



Notice of Meeting and Agenda

Pensions Committee

2.00 pm Wednesday, 9th December, 2020

Meeting will be by conference call.

The law allows the Committee to consider some issues in private. Any items under “Private Business” will not be published, although the decisions will be recorded in the minute.

Contacts

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1. Quorum Check

- 1.1 The Convener will check to ensure a quorum is in attendance to ensure the meeting can proceed.

2. Order of Business

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

3. Declaration of Interests

- 3.1 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.

4. Deputations

- 4.1 If any

5. Minutes

- 5.1 Minute of Pensions Committee of 29 September 2020 (circulated) - 7 - 18
submitted for approval as a correct record

6. Reports

- 6.1** Referrals and Recommendations from Pensions Audit Sub-Committee
- 6.2** Agenda Planning – Report by the Chief Risk Officer, Lothian Pension Fund (circulated) 19 - 24
- 6.3** Stewardship and Engagement – Report by the Chief Investment Officer, Lothian Pension Fund (circulated) 25 - 40
- 6.4** Operating Plan Update – Report by the Chief Finance Officer, Lothian Pension Fund (circulated) 41 - 52
- 6.5** Risk Management Summary – Report by the Chief Risk Officer, Lothian Pension Fund (circulated) 53 - 74

7. Motions

- 7.1** If any

8. Resolution to Consider in Private

- 8.1** The Committee is requested under Section 50(A)(4) of the Local Government (Scotland) Act 1973, to exclude the public from the meeting for the following items of business on the grounds that they would involve the disclosure of exempt information as defined in Paragraphs 1.3 and 6 of Part 1 of Schedule 7A of the Act.

9. Private Business

- 9.1** Governance Update – Report by the Chief Risk Officer, Lothian Pension Fund (circulated) 75 - 96

Andrew Kerr

Chief Executive

Committee Members

Councillors Rankin (Convener), Child, Burgess, Rose and Neil Ross; John Anzani and Richard Lamont.

Please note that members of the Pensions Board and the Independent Professional Observer will also be invited to attend and participate in the meeting.

Information about the Pensions Committee

The Pensions Committee consists of 5 Councillors and 2 external members and is appointed by the City of Edinburgh Council in its separate capacity as administering authority of the Lothian Pension Fund. The Pensions Committee usually meets 4 times a year (every twelve weeks).

Meeting will be via conference call. The meeting will be monitored by Susan Handyside.

The Committee [Term of Reference](#) and [Procedural Standing Orders](#).

Pension Board Members

Alan Williamson, Brian Robertson, Darren May, Jim Anderson, Sharon Dalli, Thomas Carr-Pollock and Tom Howorth.

Information about the Pension Board

The Pension Board consists of 10 members, 5 members from the employer bodies and 5 members from trade unions representing members within the pension funds as set out in the regulations.

The role of the Pension Board is to help ensure that the operation of the pension funds is in accordance with the applicable law and regulation.

<https://www.lpf.org.uk/us> .

Independent Professional Observer

Andy McKinnell

Information about the Independent Professional Observer

The Independent Professional Observer is appointed by the Lothian Pension Fund to help strengthen the Lothian Pension Fund's governance. The role is to provide independent observations to the Pensions Committee and Pension Board.

The purpose of the role is to enhance the scrutiny of the decision making and provide the Committee and Board with additional experience and knowledge impartial from the Lothian Pension Fund's Officers.

City of Edinburgh Council Oversight

The City of Edinburgh Council has statutory responsibility to administer the Lothian and Scottish Homes pension funds. In order to most effectively carry out that function (and to reflect the separate statutory responsibilities, and regulation, of the pension funds) the City of Edinburgh Council has delegated management responsibility for the pension funds to the Lothian Pension Fund Group and its two arms-length companies LPFE Limited and LPFI Limited. Critical parent oversight continues to be carried out by the Pensions Committee and Dr Stephen S. Moir, Executive Director of Resources for the City of Edinburgh Council, as the Administering Authority for the Fund, to ensure that its statutory functions are being properly carried out.

Lothian Pension Fund Senior Leadership Team

The senior leadership team responsible and accountable for the business and activities of the Lothian Pension Fund Group are:

Doug Heron, Chief Executive Officer
Bruce Miller, Chief Investment Officer
Struan Fairbairn, Chief Risk Officer
John Burns, Chief Finance Officer
Helen Honeyman, Head of People and Communications

Further Information and Contact

If you have any questions about the agenda or meeting arrangements, please contact Susan Handyside, Governance Manager, Lothian Pension Fund, Atria One, 144 Morrison Street, Edinburgh EH3 8EX, Tel 07771378238, email susan.handyside@edinburgh.gov.uk .

The agenda, minutes and public reports for this meeting can be viewed via the City of Edinburgh Council [committee portal](#).

Pensions Committee Minutes

2pm, Tuesday 29 September 2020

Present:

Councillors Munn (Convener), Burgess, Child, Rose and Neil Ross; John Anzani and Richard Lamont.

Pension Board Members present:

Jim Anderson, Thomas Carr-Pollock, Sharon Dalli, Lesley Henderson, Tom Howorth, Darren May, Brian Robertson and Alan Williamson.

Other Attendees:

Andy McKinnell, Independent Professional Observer and Nick Bennett, Azets Audit Services (External Auditor)

1. Quorum

The Clerk confirmed that notice of the meeting had been given and that a quorum was present and the Convener declared the meeting open.

2. Order of Business

The Clerk advised there was no change to the order of business.

3. Declaration of Interests

Following the invitation from the Convener, Richard Lamont declared a non-financial interest in relation to minute item 16 as an employee of VisitScotland and John Anzani declared a non-financial interest as his wife was a non-Executive Director on the Board of Enjoy Leisure.

4. Minutes

Decision

To approve the minute of the Pensions Committee of 24 June 2020 as a correct record subject to a post-meeting note being added clarifying the procedural advice given in relation to varying standing orders.

5. Referrals/recommendations from the Pensions Audit Sub-committee

Councillor Rose advised the Committee of the discussion and decisions taken at the Pensions Audit Sub-Committee meeting on 28 September 2020 as they related to items of business at this meeting.

(Reference – Pensions Audit Sub-Committee 28 September 2020)

6. Pension Board oversight

The Chair of the Pension Board advised the Committee of the relevant discussion and decisions taken at the Pension Board meeting and confirmed that the Pension Board would provide comment on other relevant matters during the meeting.

7. Agenda planning

An overview of proposed reports for future Pensions Committee and Pensions Audit Sub-Committee meetings and the annual cycle was presented.

Decision

- 1) To note the agenda planning document.
- 2) To note that pensions board members were invited to comment on agenda items during committee meetings.
- 3) To note that the unaudited and audited accounts would continue to be considered by both the Audit Sub-Committee and the Pensions Committee.
- 4) To agree that if there were any financial or significant textual changes between the unaudited and audited versions of the accounts, these would be highlighted and reported to the Pensions Committee.
- 5) To agree that, going forward, the annual LPF Group governance update would be reported to the Pensions Committee only.
- 6) To agree that the quarterly risk summary report would continue to be reported to the Pensions Committee in December and the in-depth risk management review would continue to be reported to the Audit Sub Committee in December.
- 7) To agree that the Internal Audit Plan would be developed in consultation with the Convener of the Audit Sub-Committee, Chief Executive Officer (LPF) with input from the Independent Professional Observer if appropriate.
- 8) To note that Audit Sub-Committee members would have the opportunity of making recommendations on items for inclusion in the Internal Audit Plan as part of their consideration of the in-depth review of risk management scheduled for the December 2020 meeting.

(Reference – report by the Chief Risk Officer, LPF, submitted.)

8. LPF Audited Annual Accounts (and Financial Statements) 2020

Details were provided of the audited Annual Report (and Financial Statements) for the year ended 31 March 2020 for Lothian Pension Fund and Scottish Homes Pension Fund

In the context of sizeable falls in both the global and UK equity markets over the financial year, the Accounts showed that the Lothian Pension Fund (Group) net asset valuation had decreased from £7,817m to £7,497m, a reduction of 4.3%. Given its mature membership profile and gilts investment strategy, the Scottish Homes Pension Fund had remained static at £166m.

Azets Audit Services (formerly Scott Moncrieff) intended to provide an unqualified opinion on the financial statements and other prescribed matters for Lothian Pension Fund and Scottish Homes Pension Fund and intended also to confirm that there were no matters on which it was required to report by exception.

Decision

- 1) To note the report by Azets Audit Services (formerly Scott Moncrieff) “Lothian Pension Funds 2019/20 Annual Audit Report to Members and the Controller of Audit” as set out in Appendix 1 of the report.
- 2) To note the audited Annual Report (and Financial Statements) for the year ended 31 March 2020 for Lothian Pension Fund and Scottish Homes Pension Fund as set out in Appendix 2 of the report.
- 3) To note that the audited financial statements, for the year ended 31 March 2020, of both the wholly owned companies, LPFE Limited and LPFI Limited, were approved by the respective Board of Directors in July 2020. These statements are shown in full at Appendices 3 and 4 of the report.
- 4) To record the Committee’s thanks to the external auditor and its team for their work on the accounts in challenging circumstances.
- 5) To refer the report to the Council on 15 October 2020 for noting.

(Reference – report by the Chief Finance Officer, LPF, submitted.)

9. LPF Contract Awards (Period 1 January to 30 June 2020)

The Council’s Commercial and Procurement Services (CPS) team provided support services to the LPF Group in relation to procurement activity and payment operations.

An update was presented to members on the scope of contracts awarded by the LPF Group during the period 1 January to 30 June 2020.

Decision

To note the Lothian Pension Fund Contract Award update.

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

10. McCloud and Goodwin Discrimination Judgements - Update

The Scottish Public Pensions Agency (SPPA) had issued a consultation to Local Government Pension Scheme (LGPS) members and employers on proposals to address the age discrimination in scheme reforms in 2015 together with an update on the cost control mechanism and changes to survivor benefits between same and opposite sex widowers.

The potential for a joint response to be submitted to SPPA by the Investment Governance Group comprising senior officers of the LGPS administering authorities was currently being explored.

Key points that the LPF Group wished to make in its response to the SPPA were set out in the report. The significant administrative burden and communications challenges of the McLeod rectification were also highlighted.

Members discussed the complexities around the Scottish Local Government Pension Schemes and the need to consolidate and simplify the Schemes' benefit entitlement regulations.

Decision

- 1) To note the report and that further regular progress updates would be provided.
- 2) To note that the detailed response to the SPPA consultation would be submitted by the Chief Executive Officer, following consultation with the Convener, by the due date of 23 October 2020.

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

11. Operating Plan Update

An update was provided on progress against the 2020-2021 Operating Plan, performance indicators and the actions carried out to enable the Fund to meet its key objectives. The Plan centred around the following six broadly-defined strategic goals and formed the basis of the work ahead of the Fund in 2020/21:

- Provide secure and affordable benefits for our members
- Reduce complexity
- Manage our risks
- Create a place where people do great work
- Influence the LGPS of the future
- Be responsible

Decision

- 1) To note progress of the Fund against the 2020-2021 Operating Plan and the specific updates on performance indicators, annual benefit statements and membership and cashflow monitoring.
- 2) To note that a report would be submitted to the Audit Sub-Committee in December 2020 on data quality and the outcomes of the analysis being undertaken on behalf of the Fund.

(Reference - report by the Chief Finance Officer, LPF, submitted.)

12. Risk Management Summary

In line with LPF's ongoing risk management procedures, an overview was provided of its risk analysis. Information was also provided on the enhancement of the LPF Group's operating model and the extension of its service delivery to other LGPS funds. In doing so, the Group had taken on additional operational risk in order to achieve fundamental benefits for its stakeholders.

The Chief Risk Officer advised members that a new risk had been added around Group culture and staff engagement and adapting to current level scenarios in line with the FCA emphasis on culture and control.

Members also discussed the inter-dependencies between failure of IT systems, cyber security and business continuity. Members also commented on the changing situation and legislation relating to reporting on climate change as part of investment portfolios and received assurance that the LPF Group were alert to this potential reporting requirement.

More granular risks arising from the pandemic had also been identified and closely managed at an operational level by the Recovery Group established expressly for this purpose.

