Pensions Committee

2.00pm, Wednesday, 24 June 2020

Summary of March Committee Reports

Item number 5.3

1. Recommendations

The Pensions Committee (Committee) is requested to:

1.1 note the outstanding March Committee reports re-circulated and formally tabled within this report.

Struan Fairbairn
Chief Risk Officer, Lothian Pension Fund

Contact: Susan Handyside, Governance Manager, Lothian Pension Fund

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Summary of March Committee Reports

2. Executive Summary

2.1 This report looks to formally table several papers that Committee have received but would have normally considered and noted in the March 2020 cycle of meetings. The report provides a brief overview and details the background in relation to the fuller update provided by LPF for Committee and Pension Board members.

3. Background

3.1 Due to COVID-19 and the rapid onset of lock down during March 2020, the Pensions Committee and Audit Sub Committee meetings due to take place that month were cancelled.

3.2 The City of Edinburgh Council’s (CEC) Leadership Advisory Panel (LAP), was given urgency powers in accordance with it’s Scheme of Delegation to approve items on behalf of the Council.

3.3 The LAP, acting on behalf of CEC as Administering Authority, approved three urgent items on behalf of the Pensions Committee; The LPF Operational Plan and Budget, the Discretions Policy and the revised Administration Strategy.

3.4 The March Committee papers pack was circulated on 26 March 2020, to the Committee and the Pension Board. The communication highlighted the papers were to be approved by LAP and those that were to be deferred until June. A follow up note was provided by the Independent Professional Observer regarding the papers to be approved by LAP on 30 March 2020. An update confirming the papers had been approved was issued to Committee and Board members on 11 April 2020.

3.5 On the 23 April 2020 the LAP formally agreed the interim arrangements for CEC which included resuming the Pensions Committee as from June 2020.

4. Main Report

4.1 In agreement with the Convenors of the Pensions and Audit Sub Committees the outstanding papers from March were re-circulated to the Committee and Pension Board via email on 26 May 2020.

4.2 Committee and Board members were asked to review the papers and provide feedback and queries on any aspect of the reports, in advance of the Committee in June to enable the outstanding papers to be consolidated into one paper and noted in June with only a mind to any significant comments or concerns. That is to ensure that the focus at the June meetings, being held by video conference, is on the most immediate business of the Fund, but of-course without dismissing any material issues that members may have around the March business.

4.3 Andy McKinnell provided feedback on the reports and held a feedback session during the internal training session for any other queries or clarification on the topics included in this paper on the 8 June.

4.4 The table below sets out the outstanding March Committee agenda items:

Item	Recommendation
Lothian Pension Fund Contract Award Report	To be noted as part of this summary report.
Scottish Local Government Pension Scheme - Accounts Commission	To be noted as part of this summary report.
Local Government Pension Scheme Consultations Update – Valuation Cycle and Exit Payment	To be noted as part of this summary report.
Service Plan Update	To be noted as part of this summary report.
Risk Management Summary	To be noted as part of this summary report.
Governance Update (restricted)	To be noted as part of this summary report.
Employers Participating in Lothian Pension Fund – (restricted)	To be noted as part of this summary report.
Internal Audit Report	Presented separately to committee in June
Internal Audit Plan	Presented separately to committee in June
External Audit Plan	Presented separately to committee in June

5. Financial impact

5.1 None.

6. Stakeholder/Regulatory Impact

6.2 The Fund is liaising with the Pensions Regulator, in conjunction with other matters, to ensure that it is aware of the circumstances around its March cycle. Committee have also received an update on governance and risk management separately in the June papers.

6.3 There are no other adverse governance, compliance, or regulatory implications as a result of this report.

7. Background reading/external references

7.1 Leadership Advisory Panel – Tuesday 31 March 2020 .

7.2 Leadership Advisory Panel – Thursday 23 April 2020.

8. Appendices

Appendix 1 – Summary of March Committee Reports - Outstanding Committee papers (public agenda)

Appendix 2 – Summary of March Committee Report – Outstanding Committee papers (private agenda)

Appendix 1

Pensions Committee

2.00pm, Wednesday, 25 March 2020

The Lothian Pension Fund Group – Contract Awards (Period 1 July to 31 December 2019)

Item number 5.6

1. Recommendations

The Pensions Committee (Committee) is requested to:

1.1 note the Lothian Pension Fund Group (LPF Group), Contract Award Update in appendix 1 of this report.

