frequency	Month
As required	Review terms of reference for LPFE Remuneration Committee. Review and approve bank mandates. Board or company secretarial changes. NED re-appointment.

2 hour meetings – October, December and February (Atria One)

1 hour meeting – May and August (Waverly Court or City Chambers)