The overall position remained stable and within appetite in the context of the longer-term risk reduction benefits of the ongoing transformation projects and the circumstances of the global pandemic.

Decision

- 1) To note the quarterly risk overview and the LPF Group's approach to risk management.
- 2) To note that the procedure for reporting incidents to the Information Commissioner would be included as an update in a future report.

(Reference - report by the Chief Risk Officer, LPF, submitted.)

13. Motion by John Anzani – Nomination to the Executive Committee of the Local Authority Pension Funds Forum for 2020/21

The following motion was submitted by John Anzani in terms of Standing Order 11.2:

"The Pensions Cttee agrees to nominate John Anzani for election to the Executive Committee of the Local Authority Pension Funds Forum [LAPFF] for the period 2020/21 (as defined by LAPFF Constitution)."

- moved by John Anzani, seconded by Councillor Rose

Decision

To approve the motion.

14. Motion by John Anzani – Principle to Guide Repayment of Surplus – Proposed Amendment to Funding Strategy Statement

Decision

To note that John Anzani had withdrawn his motion in light of further information provided by the Chief Executive Officer, LPF.

15. Employers Participating in Lothian Pension Fund

The Committee, under Section 50(A)(4) of the Local Government (Scotland) Act 1973, excluded the public from the meeting for the following item of business on the grounds that it would involve the disclosure of exempt information as defined in Paragraphs 6 and 9 of Schedule 7(A) of the Act.

An update was provided on current matters affecting employers participating in the Lothian Pension Fund.

Decision

Detailed in the confidential schedule, signed by the Convener, with reference to this minute.

(Reference – report by the Chief Finance Officer, LPF, submitted.)

16. Employer Covenant Review 2020

The Committee, under Section 50(A)(4) of the Local Government (Scotland) Act 1973, excluded the public from the meeting for the following item of business on the grounds that it would involve the disclosure of exempt information as defined in Paragraphs 6 and 9 of Schedule 7(A) of the Act.

An overview was submitted of the recent employer covenant analysis undertaken by the Fund in preparation for the 2020 Actuarial Valuation. In terms of overall liability exposure, the Fund continued to have good covenant assurance.

Decision

Detailed in the confidential schedule, signed by the Convener, with reference to this minute.

(Reference – report by the Chief Finance Officer, LPF, submitted.)

17. ICT Update

The Committee, under Section 50(A)(4) of the Local Government (Scotland) Act 1973, excluded the public from the meeting for the following item of business on the grounds that it would involve the disclosure of exempt information as defined in Paragraphs 6 and 9 of Schedule 7(A) of the Act.

Information was provided on progress with the Fund's ICT pathway and digital strategy.

Decision

Detailed in the confidential schedule, signed by the Convener, with reference to this minute.

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

18. Local Government Pension Scheme Collaborative Update

The Committee, under Section 50(A)(4) of the Local Government (Scotland) Act 1973, excluded the public from the meeting for the following item of business on the grounds that it would involve the disclosure of exempt information as defined in Paragraphs 6 and 9 of Schedule 7(A) of the Act.

An update was presented setting out the parameters for a proposed collaboration within the Local Government Pension Scheme.

Decision

Detailed in the confidential schedule, signed by the Convener, with reference to this minute.

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

19. Annual LPF Group Governance Update

The Committee, under Section 50(A)(4) of the Local Government (Scotland) Act 1973, excluded the public from the meeting for the following item of business on the grounds that it would involve the disclosure of exempt information as defined in Paragraphs 6 and 9 of Schedule 7(A) of the Act.

The annual update on the operation of the LPF Group's legal, regulatory and governance structures including the activities of LPFI Ltd and LPFE Ltd was presented.

Decision

Detailed in the confidential schedule, signed by the Convener, with reference to this minute.

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

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by virtue of paragraph(s) 6, 9 of Part 1 of Schedule 7A
of the Local Government(Scotland) Act 1973.

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Pensions Committee

2.00pm, Wednesday, 9 December 2020

Agenda Planning

1. Recommendations

The Pensions Committee (Committee) is requested to:

- 1.1 note the agenda planning document;
- 1.2 note that the Pension Board members are invited to comment on agenda items during Committee meetings.

Struan Fairbairn

Chief Risk Officer, Lothian Pension Fund

Contact: Susan Handyside, Governance Manager, Lothian Pension Fund

E-mail: susan.handyside@edinburgh.gov.uk | Tel: 07771 378238

Agenda Planning

2. Executive Summary

- 2.1 This report and the agenda planning document (appendix 1 of this report) provides the Committee with an overview of the proposed agendas for future meetings of the Pensions Committee and Pensions Audit Sub Committee and the annual cycle.
- 2.2 There will, of course, be specific matters and papers which need to be brought to the attention of the committees in addition to those set out herein.

3. Background

- 3.1 In order for the Committee and Pension Board to gain an overview of the content of future meetings, and also an awareness of the annual cycle of items, an agenda planning document is submitted each quarter.
- 3.2 Committee meetings are held on a quarterly basis and the Audit Sub Committee meetings are generally held three times a year.

4. Main Report

- 4.1 As requested LPF has updated the appendix one of the agenda planning paper to reflect the actions requested by Committee in September; the Annual LPF Group Governance Update will be reported to Pension Committee only and a minor amendment to the internal audit consultation text in March.
- 4.2 The Benchmarking report due to be presented to the Pensions Committee has been deferred until March 2021 due to a delay in the data this quarter.

March 2020

Pensions Committee

- Referrals / recommendations from Pensions Audit-Sub Committee
- Audit plans and reports (internal and external) *
- Actuarial Valuation: LPF, Scottish Homes Pension Fund
- Funding Strategy Statement
- Policies and Strategies Update
- Benchmarking
- Employers Participating in Lothian Pension Fund
- Lothian Pension Fund Contract Awards Report

- Operating Plan Update and Budget
- Risk management summary

*Draft audits and plan will be developed in consultation with the Convenor of the Audit Sub Committee, the CEO (LPF) and, if appropriate, the Independent Professional Observer.

June 2021

Pensions Committee	Audit Sub Committee
<ul style="list-style-type: none"> • Referrals / recommendations from Pensions Audit-Sub Committee • LPF Annual Report and Accounts (Unaudited) • Statement of Investment Principles • Joint Investment Strategy Panel Activity • Annual Investment Updates – Lothian Pension Fund and Scottish Homes Fund • Annual LPF Group Governance Update • Risk Management Summary 	<ul style="list-style-type: none"> • LPF Annual Report and Accounts (Unaudited) • LPF Group Controls and Compliance • Risk Management Summary

Future Pensions Committee and Audit Sub Committee dates:

Please note that Pension Committee and Audit Sub Committee meetings will be held virtually until the end of the year and although rooms have been reserved for the Pension Committee and Audit Sub Committee in March, an update on whether the meetings will go ahead at the venue or be conducted remotely will be communicated nearer the time. The Committee meeting dates for 2021/22 will be approved by Full Council at the beginning of 2021.

Pensions Committee	Pensions Audit Sub Committee
<ul style="list-style-type: none"> • Wednesday, 17 March 2021, 2.00pm, Dunedin Room, City Chambers (tbc). • Wednesday, 23 June 2021, 2.00pm, Dunedin Room, City Chambers (tbc). 	<ul style="list-style-type: none"> • Tuesday, 22 June 2021, 2.00pm, Diamond Jubilee Room, City Chambers (tbc).

5. Financial impact

5.1 None.

6. Stakeholder/Regulatory Impact

- 6.1 The Pension Board, comprising employer and member representatives, is integral to the governance of the funds and they are invited to comment on the relevant matters at Committee meetings.
- 6.2 There are no adverse governance, compliance or regulatory implications as a result of this report.

7. Background reading/external references

- 7.1 None.

8. Appendices

Appendix 1 – LPF’s Annual Agenda Planning Cycle

APPENDIX 1

Frequency	Pensions Committee	Audit Sub Committee	Month
Biennial	Operating Plan (biennial from March 2019)	N/A	March
	Administration Strategy (biennial from March 2016)	N/A	March
Annually	Audit Plans (Internal and External)	<i>Draft internal audits and plan will be developed in consultation with the Convenor of the Audit Sub Committee, the CEO (LPF) and, if appropriate, the Independent Professional Observer.</i>	March
	Policies and Strategies Update (including revised Pension LPF Budget)	N/A	March
		N/A	March
	LPF Annual Report and Accounts (Unaudited)	LPF Annual Report & Accounts (Unaudited)	June
	Statement of Investment Principles	N/A	June
	Joint Investment Strategy Panel Activity	N/A	June
	Annual Investment Updates - Lothian Pension Fund and Scottish Homes Pension Fund	N/A	June
	Annual LPF Group Governance Update	N/A	June
		LPF Group Controls and Compliance	June
	Employer Covenant Review	N/A	September
	Audited Annual Report and Accounts of the Lothian Pension Fund and Scottish Homes Pension Fund, including the Annual Report by External Auditor.	Audited Annual Report and Accounts of the Lothian Pension Fund and Scottish Homes Pension Fund, including the Annual Report by External Auditor.	September
	N/A	Irrecoverable overpayment of pensions – decisions made under delegated authority	Septemb
	N/A	Fraud Prevention	Septemb

Frequency	Pensions Committee	Audit Sub Committee	Month
	Annual Report by External Auditor	Annual Report by External Auditor	December (or September if available)
	Benchmarking	N/A	December
	N/A	EU Tax Claims and Other Income Tax Recoveries	December
	N/A	Investment Income Review-Cross-Border Withholding Tax	December
	Stewardship and Engagement	N/A	December
	N/A	Pensions Data Quality	December
	N/A	Global Custody Services Performance	December
	N/A	Risk Management: In-depth review	December
Semi Annually	Employers Participating in Lothian Pension Fund	N/A	March & September
	Lothian Pension Fund Contract Awards Report	N/A	March & September
3 Times per year	Operating 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 (In-depth report in December)	March, June, September and December
Every 3 years	Actuarial Valuation: LPF SHPF	N/A	December or March
	Funding Strategy Statement		
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	



Pensions Committee

2.00pm, Wednesday, 9 December 2020

Stewardship and Engagement

1. Recommendations

The Pensions Committee (Committee) is requested to:

- 1.1 note the stewardship and engagement update.

Bruce Miller

Chief Investment Officer, Lothian Pension Fund

Contact: David Hickey, Portfolio Manager, Lothian Pension Fund

E-mail: David.Hickey@edinburgh.gov.uk | Tel: 0131 469 3611

Stewardship and Engagement

2. Executive Summary

- 2.1 This report provides the annual update on the activity of the Lothian Pension Fund and the Scottish Homes Pension Fund ('LPF') in relation to the stewardship of the assets of LPF, including the approach to environmental, social and governance (ESG) issues.
- 2.2 LPF pursues a policy of constructive engagement on such issues, which is consistent with fiduciary duties.
- 2.3 LPF has been a signatory to the Principles for Responsible Investment (PRI) since 2008, and so participates in the PRI's Reporting Framework, an annual assessment of LPF's Responsible Investment (RI) activities. This report summarises the PRI assessment and feedback for 2020.
- 2.4 LPF also participates in collaborative shareholder engagements through organisations including the Local Authority Pension Fund Forum (LAPFF), EOS at Federated Hermes (EOS) and Climate Action 100+, who act on behalf of asset owners with funds valued at over £300bn, US\$1.1tn and US\$47tn respectively. LPF continues to be represented on the LAPFF Executive Committee. This report provides an update on developments.
- 2.5 The Committee is advised that the contract for the voting and engagement provider will be tendered during 2021.
- 2.6 The appendix to the report provides an overview of the service providers and voluntary initiatives that support and enable LPF's commitment to RI.