Doug Heron
Chief Executive Officer, Lothian Pension Fund

Contact: Iain Strachan, Chief Procurement Officer, The City of Edinburgh Council

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Lothian Pension Fund – Contract Awards
(Period 1 July to 31 December 2019)

2. Executive Summary

2.1 The City of Edinburgh Council's procurement team provide support services to the LPF group in relation to its procurement and payment operations.

2.2 The Lothian Pension Fund, Contract Awards report (appendix 1) from the Chief Procurement Officer provides an update to the Committee on the scope of contracts awarded by the LPF Group in the period 1 July to 31 December 2019.

3. Background

3.1 Originally, the six-monthly Contract Award update was presented to the City of Edinburgh Council's Finance and Resources Committee.

3.2 Following the LPF Governance review 2019 it was agreed that due to the separate governance arrangements for the LPF group, it is appropriate to report the contracts awarded to the Committee directly.

3.3 The contract awards are now reported to the Committee on a 6-monthly basis and the LPF group continues to engage with the City of Edinburgh Council's procurement team to refine the scope of services they provide to the LPF group as part of the ongoing governance review project.

4. Main Report

4.1 The Contract Awards report from 1 July to 31 December 2019 is set out in appendix 1 of this report for consideration and will be presented by the City of Edinburgh Council's Chief Procurement Officer.

5. Financial impact

5.1 See appendix 1 of this report.

6. Stakeholder/Regulatory Impact

6.1 See appendix 1 of this report.

7. Background reading/external references

7.1 None.

8. Appendices

Appendix 1 – Lothian Pension Fund – Contracts Awards report by Chief Procurement Officer

Appendix 1

Pensions Committee

2.00pm, Wednesday 25 March 2020

The Lothian Pension Fund Group - Contract Awards (Period 1 July to 31 December 2019)

Item number	**5.6**
Executive/Routine	**Routine**
Wards	
Council Commitments	

1. Recommendations

It is recommended that the Committee notes the contents of this report and the authorisations made under the Scheme of Delegation to Officers. A further report will be submitted to the Committee in approximately six months' time.

Stephen S. Moir

Executive Director of Resources

Contact: Iain Strachan, Chief Procurement Officer,

Finance Division, Resources Directorate, The City of Edinburgh Council

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EDINBVRGH
THE CITY OF EDINBURGH COUNCIL

Report

The Lothian Pension Fund Group – Contract Awards (Period 1 July – 31 December 2019)

2. Executive Summary

2.1 This report updates the Pensions Committee on the scope of contracts awarded by the Lothian Pension Fund Group (LPF Group) in the period 1 July to 31 December 2019. This provides visibility of contracts awarded under the Scheme of Delegation to Officers, inclusive of direct contract awards not openly tendered due to specific circumstances permitted in regulation and those awarded following a waiver of the Council's Contract Standing Orders (CSOs).

3. Background

3.1 A report is presented to Finance and Resources Committee on a six monthly basis detailing the scope of contracts awarded across the Council under the Scheme of Delegation to Officers.

3.2 It was identified that, rather than including them in the reporting to Finance and Resources Committee and reflecting the separate governance arrangements for the LPF Group (Lothian Pension Fund, LPFI Limited and LPFE Limited) it would be more appropriate to report these contracts awarded by the LPF Group to the Pensions Committee on a similar six monthly basis. By way of explanation, these contracts are in the name of the Council, but acting in its separate capacity as Administering Authority for the LPF Group.

4. Main report

4.1 This report updates the Pensions Committee on the scope of contracts awarded by the LPF Group in the period 1 July to 31 December 2019, inclusive of direct contract awards not openly tendered due to specific circumstances permitted in regulation and those awarded following a waiver of the CSOs. Information is as recorded within the Council's Contract Register on 3 January 2020.

4.2 The Council's CSOs outline contract approval thresholds for goods, works and services, identifying both the level of award which can be undertaken and those with the authority to award.

4.3 In specific circumstances, direct awards can be undertaken, where it is not practically viable to 'tender' the requirement.

4.4 A waiver of CSOs to allow a contract to be awarded or extended without competitive tendering may also be required in certain circumstances. Inevitably, there will always be a need for a select number of waivers, however each is evaluated on its own merits and approval given only if fully justifiable and in the best interests of the Council and other LPF Group stakeholders. Such circumstances continue to be tightly controlled and scrutinised and will be reported to this Committee moving forward.