3. Background

Governance Review

- 3.1 Lothian Pension Fund made a significant commitment to active and responsible share ownership by becoming a signatory to the PRI in 2008, and it has remained a signatory since then. Founded in 2006, the PRI (Principles for Responsible Investment) is the world's leading proponent of Responsible Investment (RI). It is an independent, not-for-profit organisation (supported by the United Nations) that encourages investors to use Responsible Investment to enhance returns and better manage risks. Where consistent with fiduciary responsibilities, signatories commit to six principles, which are detailed in the LPF Statement of Responsible Investment Principles (SRIP) (link in section 7 of this report).
- 3.2 LPF allocates meaningful resources to fulfil this commitment. A third-party provider of voting and engagement services (currently EOS at Federated Hermes (EOS)), membership of the Local Authority Pension Forum (LAPFF), a third-party provider of environmental, social and governance (ESG) research (currently MSCI ESG Research) and private fund monitoring (currently GRESB), all support implementation of LPF's RI policy.
- 3.3 LPF pursues a policy of constructive engagement, which is consistent with fiduciary duties. The fiduciary duty responsibilities of the Scottish Local Government Pension Funds were clarified by the legal opinion sought and received by the Scheme Advisory Board of the Scottish Local Government Pension Scheme in June 2016. The opinion essentially reaffirmed the position taken by Senior Counsel in England & Wales, confirming that the advice is also applicable in Scotland. The legal opinion reinforces the approach taken by LPF to date.
- 3.4 LPF also participates in class action lawsuits in which a group sues another party to recover a loss in share value. LPF recovered £207,500 during the 2019/20 financial year.

4. Main Report

LPF - Principles for Responsible Investment (PRI)

4.1 The Principles for Responsible Investment (PRI) were developed by an international group of institutional investors to address the increasing relevance of environmental, social and corporate governance issues to investment practices.

4.2 Signatories to the PRI commit to six principles. An excerpt from the PRI website (www.unpri.org) describes the commitment thus:

“In Signing the Principles, we as investors publicly commit to adopt and implement them, where consistent with our fiduciary responsibilities. We also commit to evaluate the effectiveness and improve the content of the Principles over time. We believe this will improve our ability to meet commitments to beneficiaries as well as better align our investment activities with the broader interests of society.”

4.3 The six principles, and LPF’s compliance with each of them, are laid out in LPF’s Statement of Responsible Investment Principles (SRIP). This document describes LPF’s approach to stewardship, voting and engagement as well as its commitment to the goals of the Paris Agreement on climate change and how the fund manages climate risk.

Voting & Engagement

4.4 For the vast majority of holdings, EOS votes and engages on behalf of LPF. Baillie Gifford also votes and engages in relation to the equity mandate that it manages for LPF.

4.5 EOS also engages at industry and country level to influence regulators, professional bodies and legislators by responding to relevant consultations, all with the aim of improving governance standards in the investment industry.

4.6 EOS collates and reports voting and engagement data for calendar year periods. A complete summary of the voting statistics as well as a summary of voting disclosures, which explain the decisions to vote against management, are posted on LPF’s website quarterly (link in section 7).

4.7 During calendar year 2019, LPF voted at the annual meetings of the 546 companies in which it was invested. There were votes on 7,871 resolutions, and LPF opposed 909 of them.

4.8 EOS also engaged on LPF’s behalf with companies across the world on topics such as board structure, executive compensation and climate change. Detail of EOS’s

engagements on behalf of LPF can be found in the EOS voting and engagement report on the LPF website (link in section 7). An overview of EOS's current engagement plan is available in the Lothian Pension Fund Annual Report 2019/20 (link in section 7).

- 4.9 Engagement activity is also undertaken for LPF by 1) the Local Authority Pension Fund Forum (LAPFF), which represents the majority of LGPS funds in the UK; and 2) the internal investment management team, which has been engaging as a participant member of the Climate Action 100+ initiative to curb greenhouse emissions, to improve governance and to strengthen climate-related financial disclosures.

Collaboration

- 4.10 Lothian collaborates with other investors to enhance effectiveness of implementing the PRI principles. It does this in a variety of ways:

- by employing a third-party service provider, currently EOS, who *“engage companies on strategic and sustainability concerns to promote investors’ long- term performance and fiduciary interests”* and represent approximately \$1.1tn of assets;
- through membership of the Local Authority Pension Fund Forum (LAPFF), whose mission is *“to protect the long-term investment interests of beneficiaries by promoting the highest standards of corporate governance and corporate responsibility amongst investee companies”* and who represent some £300bn of assets. LPF has been represented on the Executive Committee of the LAPFF for many years. The latest representative is John Anzani, Member Representative on the Pensions Committee;
- through active ‘participant membership’ of Climate Action 100+, a collective engagement initiative supported by owners of US\$47tn of assets;
- by cooperating with other asset owners to share best practice through active participation in industry bodies, including the Scottish LGPS RI Working Group, the Cross-Pool RI Group (English and Welsh Pools) and the UK Pension Scheme RI Roundtable (large UK asset owners, such as the Church of England schemes, USS, NEST, the Environment Agency); and
- through active involvement in local authority and industry conferences, including delivering training and presentations.

- 4.11 When the shares of the asset owners represented in the initiatives above are aggregated, the holdings are often significant enough that they can influence company boards. These collaborative efforts are beneficial to LPF as a relatively small asset owner, and they also encourage implementation of the principles more widely.

- 4.12 LPF engages with investment management firms to promote RI. During 2019/20, LPF led a collaborative engagement with Blackrock, the world’s largest investment manager. LPF was supported by Scottish Widows, Brunel Pension Partnership and the Church Commissioners in an effort to improve its record on climate-related voting activity. The group was given access to the executive board at BlackRock, which enabled it to influence BlackRock’s decision to join the collaborative Climate Action 100+ effort as a participant member.
- 4.13 LPF’s work with Climate Action 100+, an initiative with which our partners, EOS and LAPFF, are also heavily involved, seeks to increase disclosure of climate impact in line with the recommendations of the Taskforce for Climate-related Financial Disclosures (TCFD) as well as producing business strategy plans in-line with the aims of the Paris Agreement.

Disclosure

- 4.14 As a signatory to PRI, LPF is obliged to report on its RI activities annually through the PRI’s Reporting Framework. This ensures accountability of signatories through a standardised transparency tool and promotes future development of RI through annual feedback provided by the PRI. The PRI annual assessment report for 2020 is summarised below.
- 4.15 In addition to PRI reporting, all LPF’s voting and engagement activity is made available on the website every quarter. In these reports, EOS presents progress of its engagement milestones and Baillie Gifford describes the detail of its engagement activity. A large section in the Lothian Pension Fund Annual Report 2019/20 is dedicated to LPF’s RI policy and activities.
- 4.16 LPF has also committed to reporting in line with the Financial Reporting Council’s (FRC) Stewardship Code 2020 recommendations. These reflect a significant overhaul of the prior stewardship code and feature a much expanded “comply and explain” requirement for signatories covering 12 different principles. It is envisaged that this will be produced as a stand-alone document that will be summarised in the annual report.

PRI Assessment Report 2020

- 4.17 The Assessment Report is designed to provide feedback to signatories to support ongoing learning and development. It measures progress against the six principles of the PRI and allows comparison with peers.
- 4.18 LPF’s 2020 Assessment Report is available on its website and a link is provided at the end of this paper. The results, summarised in the table below, show that LPF scored ‘A+’ or ‘A’ in all modules.

Assets Under Management	Module Name	LPF 2019	LPF 2020	Peer Median 2020
100%	Strategy & Governance	A+	A+	A
<i>Indirect - Manager Selection, Appointment & Monitoring</i>				
<10%	Listed Equity	A	A	A
<10%	Fixed Income - Corporate Non-Financial	A	A	A
<10%	Private Equity	A	A	A
<10%	Property	A	A	A
<10%	Infrastructure	A	A	A
<i>Direct & Active Ownership Modules</i>				
>50%	Listed Equity - Incorporation	A	A	A
>50%	Listed Equity - Active Ownership	A	A	B

4.19 In 2020, PRI introduced mandatory climate reporting. Lothian provided voluntary data for the 2018 and 2019 reports. A comprehensive overhaul of reporting is also planned for 2021, which is likely to result in 'grade deflation' with all median scores dropping to better differentiate participants and incentivise higher standards across the industry.

Carbon Analysis

4.20 Lothian Pension Fund monitors the exposure of its underlying holdings to assess carbon output risk in the portfolio, and so sensitivity to future carbon pricing. Carbon footprinting seeks to measure the output of greenhouse gases from a firm's (or portfolio's) activities. It does not account for fossil fuel reserves, or operational stranded asset risk. Nor does it account for the "level 3" carbon output from products that the activities create.

4.21 There are various methodologies to measure a carbon footprint. LPF's preferred method uses 'weighted average carbon intensity', which is also the method preferred by the Taskforce for Climate-related Financial Disclosures (TCFD) for presenting carbon data. This is because it is an efficiency measure and less affected by general economic conditions than some other measures in use. Carbon intensity is calculated by dividing a firm's emissions (tons of CO₂ equivalent) by its sales (millions of dollars).

4.22 LPF's base for monitoring the carbon footprint is data from Q4 2017. The table below presents that data for LPF and its benchmark (MSCI All Countries World Index) as well as the data from the annual updates in 2019 and 2020 and the percentage reduction for both portfolio and benchmark.

Portfolio/Benchmark	Carbon Intensity*				
	Q4 2017	Q1 2019	Change	Q1 2020	Change
Lothian - All Equities	328.6	325.2	-1.0%	294.9	-9.3%
MSCI All Countries World Index	218.9	200.2	-8.5%	178.1	-11.0%

*Carbon Intensity is the weighted average carbon intensity of the portfolio measured as CO₂e / \$M sales

4.23 As detailed in the SRIP, LPF has an ambition to report on carbon emissions for all asset classes for the 2022/23 financial year. The fund is engaging with managers and standard setters to allow us to achieve this.

4.24 Although carbon footprinting provides useful insights, it is important to recognise that reducing exposure to, or completely divesting from, carbon intensive stocks in no way reduces global carbon emissions. It does reduce a portfolio's carbon footprint, which might seem appealing, but it has no real-world impact. It simply transfers ownership of the emissions to another party. In terms of real-world outcomes, it is systemic decarbonisation that matters, not portfolio decarbonisation. Systemic decarbonisation can only be achieved by engaging with listed systemic emitters to change business practices and shift capital allocation towards green solutions, along with denying new debt financing to systemic emitters and supporting green projects with new capital (debt and primary equity capital).

4.25 Although the carbon intensity measure does not identify exactly where carbon risk resides, the internal team is able to interrogate the data in a more granular fashion to assess individual company risks. Indeed, this analysis resulted in LPF joining the Climate Action 100+ initiative (<http://www.climateaction100.org/>) as a participant member, meaning that LPF is actively involved in an engagement with a large utility company. As a representative of a group of shareholders with over \$47tn in assets, the internal team has gained better access to management and the ability to influence systemically important carbon emitters to achieve alignment with the Paris Agreement. The most recent progress report for the initiative was released in October 2020 and is available on the website above.

Class Actions

4.26 Following a court ruling in 2010, which narrowed the ability of investors to seek redress under US law, LPF's class action activity and recovered compensation have fallen to relatively low levels. Recoveries over 2019/20 amounted to £207,500, while

recoveries this financial year up to 02 November 2020 were approximately £20,000. Officers continue to monitor class action activity in relation to LPF's shareholdings and collect compensation where it is economical to do so.

5. Financial impact

- 5.1 The costs of LPF's stewardship activities are included in the pension fund's budget. US class actions are conducted on a "no win no fee" basis.

6. Stakeholder/Regulatory Impact

- 6.1 The Pension Board, comprising employer and member representatives, is integral to the governance of LPF and they are invited to comment on the relevant matters at Committee meetings.
- 6.2 There are no adverse health and safety, governance, compliance or regulatory implications as a result of this report.

7. Background reading/external references

- 7.1 The 2019/20 Annual Report is available here (pages 27-41 cover RI):
<https://www.lpf.org.uk/downloads/file/130/annual-report-and-accounts-2019-20>
- LPF's Statement of Responsible Investment Principles (SRIP) is available at:
<https://www.lpf.org.uk/downloads/file/129/statement-of-responsible-investment-principles>
- LPFs' 2020 PRI assessment report is available at:
<https://www.lpf.org.uk/downloads/file/24/pri-assessment-2020>
- EOS at Federated Hermes's Lothian specific voting and engagement report is available at:
<https://www.lpf.org.uk/downloads/file/112/hermes-eos-annual-report-2019>
- Further EOS voting and engagement information is available at:
<https://www.hermes-investment.com/uki/stewardship/>
- Lothian Pension Fund: <https://www.lpf.org.uk/investment/responsible-investment?documentId=40&categoryId=2>
- Principles for Responsible Investment <http://www.unpri.org/>
- Local Authority Pension Fund Forum <http://www.lapfforum.org/>

8. Appendices

Appendix 1 – Stewardship and Engagement initiatives, service providers and data providers

Stewardship and Engagement

Pensions Committee

9 December 2020

Appendix 1, Item 6.4

Stewardship and Engagement Initiatives

The Pensions Committee of Lothian Pension Fund (LPF) became a signatory to the Principles for Responsible Investment (PRI) in 2008 and by adopting its Statement of Investment Principles (SIP) at least annually since then, it has reaffirmed its commitment to Responsible Investment (RI).

In June 2020, the Pensions Committee endorsed a new Statement of Responsible Investment Principles (SRIP), which documents the Fund's approach to RI in greater detail.

This appendix to the Stewardship and Engagement paper describes the various commercial arrangements and collaborative initiatives that officers of the Fund are undertaking to apply the principles agreed by the Pensions Committee. The commercial relationships are naturally kept under regular review to satisfy procurement regulations and the collaborative initiatives are similarly reviewed to ensure that resources are allocated effectively.

Criteria

There are more investor initiatives that fit the description of RI initiatives than it is possible to support. Consequently, LPF applies three main criteria when considering potential activities or relationships:

- They must be aligned with the stated values of LPF as outlined in the SRIP
- They must provide valuable data or insight that can inform the investment process or satisfy the disclosure requirements of the fund
- The time commitment and financial cost must be deemed proportionate to the benefit that the initiative can provide for the fund

Reporting and Disclosure

Principles for Responsible Investment (PRI)

LPF has been a signatory to the PRI since 2008. The six principles of the UN-backed organisation have guided LPF's approach to RI over more than a decade. PRI is the global standard for assessing investors' approach to RI and it is highly proactive in driving higher standards of RI disclosure across the world. The values of LPF and PRI are clearly aligned.

Resource requirements: Very high. LPF's internal team commits in excess of 100 hours of total staff time, including senior leadership time, to satisfy the requirements of being a PRI signatory.

Stewardship Code 2020

LPF has reported on its compliance with the Financial Reporting Council's (FRC) Stewardship Code since its launch in 2012. In 2020, the FRC announced a significant revision to its existing stewardship code, featuring a much expanded "comply and explain" requirement for signatories covering 12 different principles. The Code is voluntary.

Resource requirements: very significant. It is expected that a final report meeting the requirements of the UK Stewardship Code 2020 will run to over 60 pages. It is hoped that a single report will also be able to cover requirements under the **Shareholder Rights Directive ii (SRD2)** and the **EU Sustainable Finance Disclosure Regulations (SFDR)** as there is a great deal of overlap between these requirements, and indeed, those of the PRI. There is no escaping the tsunami of incoming disclosure regulations facing the investment management industry. LPF has committed to reporting in line with the UK Stewardship Code 2020 in the recent SRIP and intends to review the benefits relative to other voluntary activities.

Taskforce for Climate-related Financial Disclosures (TCFD)

The TCFD is a voluntary initiative launched by the Bank of England's Financial Stability Board (FSB). It has quickly become the global standard for disclosure of climate risk for both corporations and investment managers. The framework sets out sensible methods for incorporating climate risk into the investment decision making process and asks signatories to report on them. LPF has reported in line with TCFD guidance in its annual report for the last two years. New standards in carbon reporting for investible assets are being developed by the Partnership for Carbon Accounting Financials (PCAF) and are likely to allow LPF to extend TCFD aligned reporting to all assets, in line with the ambition of the SRIP.

Resource requirements: moderate. Processes for managing climate risk are already embedded into the investment process, and disclosure is straightforward. Production of carbon metrics and possible scenario analysis will, however, increase complexity. Currently voluntary, TCFD reporting is expected to become mandatory for financial year 2022.

Service Providers

EOS a Federated Hermes (EOS)

EOS has been the voting and engagement provider for LPF since 2008. A comprehensive approach to voting and engagement is at the heart of RI. EOS provides regular reports on the activities that it undertakes for LPF and is a regular presenter at training events and Pensions Committee meetings where it describes the progress of its various engagements. This is a commercial arrangement and the contract for a voting and engagement service provider is due to be re-tendered during 2021.

Resource requirements: LPF has opted to outsource a large part of its voting and engagement activity to a large experienced provider as it has the scale to spread costs and undertake a much broader range of engagement activity than would be possible for the existing internal team. Resource requirements are, therefore, relatively low.

Local Authority Pension Fund Forum (LAPFF)

The LAPFF is a collective initiative of over 80 local authority pension fund members. Its mission is to promote the highest standards of corporate governance to protect the long-term value of local

authority pension funds. The LAPFF has a much narrower range of engagement activity than EOS as it has smaller resources.

Resource requirements: Moderate. The LAPFF Executive Board comprises Pensions Committee members from around the UK and some officers. For several years now, LPF has had a member of the Pensions Committee on the Executive Board supported by an officer attending regular meetings and the annual conference.

MSCI ESG Research

To ensure that LPF is integrating environmental, social and governance (ESG) considerations into the investment decision-making process, it procures data, including carbon reporting data, and analysis from a provider on a commercial basis. The current provider is MSCI ESG Research. These data and research are central to the investment process to assess risk and return and to the reporting carried out by LPF.

Resource requirements: the internal team use MSCI's research output to inform investment decisions, so this is not an optional activity that requires incremental time resource. Cost / benefit analysis is assessed annually for all research requirements, and this is especially important in the ESG research area as the market has been evolving quickly.

GRESB

Originally the Global Real Estate Sustainability Benchmark, GRESB is now the primary ESG reporting tool for real estate and infrastructure assets. Managers submit data and the GRESB methodology allows investors to compare managers and assess where any particular ESG risks may lie within a portfolio of real assets. The internal real assets team is integrating GRESB data into its overall process and planning to report direct real estate data to GRESB by 2022. The coverage of managers for infrastructure assets is less advanced.

Resource requirements: significant time resource; cost to access the data is assessed alongside all other investment specific data and research requirements.

Additional Voluntary Initiatives

Climate Action 100+

Climate Action 100+ is the world's largest collective engagement initiative, representing over \$47tn in assets under management committed to its aims. LPF has been a participant member since 2019 and a key contributor to the engagement efforts with Finnish Utility Fortum. While the main point of involvement in CA100+ is to gain further insight into the climate risks of the equity portfolio, it demonstrates that LPF is taking an active role in promoting RI.

Resource requirements: moderate time resource for engagement planning and meetings, totalling around 20 hours a year.

Transition Pathway Initiative (TPI)

The TPI is an asset owner led initiative which analyses the low-carbon transition readiness of nearly 200 companies (and growing). The tool ranks management quality (1-4) and Carbon Performance (based on Paris Alignment). LPF is a signatory of TPI, part of a community of investors representing \$22.5tn in assets. The TPI tool is key to our plans to deny new capital to non-Paris Aligned companies (encapsulated in the fund's public mantra "Engage your Equity, Deny your Debt").

Resource requirements: none.

CDP

Launched 15 years ago, the CDP (formerly the Carbon Disclosure Project) engages with companies to ensure that an effective carbon emissions strategy is made integral to their operations. It provides industry specific guidance on how to achieve this and it collects a great deal of environmental data in the process. CDP has changed its model over the last two years, introducing a layered membership with various levels of research available. LPF support the aims of CDP but uses other sources for its data.

Resource requirements: no time resource; small financial cost.

Institutional Investor Group on Climate Change (IIGCC)

The IIGC is the main European body on investor collaboration on climate change. IIGCC are the EMEA administrators of the Climate Action 100+ initiative. They have multiple programmes on Policy, Corporate Engagement, Investor Practices and have opportunities to collaborate on a number of practical projects aimed at reducing global carbon emissions. IIGCC is asset owner led and focussed on reducing climate-related risks in member funds. IIGCC has recently launched a net-zero investment framework which is undergoing final review post-consultation. It is expected that this framework could be adopted by LPF as part of a future net-zero ambition.

Resource requirements: Small financial cost; time resource is open ended and would depend on LPF capacity.

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Pensions Committee

2.00pm, Wednesday, 9 December 2020

Operating Plan Update

1. Recommendations

The Pensions Committee (Committee) is requested to:

- 1.1 note progress of the Fund against the 2020-2021 Operating Plan, together with specific updates on:
 - performance indicators;
 - Pension Regulator standards and compliance; and
 - membership and cashflow monitoring.

John Burns

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Operating Plan Update

2. Executive Summary

- 2.1 The purpose of this report is to provide an update on progress against the 2020–2021 Operating Plan, performance indicators and the actions to enable the Fund to meet its key objectives.
- 2.2 A bold and ambitious operating plan was set late in 2019 and achievement of the outcomes may take longer than first expected due to the disruption of the pandemic and prioritisation of member critical service delivery in the first half of the year. An underspend is projected for the financial year and overall progress is being made against the objectives for 2020/21.

3. Background

- 3.1 The 2020-2021 Operating Plan centres around six broadly defined strategic goals, each with more detailed objectives and accompanying targets and measures to allow us to monitor our progress and identify where interventions may be required. They are:
- Provide secure and affordable benefits for our members
 - Reduce complexity
 - Manage our risks
 - Create a place where people do great work
 - Influence the LGPS of the future
 - Be responsible
- 3.2 The Plan forms the basis of the work ahead of the Fund in 2020/21 and will be reviewed each year.

4. Main Report

- 4.1 Progress of particular note made against the Operating Plan since the last update to Committee is shown below. Stewardship and engagement is covered elsewhere on the agenda.

Pensions Regulator standards and compliance

Performance indicators (shown later in this report) show compliance with the regulatory requirements for timely issuance of members' annual benefit statements and the receipt of employer contributions. Owing to the Covid-19 pandemic, the Pension Regulator is sending out Scheme returns later than usual. Once we received

the notification, the Fund will have six weeks from the date of notice to complete the return. Committee will be kept informed of progress in relation to this.

Performance Indicators

4.2 Committee will recall there is a new range of performance set out in the Operating Plan 2020/21. These including a wider range of new measures as well as those key indicators from previous years. The Appendix shows the quarterly key indicators. Seven of these indicators are currently amber reflecting the increase in work for our Pensions Administration team during the Covid-19 pandemic and the changes to workload and practises this has brought about.

4.3 Items of note include:

- A small number of pensions administration indicators are amber, this includes notification of dependant benefits, acknowledgment of the death of a member to next of kin, providing transfer-in quotes and guaranteed Cash Equivalent Transfer Value (CETV) and sending new members with scheme information.
- The Fund has introduced a new online learning management portal and colleagues are now undertaking structured e-learning training on a regular basis. 59% of training has been undertaken via the new portal with topics in the first six months included IT security, information governance and compliance, customer service training and personal account dealing training. Mandatory training will exceed 15 hours for the year and is being spread over the coming months.
- Following the cancellation of the re-assessment of the Customer Service Excellence Standard Award in March 2020, the assessment will now take place in January 2021.
- The Fund's accreditation by Pensions Administration Standards Association (PASA) is underway with the reaccreditation being carried out online and through video conferencing in November. A verbal update will be given to Committee on the progress of the assessment.
- The annual staff survey has taken place and the proportion of staff engaged, as measured by the engagement index, is 73%.
- The timeliness of receipt of membership information is measured against standards set in the Fund's Pension Administration Strategy (PAS). Overall employer performance for the first half of 2020/21 is shown, with 2019/20 shown for comparison purposes.

Employer performance		Quarter 2 2020/21			2019/20		
Case type	Target (working days)	Number received	Number within target	% within target	Number received	Number within target	% within target
New Starts	20	1,548	1,153	74%	4,167	2,206	53%
Leavers	20	1,640	645	39%	1,757	805	46%
Retirements	20	506	194	38%	703	266	38%
Deaths in Service	10	6	3	50%	6	5	83%

- We have identified a number of missing leavers from our year end process however and this is reflected in the statistics as employers provide these out of target.
- Annual reports were issued to each employer in June 2020 outlining their own performance and comparing this to other employers of a similar size. Quarterly reports are issued to the four councils and also on an exception basis to any employer whose performance merits specific intervention. Meetings are also held with any employer to attempt to address any issues.
- PAS performance was also included as part of the Data Quality report provided to yesterday's Pensions Audit Sub Committee.