4.5 The CSOs state that contracts above a threshold of £1m for supply of goods and services and £2m for works require approval from the Committee prior to award.

4.6 A summary of contracts awarded under the Scheme of Delegation to Officers in the period noted, is presented in Table 1 below.

Table 1 - Contracts Awarded Under Delegated Authority

Date	Supplier	Contract Description	Duration	Value
05/08/2019	Argus Software (UK) Ltd	Subscription for valuation software.	3 Years	£25,272
18/09/2019	Local Government Association	Annual membership of Local Government Association.	1 Year	£6,936
04/10/2019	Norfolk County Council	Membership for national LGPS procurement frameworks.	8 Years	£11,500
17/10/2019	Malcolm Hollis LLP	Services relating to Lothian Pension Fund office relocation.	6 Months	£5,750
28/10/2019	Addleshaw Goddard LLP	Specialist legal services.	3 Years	£216,000
14/11/2019	COSLA	Proportionate share of Scottish Local Government Pension Levy.	2 Years	£19,000
23/10/2019	CoStar UK Limited	Subscription to asset management tool.	3 Years	£56,700
05/12/2019	Pensions and Lifetime Savings Association	Membership and subscription for Pensions and Lifetime Savings Association.	2 Years	£24,000
				£365,158

4.7 A summary of contracts awarded under the Scheme of Delegation to Officers by way of a waiver of CSOs is presented in Table 2 below.

Table 2 - Contracts Awarded Under Waiver of CSOs By Delegated Authority

Waiver No.	Supplier	Justification for waiver	Duration	Value
Waiver 1800	Deloitte LLP	Tax audit and reclamation relating to Taiwanese investments for previous calendar years 2016 and 2017.	6 Months	£30,000
Waiver 1855	Deloitte LLP	Tax audit and reclamation relating to Taiwanese investments for calendar years 2018 and 2019.	6 Months	£35,000
Waiver 1856	CBRE Limited	Valuation service to support in house property investment management function.	3 Years	£286,500
Waiver 1857	MSCI ESG Research Inc.	Benchmark index data required for investment management, sole provider.	1 Year	£22,500
Waiver 1915	Northern Trust Corporation	Extension to allow determination by the Scottish Government on future structure of LGPS.	2 Years	£840,000
Waiver 1916	Jones Lang Lasalle Limited	External property management. Majority of costs recoverable through tenancies of the properties.	3 Years	£1,117,290
Waiver 1917	Standard Life Investments	Property investment management services.	6 Months	£450,000
Waiver 1950	CMS Cameron McKenna Nabarro Olswang LLP	Retention of specialist legal support relating to property investments owned by Lothian Pension Fund.	3 Years	£30,000
Waiver 1956	Institutional Protection Services Ltd	Recovery of historical investor stock losses, sole provider.	1 Year 3 Months	£14,588
Waiver 1958	Inframation Limited	Provision of specialist data to support management of Lothian Pension Fund portfolio of assets.	1 Year	£5,300
Waiver 2011	Projecting Ltd	Extension to support implementation of new software system.	4 Months	£29,363
Waiver 2015	New Change Currency Consultants Limited	Extension for annual audit of the foreign exchange services received by Lothian Pension Fund.	1 Year	£18,000
				£2,878,541

5. Next Steps

5.1 A further report will be submitted to the Committee in approximately six months' time.

6. Financial impact

6.1 Through a robust procurement approach, proactive management of contract cycles, aggregating spend and carrying out competitive procurement where appropriate, this should continue to support commercial efficiency and achieve Best Value for the LPF Group contracts.

7. Stakeholder/Community Impact

7.1 The LPF Group has been consulted in relation to their expiring contracts, waivers and suppliers in the collation of this report. On an ongoing basis, the CSOs outline the appropriate measures of consultation and approval that must be sought from officers or committee for each waiver, dependent on the expected value.

7.2 Due to the significant volumes of activity and numbers of stakeholders involved in purchasing and procuring goods, services and works, Commercial and Procurement Services (CPS) relies on services, inclusive of the LPF Group, to provide accurate information through their Contract Register entries and timely requests for procurement assistance. To mitigate against any risks in this area, data is reviewed for accuracy and reliability in consultation with services.