Actuarial Valuation 2020 – progress update

- 4.4 Progress continues on the 2020 Actuarial Valuations. Discussions on indicative results for both the Scottish Homes Pension Fund and the Lothian Pension Fund have taken place with the Actuary. Following a briefing for Pensions Committee and the Pension Board, draft results were shared with employers at the end of November 2020. Consultation meetings with employers will be held during December 2020.
- 4.5 As previously reported to Pensions Committee, a new risk-based approach to setting employer contribution rates has been used for the Lothian Pension Fund. This risk-based approach uses a three-step process to calculate an employer's contribution rate:
- 1) Calculate the funding target for the employer - the estimated amount of assets it should hold in order to be able to pay all its members benefits;
 - 2) Determine the time horizon over which the employer should aim to achieve the funding target;
 - 3) Calculate the employer contribution rate so that it has at least a given likelihood of achieving that funding target over that time horizon. The likelihood of achieving the funding target over the employer's time horizon will be dependent

on the Fund's view of the strength of employer covenant and its funding profile. Where an employer's financial strength is considered to be weaker, then the required likelihood will be set higher, which in turn will increase the required contributions (and vice versa).

- 4.6 This three-step process will be used to calculate the Primary rate of contributions. The Secondary rate is an adjustment to arrive at the rate each employer is required to pay. In broad terms, payment of the Secondary rate is in respect of benefits already accrued at the valuation date. Depending on the employer's funding position and the time horizon over which they are expected to target full funding, the Secondary rate may be a positive or negative adjustment.
- 4.7 The Fund has carried out covenant analysis for some years now and the results from the most recent survey have been used to determine the appropriate rate for employers. The contribution stability mechanism (approved by Pensions Committee in December 2019), applies to long-term, secure employers. As required by section 7.7 of the Funding Strategy Statement, all employers will be required to confirm their commitment to meet the certified minimum contributions.
- 4.8 A draft revised Funding Strategy Statement was presented to Pensions Committee in June 2020, and a consultation exercise was carried out in August of that year. Very few responses were received from employers, however these were broadly supportive of the change in approach to setting contributions. Following discussions with the Actuary, the Fund also intends to introduce a salary strain mechanism. This will allow salary increases to be monitored on an annual basis, and if increases awarded are higher than anticipated, then the employer will be charged at that time. Introducing this mechanism means that the cost of salary strain can be recognised at the point pay awards are granted, rather than waiting until the next triennial which would mean setting higher contribution rates that may be unaffordable.
- 4.9 The final valuation report for both the Lothian Pension Fund and the Scottish and Funding Strategy Statement will be presented to Committee for approval in March 2021.

Membership and Cashflow monitoring

- 4.10 Tables detailing the cashflows as at the end of September 2020 and projections for the financial year are shown in Appendix 2. These have been prepared on a cashflow basis (compared to the accruals basis of the year-end financial statements and budget projections).
- 4.11 For the last three years, Lothian Pension Fund has had a negative cash flow position, whereby pension payments exceed total contributions received. This is a trend that is likely to continue for the foreseeable future. Increased investment income has

been targeted in recent years for this scenario, which is expected to exceed net cashflow for the long term.

5. Financial impact

5.1 A summary of the projected and year-to-date financial outturn compared to the approved budget for 2020/21 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	5,986	5,902	(84)	2,993	2,668	(325)
Transport & Premises	499	240	(259)	250	113	(137)
Supplies & Services	2,115	2,115	-	1,058	990	(68)
Investment Managers Fees -Invoiced	4,700	4,100	(600)	2,350	1,776	(574)
-Uninvoiced	18,700	18,700	-	9,350	9,350	-
Other Third-Party Payments	1,495	1,406	(89)	748	612	(136)
Central Support Costs	519	519	-	260	260	-
Depreciation	249	173	(76)	125	79	(46)
Gross Expenditure	34,263	33,155	(1,108)	17,134	15,848	(1,286)
Income	(2,342)	(1,980)	362	(1,171)	(877)	294
Total Cost to the Funds	31,921	31,175	(746)	15,963	14,971	(992)

- The financial outturn includes year to date budget, actual expenditure and variance as at the end of September 2020. Year to date actual expenditure includes provision for services incurred but for which no invoice has yet been received.
- The projection shows an underspend of approximately £746k. The key variances against budget are:

- *Employees* – £84k underspend. A small number of posts have been held vacant. This, together with the timing of recruitment, including replacements, has resulted in a projected underspending.
- *Transport and Premises* – £259k underspend. The Fund has postponed its move into new premises and plans to reassess the position next year. In the meantime, the current office will be refurbished to comply with social distancing requirements, which will also improve any future marketing potential for the unit.
- *Investment Management Fees (Invoiced)* - £600k underspend. Charges on external managed portfolios are based on market values. At present market values are below the assumptions used for budget (8% increase in value from December 2019 valuation).
- *Depreciation* – With the office move postponed for the time being a £76k underspend is expected. The capitalisation of the refurbishment of the current office is also included in this figure.
- *Income* – £362k below budget. Income in relation to collaborative partners is based on a cost sharing mechanism. Due to underspend against budget, in particular against property costs, as well as the lower than expected deal flow in relation to collaborative investments, income is expected to be below original forecast. There is currently a significant uptick in deal-flow which will feed into the figures by the close of the financial year.
- Uninvoiced expenditure (i.e. investment management costs deducted from capital) is assumed to be in-line with budget. There has been no change to the investment strategy for the period, on which the budgeted figures are based. The Fund continues its efforts to enhance the monitoring of these fees and is working with managers to improve the transparency of these charges.
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6. Stakeholder/Regulatory Impact

- 6.1 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.

7. Background reading/external references

- 7.1 [LPF Operating Plan 2020/21](#)

8. Appendices

Appendix 1 – Operating Plan Performance Indicators

Appendix 2 – Forecast Cashflow

Operating Plan


Pensions Committee

9 December 2020

Appendix 1 and 2, Item 6.4

Operating Plan Performance Indicators – Targets & Actual Performance 2020/21

	Q1 April to June	Q2 July to Sept	Q3 Oct to Dec	Target	Status
Maintain Customer Service Excellence Standard	Annual assessment in January 2021			Retain CSE Award	Not yet known
Maintain Pensions Administration Standards Association (PASA) accreditation.	Re-accreditation in November			Retain PASA accreditation	Not yet known
Overall satisfaction of employers, active members and pensions measured by surveys	Rolling 12-month performance to end September 2020 is 96.4%			>90%	
Proportion of active members receiving a benefit statement and time of year statement is issued	Met			100% issued by 31 August 2020	
Proportion of critical pensions administration work completed within standards (PA1)	96.74%	95.48%		>92%	
Acknowledge the death of a member to next of kin within 5 working days. (PA2)	97.16%	92.63%		96%	
Estimate requested by employer of retirement benefits within 10 working days. (PA3)	100%	100%		91%	
Notification of dependant benefits within 5 working days of receiving all necessary paperwork.(PA4)	91.19%	92.6%		96%	
Notify early leavers entitled to deferred benefits of their rights and options within 10 days of being informed of end of pensionable service. (PA5)	99.16%	99.51%		91%	
Notify members holding more than 3 months, but less than 2 year service, of their options at leaving. Target is within 10 days of the end of the one month and a day lying period or after the employer providing full leaving information if later.(PA6)	89.03%	88.86%		85%	
Pay a refund of contributions within 7 working days of receiving the completed declaration and bank detail form. (PA7)	97.37%	98.32%		91%	
Pay any lump sum death grant within 7 working days of receipt of the appropriate documentation. (PA8)	99.04%	99.55%		96%	
Pay lump sum retirement grant within 7 working days of receiving all the	98.17%	98.63%		96%	

	Q1 April to June	Q2 July to Sept	Q3 Oct to Dec	Target	Status
information we need from the member. (PA9)					
Payment of CETV within 20 working days of receiving all completed transfer out forms. (PA10)	98.00%	97.61%		96%	
Pension Admin Workflow - Non Key Procedures Performance. (PA11)	82.18%	72.90%		75%	
Provide a maximum of one guaranteed Cash Equivalent Transfer Value (CETV) within 10 working days of receiving a request. (PA12)	90.37%	90.67%		91%	
Provide new members with scheme information within 20 working days of getting details from employer (PA13)	99.87%	95.19%		100%	
Provide transfer-in quote within 10 working days of receiving the Cash Equivalent Transfer Value (CETV) from member's previous pension provider. (PA14)	70.00%	85.56%		96%	
Investigate and respond to a complaint - within 20 working days (PA15)	100.00%	100%		96%	
Audit of annual report	Met			Unqualified opinion	
Percentage of employer contributions paid within 19 days of month end	99.63%	99.6%		99.00%	
Data quality – compliance with best practice as defined by the Pensions Regulator	Met			Fully compliant	
Monthly Pension Payroll paid on time (Service1)	100%	100%		Yes	
Level of sickness absence (Service4)	1.18%	1.4%		4%	
Proportion of staff engaged as measured in the Staff Engagement Survey	73%			70%	
Percentage of staff that have completed two days training per year.	on track	59%		100%	

Service Plan Membership and Cashflow Monitoring 2020/21

Lothian Pension Fund	2020/21 YTD	2020/21 Projected
Income	£'000	£'000
Contributions from Employers	84,083	185,000
Contributions from Employees	24,710	50,000
Transfers from Other Schemes	2,562	5,500
	111,355	240,500
Expenditure		
Pension Payments	(93,121)	(186,500)
Lump Sum Retirement Payments	(24,451)	(60,000)
Refunds to Members Leaving Service	(290)	(500)
Transfers to Other Schemes	(4,699)	(10,000)
Administrative expenses	(1,300)	(2,600)
	(123,861)	(259,600)
Net Additions/(Deductions) From Dealings with Members	(12,506)	(19,100)

Scottish Homes Pension Fund	2020/21 YTD	2020/21 Projected
Income	£'000	£'000
Administration charge	70	70
Expenditure		
Pension Payments	(3,341)	(6,720)
Lump Sum Retirement Payments	(364)	(750)
Transfers to Other Schemes	-	(100)
Administrative expenses	(35)	(70)
	(3,740)	(7,640)
Net Additions/(Deductions) From Dealings with Members	(3,673)	(7,570)



Pensions Committee

2.00pm, Wednesday, 9 December 2020

Risk Management Summary

1. Recommendations

The Pensions Audit Sub Committee (Committee) is requested to:

- 1.1 note the Risk Overview and the LPF group's note the Quarterly Risk Overview as at 2 November 2020.

Struan Fairbairn

Chief Risk Officer, Lothian Pension Fund

Contact: Sean Reid, Risk and Compliance Manager, Lothian Pension Fund

E-mail: Sean.Reid@edinburgh.gov.uk

Risk Management Summary – In Depth Review

2. Executive Summary

- 2.1 In line with the Lothian Pension Fund's (LPF) ongoing risk management procedures, this paper provides an overview of LPF's risk analysis for consideration by the Committee.

3. Background

- 3.1 LPF's risk management procedures require it to:
- 3.1.1 maintain a detailed operational risk register which sets out all the risks identified and assessed by the officers on an ongoing basis against the group's risk appetite, the degree of risk associated in each case and the action taken to mitigate those risks (the Operational Risk Register); and
 - 3.1.2 produce a summary report of the risk register for the Committee and the Pensions Committee which highlights the material risks facing the group 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).

4. Main Report

- 4.1 The Operational Risk Register is issued to the Conveners of the Committee and the Pensions Committee and the Independent Professional Observer on a quarterly basis. It has also been submitted to the Pensions Audit Sub Committee for a detailed annual review this quarter.
- 4.2 The Quarterly Risk Overview, as at 02 November 2020, is set out in Appendix 1 to this report for consideration.
- 4.3 The risk management process for the LPF group is integrated within all of the group's governance and controls. In particular, the Committee should be aware of the following:
- 4.3.1 *Risk appetite*: considered and set by the Senior Leadership Team (SLT) in conjunction with the Risk Management Group.
 - 4.3.2 *Risk management group*: routine meetings held quarterly and otherwise on an as required basis to consider and assess the LPF group's risk register and wider risk environment and track relevant actions. The group comprises representation across all functions and includes the SLT.

- 4.3.3 *Compliance checklist*: listing critical points of compliance for monitoring and as a reference point for breach reporting. Reviewed and signed off on a quarterly basis by the senior management of the LPF group, which includes SLT, with key actions being tracked by the risk function and relevant business units.
- 4.3.4 *Assurance Overview and Mapping*: providing analysis and oversight of the group's overarching risk assurance framework across the 'four lines of defence', and mapping those points of assurance to relevant risks. This is managed by the risk function, with oversight from SLT, and presented to the Committee annually.
- 4.3.5 *LPF group systems and controls assessment*: managed by SLT and the LPFI and LPFE boards and reported to Committee and JISP annually.
- 4.3.6 *Third party supplier management*: a supplier management framework is managed on an ongoing basis by the risk function in conjunction with the wider business and overseen by SLT.
- 4.3.7 *Internal Capital Adequacy Assessment Process (ICAAP)*: which is managed on an ongoing basis by the SLT. The ICAAP itself is reviewed and approved at least annually by the LPFI board, with various aspects considered separately and, in more detail, routinely throughout the year.
- 4.3.8 *ICT oversight and governance procedures*: which are managed by the ICT Oversight Group on an ongoing basis and overseen by the SLT.
- 4.3.9 *People and HR Procedures*: which are managed by the People Group on an ongoing basis and overseen by the SLT and the LPFE board.
- 4.3.10 *Investment Controls and Parameters (LPF Group Controls and Compliance report)*: which are now mostly automated on the CRIMS order management system, managed by the compliance, front and back office functions and overseen by SLT, the LPFI board and JISP (with annual reporting to Committee).
- 4.3.11 *Overall review of governance and the LPF group structure*: managed by SLT and overseen annually by the Committee and Pensions Committee.
- 4.3.12 *COVID-19*: as above, managed by the Recovery Group on an ongoing basis, in conjunction with the Risk Management Group, and overseen by SLT.

5. Financial impact

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

6. Stakeholder/Regulatory Impact

- 6.1 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.
- 6.2 Except as otherwise stated in the report itself, there are no adverse health and safety, governance, compliance or regulatory implications as a result of this report.

7. Background reading/external references

- 7.1 None.

8. Appendices

Appendix 1 – Quarterly Risk Overview, as at 2 November 2020



Quarterly Risk Overview

02 November 2020

EXECUTIVE SUMMARY

This document provides a summary of the assessment of the LPF group's risks by the Risk Management Group on 02 November 2020.

The LPF group continues to go through a period of meaningful business transformation, in seeking to enhance its operating model and extend its service delivery to other LGPS funds. In doing so it has taken on additional operational risk within its appetite in order to achieve benefits for its stakeholders. In particular, over the coming year the group expects to have delivered:

- a new ICT provider with bespoke governance and control arrangements, and associated system enhancements;
- a new portfolio management service/platform for collaborative partner pension funds;
- a refit of its existing office space for the immediate 12-18 months and thereafter progress on moving to an office best aligned to its long-term strategy;
- increased 'key person' resilience within its core investment and pensions administration teams, as well as a central support function with enhanced HR, Comms, Compliance and Governance resource; and
- further governance enhancements arising from the 2019 review.

The quarter's risk reporting also continues to be heavily influenced by the COVID-19 pandemic. The business is now moving towards implementing a more medium-term strategy to accommodate the continuation of remote working, whilst bringing our people together in a controlled manner to reduce the risk of underlying inefficiencies and any adverse impact on our culture and controls.

Potential impacts from the ongoing McCloud consultation remain closely monitored and are a factor in assessments in a number of areas.

Cyber security also remains a key theme in our monitoring as we continue to see increased impact in the wider sector and more specifically on certain of our business partners and suppliers.

Key changes since last quarter include:

- 3 risks **decreased** from Amber to Green due to revised probability scores: Pension Committee decisions (9); Pension Board effectiveness (10); Over reliance on a core provider (32)
- 3 risks **increased** from Green to Amber, due to revised impact and probability scores: Failure of an employer to pay contributions (3); Claim or liability arising from shared services (28); Inadequate, or failure of, supplier / third party systems (35)
- 1 new risk added: Staff culture and engagement (8). Initial risk assessment is Amber.


Further details on each are provided in the overview.


Several notable risks – IT systems; business continuity; data breach, cyber security - remain static, although meaningful progress has been made on the procurement process for new ICT provider. It is anticipated they will only reduce meaningfully once this process is completed, and related enhancements are delivered.



The overall position remains stable and within appetite in the context of the longer-term risk reduction benefits of the ongoing transformation projects and the circumstances of a global pandemic.




DETAILED OVERVIEW







UPDATE ON MOST NOTABLE RISKS



Risk & Reference Number	Update	Trend / RAG
<p>Failure of IT systems used in the fund with serious consequences for investment management, benefit administration and oversight activities (7)</p>	<p>The core ICT platform continues to be resilient, with key issues being escalated and prioritised appropriately and many enhancements in LPF’s Digital Strategy already being delivered by the incumbent supplier in response to the pandemic. There are naturally ongoing issues and inefficiencies generated by the significant increase in demand on the platform, but this is currently the same across all businesses and sectors.</p> <p>This risk has remained static due to the continued additional reliance placed on ICT functions, and heightened impact of any outages or failure, whilst all LPF group staff continue to work from home in the prevailing circumstances of the COVID-19 pandemic.</p> <p>Additional ICT continuity oversight is in place during COVID-19 through the creation of the LPF Recovery Group, which monitors implementation of the business continuity plan and supports the ICT Oversight and Governance Manger/Group by providing enhanced management and monitoring of specific operational issues arising from the circumstances of the pandemic.</p> <p>In addition, LPF continues to identify and resolve ‘business as usual’ issues and progress critical ongoing projects through its ICT Oversight Group and function. Those include continuing to progress (i) the Digital Strategy and appointment of the new ICT provider, (ii) systems access, security governance and supplier diligence, and (iii) resolving laptop availability for new staff. The ‘change’ process with the incumbent provider continues to be slow.</p> <p>A project group continues to monitor the operation of the Charles River Investment Management System (CRIMS) following its implementation, as well as providing oversight of its supplier. Refinements are identified/tracked and fixes resolved on an ongoing basis.</p>	<p style="text-align: center;">Static</p> 

Risk & Reference Number	Update	Trend / RAG
<p>Business continuity issues (11)</p>	<p>The business continuity plan is still in place and continues to be successful. It has recently been updated to adapt to the developments and phases of the pandemic, as well as other developments within the LPF group. The business continuity risk score remains the same this quarter simply because the continuity plan is still in operation and therefore the LPF group continues to be in a period of taking special continuity measures.</p> <p>LPF’s Recovery Group continues to implement, oversee and refine continuity arrangements to further mitigate this risk. The Senior Leadership Team (SLT), ICT Oversight, People and Risk Groups also continue to address specific matters alongside, and in liaison with, the Recovery Group.</p> <p>‘Key workers’ have been identified and are supported by guidance ensuring that social distancing is adhered to at all times, as well as health and safety regulation. The ‘Key Workers’ policy is currently being refreshed and will be updated shortly. Critical activities are undertaken in the office by the identified key workers. In addition, to the relevant health and safety procedures, all staff have now completed online ‘Workstation Setup’ training (applicable to office and home setups).</p> <p>As reported last quarter, the planned office move is currently on hold with the more immediate priority being the plan, now underway, for the return of staff to the existing office premises. After reviewing the current office facilities, it has been agreed that a prudent office re-fit is required to enable staff to return safely to the existing office, working a blended home-office working model. The office refit is expected to be complete by January and will allow 40 members of staff to work safely in the office for the interim, until a move to a new office can be planned.</p>	<p>Static</p> 

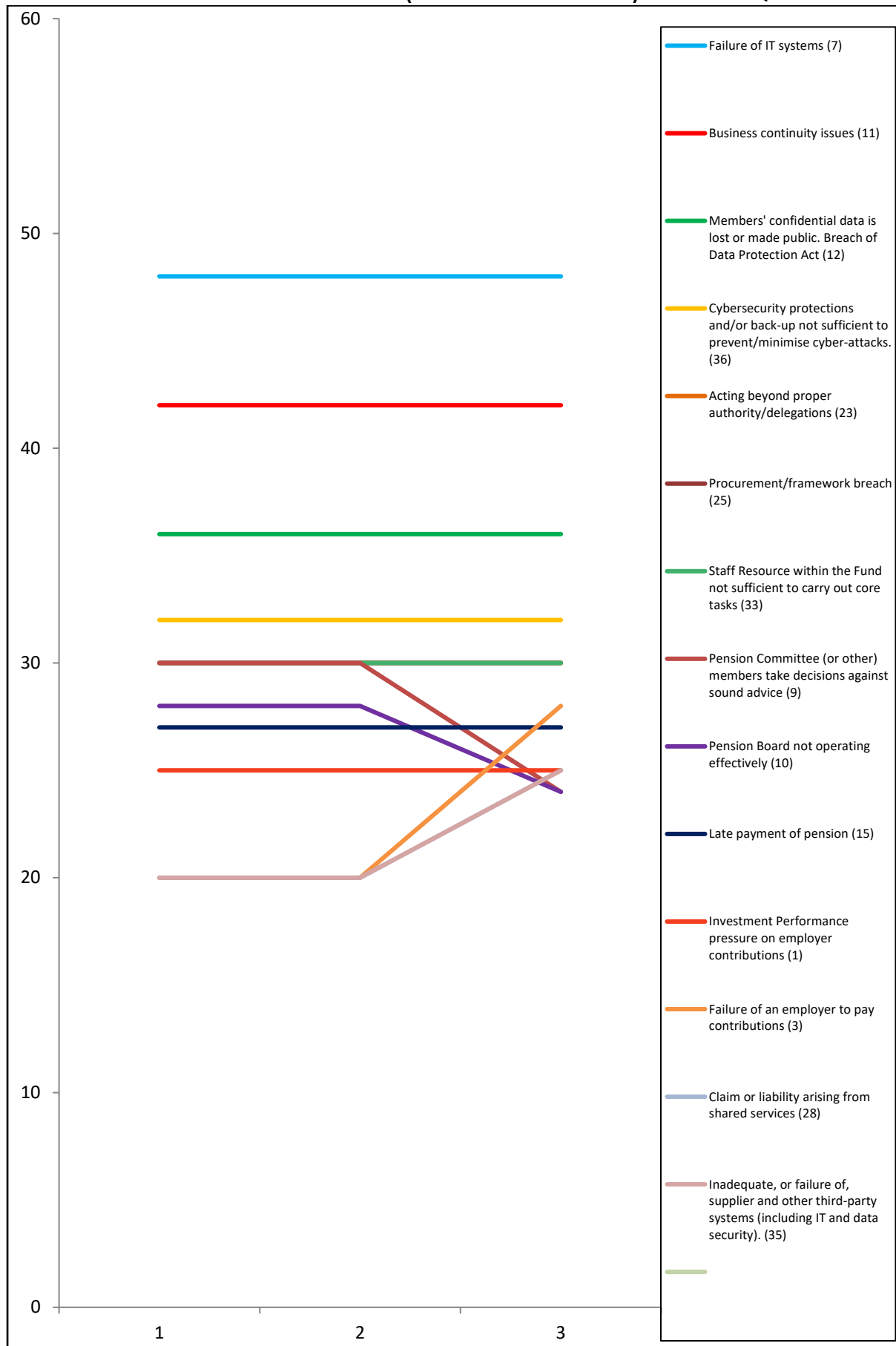
Risk & Reference Number	Update	Trend / RAG
<p>Members' confidential data is lost or made public. Breach of Data Protection Act. (12)</p>	<p>There continues to be a potential increased risk of cyber attacks as a result of COVID-19 and LPF, as with the wider business community, has experienced targeted phishing attacks. LPF has also received a number of notifications from its suppliers and other intermediaries that they have had systems compromised and confirming the remedial action being taken.</p> <p>LPF continues to strengthen controls around the security of members' confidential data, with additional checks to folder security, remote working and other key activities. The use of new facilities by LPF, such as for mail processing and scanning, is under detailed review to ensure these processes continue to be secure.</p> <p>This risk remains on red because of the combination of cyber threat and a number of other business continuity matters (office access, challenges around full remote working, cross systems reliance) arising as a result of the pandemic.</p>	<p style="text-align: center;">Static</p> <p style="text-align: center;"></p>
<p>Cybersecurity protections and/or back-up not sufficient to prevent cyber-attacks or minimise their impact (36)</p>	<p>As mentioned above, there is a currently a potential increased risk of cyber attacks due to COVID-19 with increasing amounts of phishing and other attempted forms of cyber-fraud on both LPF and its suppliers. There is no question this remains a substantially increasing risk to the sector at large during this period of business continuity upheaval. LPF is communicating key messages to all staff regarding cybersecurity and has reminded employees to be vigilant.</p> <p>All staff have now completed 'Information and Cybersecurity' online training.</p> <p>The ICT Oversight and Governance Manager continues to review the robustness of systems and processes and is progressing the Digital Strategy, which itself will allow enhancements to controls and governance in this area. However this risk remains amber until the perceived potential risk of attack is reduced.</p>	<p style="text-align: center;">Static</p> <p style="text-align: center;"></p>