7.3 A waiver denotes a departure from the CSOs. There may be an increased risk if the LPF Group has departed from European Union (EU) or Scottish procurement regulations. As such, each waiver is scrutinised on its own merits in this context with appropriate checks and balances both in relation to the LPF Group stakeholders and corporately for the Council, and is only approved if justifiable and considered in the best interests, given the circumstances or permitted in accordance with the relevant legislative framework.

7.4 There are no equalities or sustainability impacts directly arising as a result of this report.

8. Background reading/external references

8.1 N/A

9. Appendices

9.1 N/A

Pensions Committee

2.00pm, Wednesday, 25 March 2020

Scottish Local Government Pension Scheme (SLGPS) 2018/19 report by Accounts Commission

Item number 5.7

1. Recommendations

The Pensions Committee (Committee) is requested to:

1.1 note the report for background information.

John Burns
Chief Finance Officer, Lothian Pension Fund

Contact: John Burns, Chief Finance Officer, Lothian Pension Fund

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

Scottish Local Government Pension Scheme (SLGPS) 2018/19 report by Accounts Commission

2. Executive Summary

2.1 The Accounts Commission report on SLGPS 2018/19 is provided purely for information. There are no direct implications arising for Lothian Pension Fund.

3. Background

3.1 The Finance and Resources Committee noted the report “Accounts Commission: Local Government in Scotland – Financial Overview 2018/19” on 23 January 2020, together with referring the report to the Governance, Risk and Best Value Committee for its scrutiny on 18 February 2020.

3.2 Finance and Resources Committee referred the report to the Committee given it included an overview of the SLGPS for 2018/19.

4. Main Report

4.1 On 17 December 2019, the Accounts Commission published a supplement on the Scottish Local Government Pension Scheme 2018/19, accompanying the report “Local government in Scotland: Financial overview 2018/19”.

4.2 The key messages, as concluded by the Accounts Commission are:

4.2.1 SLGPS funding levels have reduced compared to last year and across Scotland the average funding level for 2018/19 is at 82 per cent. The value of scheme liabilities increased by 13%, more than the growth in assets of 7%.

4.2.2 Across the SLGPS, total contribution income from current members is increasingly less than the benefits paid. The difference is now £75 million.

4.2.3 Investment returns for each fund were between 5.3 and 8.8% in 2018/19. These returns are more consistent across funds than in 2017/18.

4.2.4 Six pension funds didn’t meet their benchmark returns last year, but most of them exceeded their five-year benchmark.

4.2.5 A decision by the Supreme Court in June 2019 (the ‘McCloud Ruling’) came after the unaudited accounts were prepared. Funds requested revised reports from their actuaries in order to quantify the increase in estimated liabilities as a result of the ruling. The estimated combined increase in the value of promised retirement benefits totalled around £500m.

4.2.6 Management expenses are under-disclosed and there is a complex relationship between risk, return and costs.

4.3 The supplement is provided in full at Appendix 1.

4.4 It is highlighted that, as shown in Exhibits 3 and 4, the investment performance of Lothian Pension Fund was the best of all 11 SLGPS funds, both for the 2018/19 year and the five-year return.

4.5 As Committee is aware, Lothian Pension Fund is cashflow negative from its dealings with members, that is the total of benefits paid and administrative costs exceeds contribution income. Across the Scottish LGPS, this is now the case for seven out of eleven funds, compared to five in 2017/18.

4.6 In terms of funding level, on the accounting basis, Lothian Pension Fund appears to be marginally better than the Scottish LGPS average. It is emphasised, however, that this measure is distinct from the valuation methodology applied at the triennial actuarial valuation and is not relevant for the setting of employer contributions.

4.7 Other matters referred to by the Accounts Commission have been reported to Committee previously.

5. Financial impact

5.1 There is no direct impact arising from the report's contents.

6. Stakeholder/Regulatory Impact

6.1 There is no direct impact arising from the report's contents.

6.2 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 None.

8. Appendices

Appendix 1 - Scottish Local Government Pension Scheme 2018/19, report by the Accounts Commission, 17 December 2019.

Appendix 1

Prepared by Audit Scotland | December 2019

Scottish Local Government Pension Scheme 2018/19

ACCOUNTS COMMISSION

1. This supplement accompanies our report *Local government in Scotland: Financial overview 2018/19*. It provides an overview of the Scottish Local Government Pension Scheme (SLGPS).

2. There are 11 main funds in Scotland, which cover all 32 councils and around 500 other employers. There are also a number of other funds – often 'Transport Funds' but unless otherwise identified, our comments refer to the 11 main funds. They range from one of the biggest pension funds in the UK (Strathclyde) to one of the smallest (Orkney).

Key messages

- SLGPS funding levels have reduced compared to last year and across Scotland the average funding level for 2018/19 is at 82 per cent. The value of scheme liabilities increased by 13 per cent, more than the growth in assets of seven per cent.
- Across the SLGPS, total contribution income from current members is increasingly less than the benefits paid. The difference is now -£75 million.
- Investment returns for each fund were between 5.3 and 8.8 per cent in 2018/19. These returns are more consistent across funds than in 2017/18.
- Six pension funds didn't meet their benchmark returns last year, but most of them exceeded their five-year benchmark.
- A decision by the Supreme Court in June 2019 (the 'McCloud Ruling') came after the unaudited accounts were prepared. Funds requested revised reports from their actuaries in order to quantify the increase in estimated liabilities as a result of the ruling. The estimated combined increase in the value of promised retirement benefits totalled around £500m.
- Management expenses are under-disclosed and there is a complex relationship between risk, return and costs.

Valuations

Funding levels, on an accounting basis, have reduced compared with last year to 82 per cent

3. Triennial valuations by actuaries provide the basis for assessing the overall position of LGPS funds (funding basis) that affect future contribution rates and investment strategies. The last triennial funding valuation was at 31 March 2017. Actuaries also prepare an annual valuation on an accounting basis. This uses a lower discount rate for long-term liabilities and produces a more cautious result than the triennial valuation. Comparing the last two accounting basis valuations (at 31 March 2018 and 31 March 2019) shows that funding positions have generally reduced. The weighted average funding level across Scotland is now 82 per cent compared with 87 per cent last year.

The value of scheme liabilities increased by 13 per cent, more than the growth in assets of seven per cent

4. The funding level compares the scheme's net assets (investments) with its liabilities (future estimates of pensions liabilities valued at current prices using a discount factor). Total assets have increased, compared with last year by seven per cent to £47.7 billion. However, the value of liabilities has also increased, to a greater extent, by 13 per cent to £57.9 billion. Key factors in the valuation of the liabilities include:

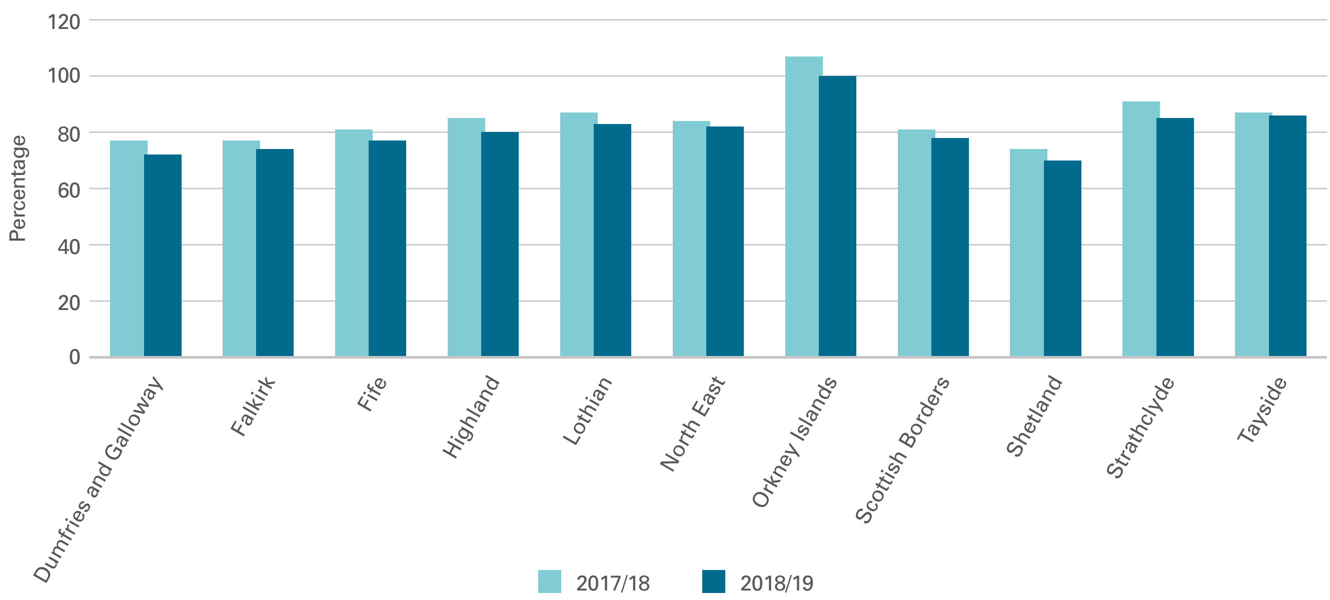
- the discount rate to convert future liabilities to current values – this is based on current 'high quality corporate bond' returns, in accordance with accounting standards
- life expectancy of members of the scheme
- inflation rate – pensions are increased annually based on the consumer prices index.