Risk & Reference Number	Update	Trend / RAG
<p>Acting beyond proper authority/delegations. (23)</p>	<p>LPF has paid close attention to the operation of its delegations under the present circumstances, with all the team remote working and with key person dependencies in mind. The group has only required minimal adaption to current processes so far and has sought to introduce supporting systems (e.g. e-signing) where necessary to mitigate any associated continuity risks.</p> <p>LPF is also looking to update and refresh its delegations by the end of December to take account of: (i) recent appointments and updates arising from its organisational development review, (ii) the operation of the property portfolios, (iii) SM&CR implementation, (iv) the LPF Governance Review, and (v) the implementation of the new Front Office system. In addition, LPF has provided further employee communications to reinforce awareness of scheme of delegation requirements and will update its new website to ensure its group governance structures are clearer.</p> <p>Due to the prevailing circumstances and the outstanding actions the risk remains on amber, although there has been no breach in existing delegations.</p>	<p>Static</p> 
<p>Procurement/framework breach (25)</p>	<p>LPF is continuing to work closely and well with CEC's procurement team to best align its procurement processes to the specific needs of the LPF group business and also to satisfy CEC's parent oversight requirements.</p> <p>The risk is static due to the enhanced impact the procurement regime has on LPF's developing business model (sitting unusually within all of the financial services, pensions and public sector regimes) and the fact that it continues to be in the midst of developing new systems, controls and procedures in this area – with progress having been hampered by the prevailing circumstance of the last 6 months.</p>	<p>Static</p> 
<p>Staff Resource within the Fund not sufficient to carry out core tasks in conjunction with active or anticipated projects. (33)</p>	<p>This risk remains amber due to the additional resource attributable to significant strategic initiatives such as the implementation of the Digital Strategy, extension of investment management services and Project Forth. However the Organisational Development Review has been successfully implemented and so LPF anticipates that the risk will reduce over the next few quarters. SLT are also due to carry out a follow up to the OD review to assess gaps, target resourcing priorities and set boundaries aswell.</p>	<p>Static</p> 

Risk & Reference Number	Update	Trend / RAG
Failure to pay pensions as they fall due including as a result of administration failure. (15)	This risk remains amber to reflect the COVID-19 enforced remote working arrangements. The potential for staff absence on health grounds, IT failure and the increase of a potential cyber attack has also fed into the increase in this risk. Pension payments have been identified as one of the five core critical tasks for the fund and as such the Recovery Group are monitoring and supporting processes carefully to mitigate the risk as far as possible.	<p style="text-align: center;">Static</p> <p style="text-align: center;"></p>
Adverse investment performance causes funding levels to fall requiring higher employer contributions. (1)	LPF and the JISP continue to review investment portfolios in order to understand the COVID-19 impact and continue to best position the fund. In addition, LPF is engaging with the actuary regarding assumptions as part of triennial valuation. This risk remains amber until review is complete and actions are clear.	<p style="text-align: center;">Static</p> <p style="text-align: center;"></p>
Failure of an employer to pay contributions (3)	Employers continue to be under increasing financial pressure due to the global pandemic and resulting economic implications. The fund continues to monitor this on an ongoing basis and has established structures and processes to engage with its employers around affordability and potential exit.	<p style="text-align: center;">Increased</p> <p style="text-align: center;"></p>
Claim or liability arising from shared services (28)	<p>This risk has increased to amber due to a combination of investment management services due to go live, and exposure arising from Project Forth.</p> <p>Periodic consultant review of systems, controls and service delivery will be scheduled once investment services are live.</p>	<p style="text-align: center;">Increased</p> <p style="text-align: center;"></p>
Inadequate, or failure of, supplier / third party systems (35)	Increased to amber due to reassessment of impact score. LPF is considering if some supplier ICT security arrangements require detailed review. Some third parties have notified LPF of minor cyber security breaches.	<p style="text-align: center;">Increased</p> <p style="text-align: center;"></p>
Pensions Committee (or other) members take decisions against sound advice, on political grounds or due to lack of knowledge (9)	<p>Risk decreased from amber – onboarding process for Interim Convener, including remote training, completed.</p> <p>LPF are currently assessing governance management systems and costs, with the aim of implementing an improved governance system to better support virtual committee meetings and future governance management.</p> <p>LPF is closely monitoring the separate, but very closely related, risk that members take decisions outside the fund’s framework which adversely impact on the fund. For example, the fund is currently looking into (as part of the governance review) the purpose and competency of certain matters being escalated to other Council bodies.</p>	<p style="text-align: center;">Decreased</p> <p style="text-align: center;"></p>

Risk & Reference Number	Update	Trend / RAG
<p>Pension Board does not operate effectively to detriment of the Fund (e.g. due to external factors, lack of attendance/participation or not maintaining sufficient levels of knowledge, skill and/or expertise.) (10)</p>	<p>This risk has now decreased from amber. Pension Board composition was reviewed, and the next composition review will take place in September 2021.</p> <p>Recruitment for the two Pension Board vacancies has commenced with a potential member representative. The vacancy for the employer representative will be rebranded and advertised widely to encourage applicants.</p>	<p>Decreased</p> 
<p>Over reliance on single service provider for core functions, potential leading to loss of service on the collapse or withdrawal of that provider (32)</p>	<p>Core supplier resilience remains good despite COVID-19 pressures, based on engagement and due diligence to date. Impact assessment remains high but probability, and therefore overall risk score, has been reduced.</p>	<p>Decreased</p> 

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



OTHER KEY POINTS

New notable risks New risk introduced on culture and staff engagement:

LPF's culture and strategy is not consistently applied, taken up by staff or reinforced by SLT and senior managers with adverse impact on service delivery, internal controls, recruitment and retention. (8)

The initial assessment of the risk places it in the amber category.

Other new risks None

New controls Introduction of 'Culture' risk controls, being (i) existing onboarding, performance management processes, staff surveys and board/SLT monitoring, (ii) enhanced second line compliance oversight and communications strategies. (8)

Annual review of Governance Overview and enhanced 'Horizon Scanning'. (20)

Eliminated risks None.

Other notable initiatives / actions Investment team and JISP reviewing portfolio in light of COVID-19-related reduction in income to identify opportunities to enhance returns. (1)

Currently in discussions with actuary on assumptions. 2020 approach will change from deterministic to risk-based. (2)

Funding Strategy Statement reviewed as part of 2020 valuation. Further consultation exercise to follow once individual employer valuation results are available from the Actuary with final draft to be presented to Pensions Committee in March 2021 (3)

Recruitment of Investment / Property Administrator. (4)

Talent and succession planning ongoing. (4)

Additional NED being appointed to improve governance. (4)

AML training scheduled for all staff to complete Q4 2020. (5)

Mobile call recording not yet in place but being prioritised. (5)

Ongoing review of ALTAIR role profiles to eliminate any ability for user to create payment and authorise it (5)

New staff performance management process to be implemented 2021 (8)

Action planning to address results from Your Voice employee survey (8)

Structural changes to support training and management of new recruits (8)

Remote Pension Committee meetings will continue until December, LPF liaising with CEC Governance to prepare for 2021 committee meetings. (9)

LPF are currently assessing governance management systems and costs with the aim of implementing an improved governance system to better support virtual committee meetings and future governance management. (9)

Continuing to review actions of Pension Committee members outside of LPF's regulated forums and structure (e.g. main Council) as part of Governance Review. (9)

Next review of Pension Board composition will take place in September 2021.

Recruitment for the two Pension Board vacancies has commenced with a potential member representative. The vacancy for the employer representative will be rebranded and advertised widely to encourage applicants. (10)

Additional meetings with board members to discuss governance clarifications. (10)

LPF liaising with CEC to ensure appropriate intra-group arrangements to manage data breach risk and reporting (12)

Enhanced communications and SLT reinforcement of PAD policy and procedures in response to recent low-level issues identified as part of routine PAD approvals and annual disclosure process (16)

Work on supplier management framework being progressed by Business Transformation Assurance Partner (19)

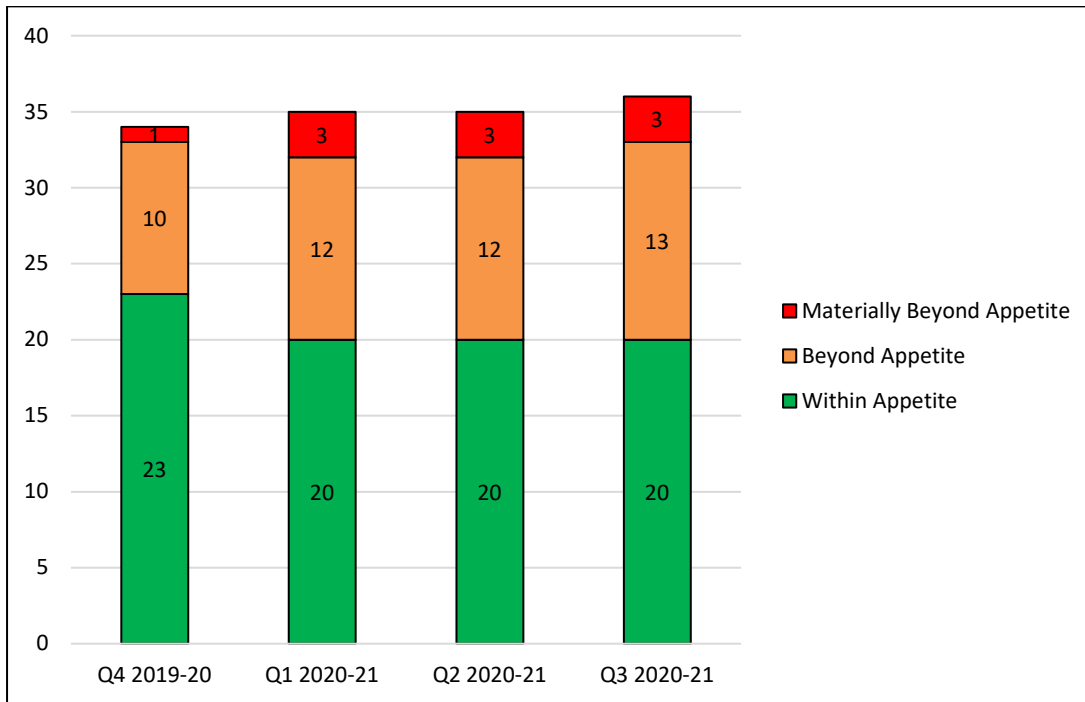
LPFE board to consider need to appoint interim convener to its board. (27)

SLT and advisory action to mitigate any exposure arising from any merger and associated transition. (28)

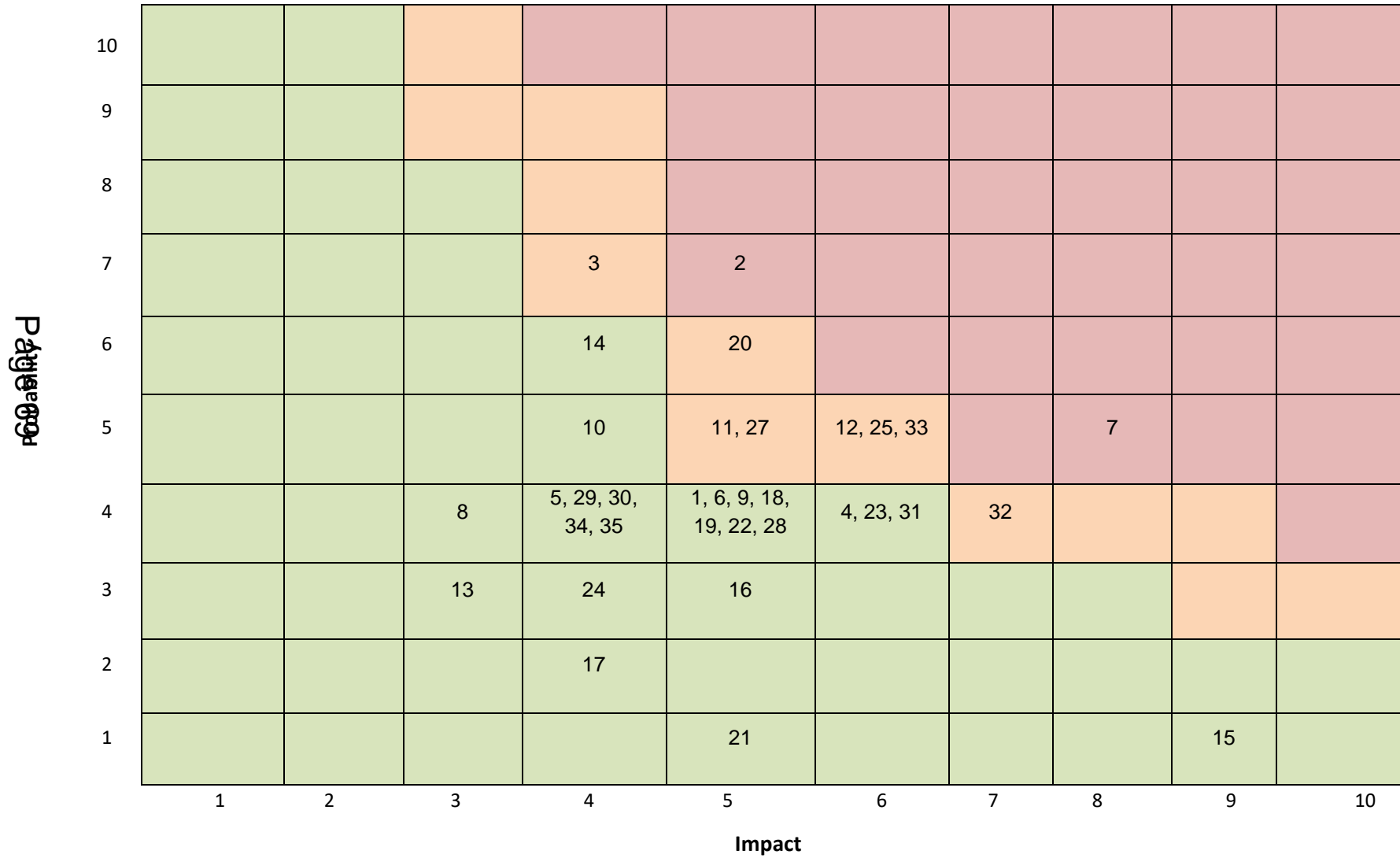
Acting on third party cyber breach notifications. (35)

Material litigation None.

ALL RISKS: STATUS OVERVIEW



QUARTER 3
2020/21 ALL RISKS: IMPACT AND PROBABILITY OVERVIEW






Notable Risks table

Risk No below		Q4 2016/17 Total	Q1 2017/18 Total	Q2 2017/18 Total	Q3 2017/18 Total	Q4 2017/18 Total	Q1 2018/19 Total	Q2 2018/19 Total	Q3 2018/19 Total	Q4 2018/19 Total	Q1 2019/20 Total	Q2 2019/20 Total	Q3 2019/20 Total	Q4 2019/20 Total	Q1 2020/21 Total	Q2 2020/21 Total	Q3 2020/21 Total
↓	Description																
1	Investment Performance pressure on employer contributions	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
2	Adverse Movement - pressure on employer contributions (2)	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
3	Failure of an employer to pay contributions (3)	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
4	Retention of key staff (4)	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
5	Fraud by LPF staff or relating to members (including pension Staff negligence, maladministration or lack of specialist knowledge (6)	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
6	Failure of IT systems (7)	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
7	Staff culture and engagements issues (8)	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
8	Pension Committee (or other) members take decisions against Pension Board not operating effectively (10)	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
9	Business continuity issues (11)	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
10	Members' confidential data is lost or made public. Breach of	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
↓	Description																
13	Loss due to stock lending default (13)	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
14	Risk of incorrect pension payments (14)	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
15	Late payment of pension (15)	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
16	Market abuse by investment team (16)	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
17	Portfolio transition issues (17)	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
18	Disclosure of confidential information (18)	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
19	Material breach of contract (19)	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
20	Regulatory breach (20)	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
21	FOI process in accordance with law (21)	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
22	Incorrect communication with members (22)	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
23	Acting beyond proper authority/delegations (23)	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
24	Inappropriate use of pension fund monies (24)	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
↓	Description																
25	Procurement/framework breach (25)	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
26	Procurement process compromising ability to secure required resource. (26)	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
27	Group structure and governance fully compliant and up-to-date	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
28	Claim or liability arising from shared services (28)	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
29	Unauthorise access to PensionsWEB (29)	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
30	Incorrect data from Employers leading to fines (30)	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
31	Inadequate contractual protection for services (31)	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
32	Over reliance on single core service provider (32)	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
33	Staff Resource within the Fund not sufficient to carry out core	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
34	Breach of Health and safety regulations (34)	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
35	Inadequate, or failure of, supplier and other third-party systems (including IT and data security). (35)	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
36	Cybersecurity protections and/or back-up not sufficient to prevent/minimise cyber-attacks. (36)	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●

KEY: RISKS BY NUMBER

1	Adverse Investment performance causes funding levels to fall requiring higher employer contributions.	20	Regulatory Breach.
2	Adverse change in non-investment actuarial assumptions causes funding levels to fall requiring higher employer contributions assumptions- pressure on employer contributions.	21	FOI process not in accordance with law.
3	Failure of an employer to pay contributions causes funding levels to fall, requiring higher contributions from other employers.	22	Incorrect communication with members.
4	Failure to recruit, engage and retain talent leads to workforce capability gaps with implications for oversight, control, administration and achievement of service plan goals.	23	Acting beyond proper authority/delegations.
5	Fraud or theft of Pension fund assets.	24	Inappropriate use of pension fund monies.
6	Staff Negligence.	25	Procurement/framework breach.
7	Failure of IT systems used in the fund with serious consequences for investment management, benefit administration and oversight activities.	26	Procurement process compromising ability to secure required resource.
8	Staff culture and engagement issues (new Q3 2020)	27	Group Structure and Governance not fully compliant and up to date (including integration of subsidiaries) or working effectively resulting in adverse impact on group strategy and business plan delivery.
9	Committee members take decisions against sound advice.	28	Claim or liability arising from shared services.
10	Pension Board not operating effectively.	29	Unauthorised access to PensionsWEB.
11	Business continuity issues.	30	Incorrect data from Employers leading to fines etc.
12	Members' confidential data is breached.	31	Inadequate contractual protection for services.
13	Loss due to stock lending default.	32	Over reliance on single core service provider.
14	Risk of incorrect pension payments.	33	Human resource insufficient to carry out active projects.
15	Failure to pay pensions as they fall due.	34	Breach of health and safety regulations.
16	Market abuse by investment team or others.	35	Inadequate, or failure of, supplier and other third-party systems (including IT and data security).
17	Portfolio transition issues.	36	Cybersecurity protections and/or back-up not enough to prevent cyber-attacks or minimise their impact.
18	Disclosure of confidential information.		
19	Material breach of contract.		

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Risk Status	
	Materially beyond appetite: resolve urgently where possible (probability and impact total 35 and above)
	Beyond appetite: resolve where possible (probability and impact total 25 to 34)
	Within appetite: monitor (probability and impact total 24 and below)

Risk Scoring

	Impact
0	(None)
1	No discernible effect
2	Little discernible effect
3	Some effect noticeable
4	Some effect on service provision
5	Noticeable effect on service provision
6	Some disruption of service
7	Significant service disruption
8	Material disruption to services
9	Major service disruption
10	Catastrophic

	Probability
0	(None)
1	Virtually impossible
2	Extremely unlikely
3	Remotely possible
4	May occur
5	Fairly likely to occur
6	More likely to occur than not
7	Likely to happen
8	Probably will happen
9	Almost certainly will happen
10	Already happening

BACKGROUND PROCESS AND PARAMETERS (EXTRACTED FROM RISK REGISTER)

The Risk Management Group, and risk register, form part of the LPF group's critical assurance framework, covers all entities within the group and should be read in conjunction with the other forms of assurance set out in LPF's assurance overview document.

The register is formally considered by the Risk Management Group quarterly but is also updated on an ad hoc basis where required. The register also takes into account material risks identified by the wider business, including arising from (i) the other oversight groups (e.g. SLT, People, ICT Oversight and/or any relevant project groups), (ii) any prior board, committee and stakeholder feedback, and (iii) compliance monitoring and processes (e.g. breach reporting, whistleblowing).

The Risk Management Group itself comprises senior officers of each function within the LPF group, as well as the Senior Leadership Team (SLT). All members are accountable for escalating material risks, with a particular focus on their respective areas, for consideration. If relevant and deemed sufficiently material, the risk will be included in the register and monitored by the risk function in conjunction with the relevant business unit.

The approved risk register is tabled and considered by SLT following sign-off to ensure additional oversight and ongoing engagement with any resulting actions. Those actions are tracked and followed up by the LR&C team with the business on an ongoing basis. The risk register is also circulated to the conveners of the Pensions Committee and Audit Sub-Committee, Chair of the Pension Board and Independent Professional Observer on a quarterly basis, with summary analysis and reporting provided to those bodies each quarter. In addition, an in-depth risk report is provided to the Audit Sub Committee annually, which includes a review of the full register.

The risk register is a continually evolving document and doesn't purport to be a comprehensive list of every risk or potential exposure to which the LPF group entities are subject or involved in managing. It should therefore continue to be read in the context of the LPF group's overall business strategy, risk appetite and assurance map. The risk register may cross-refer to separate operational project management tools or action trackers which monitor relevant items in more granular detail and for which the business units are accountable.

Importantly, that risk appetite and assurance structure will flex to ensure that it continues to be proportionate to the size and nature of the business of the LPF group and also adhere to the following industry best practice principles:

- ❖ *Ensure that the LPF group's risk appetite **aligns with its strategy** and is **set by its senior management team without undue influence** either externally or otherwise across its assurance stack.*
- ❖ *Integrates risk as **a key component of the group's management and decision-making** processes, and so through the spine of its governance and operations.*

- ❖ *Engenders an **open, 'live' and engaged risk culture** which seeks to pro-actively identify current and future risks for the business, simplifying layers of controls to ensure this is not stifled, and so...*
- ❖ ***Not establish or perpetuate systems, controls or processes** which are out of line with, or **disproportionate to, the group's risk appetite**. That can be counterproductive in distracting key focus and resource away from delivering the group's strategy, core function and assurance over a manageable number of critical risks.*
- ❖ *Remain **aligned to LPF's existing resources** and organisational development.*
- ❖ *Ensure an **effective and independent risk and compliance function** is maintained, as a general principle and in line with the standards of the UK regulated financial services sector.*
- ❖ *Ensure appropriate levels of **separation and independence** of each of the **'four lines of defence'**, as a general principle and in line with the standards of the UK regulated financial services sector.*
- ❖ *Ensure appropriate levels of **co-operation and information sharing** across the **'four lines of defence'**.*

by virtue of paragraph(s) 1, 6 of Part 1 of Schedule 7A
of the Local Government(Scotland) Act 1973.

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