5. Typically, in 2018/19, the discount rate used in the actuaries' valuation of liabilities (2.4 per cent) was lower than in 2017/18 (2.6 per cent) (Exhibit 1), this increases the current valuation of future liabilities.

Exhibit 1

Valuation comparison between 2017/18 and 2018/19 on an accounting basis

Almost all funds identified lower funding levels this year.



Source: Audited financial statements of the pension funds 2018/19

Cash flows

Cash flows from dealing with members has become increasingly negative

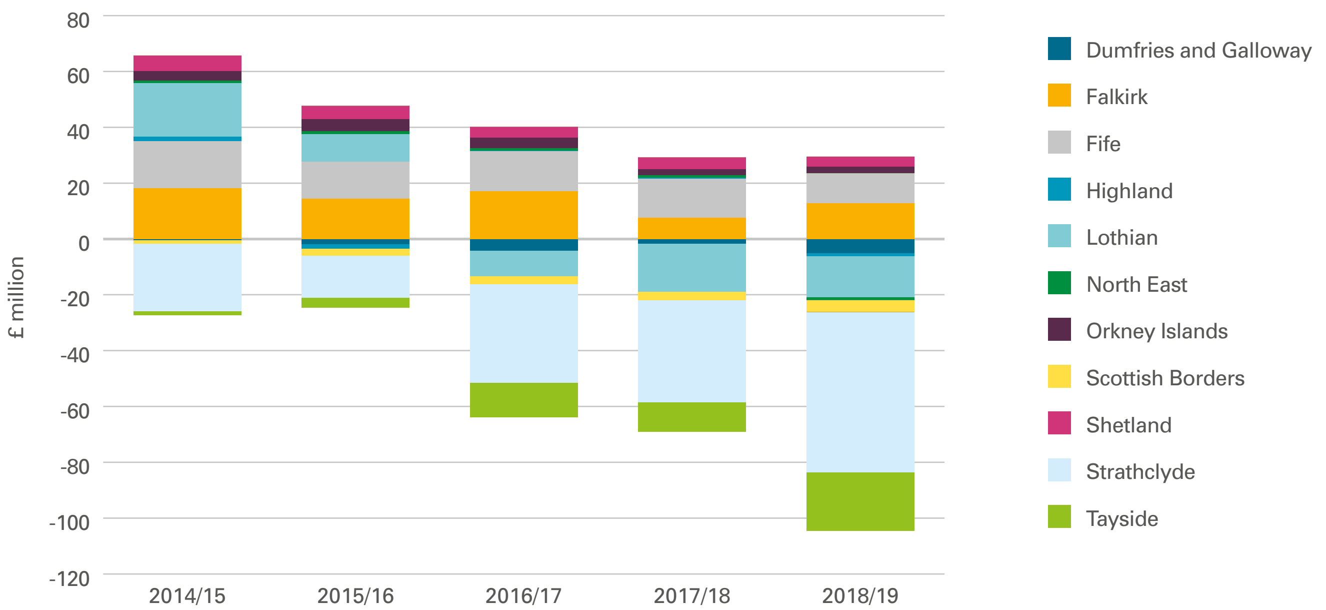
6. Membership of the SLGPS continues to grow. The numbers of both active employee members and pensioner members of the SLGPS have been increasing in recent years. This is largely a result of auto enrolment and employer severance schemes. Despite there being greater numbers of active members, this has not reversed the trend of negative cash flow from dealing with members as many of these new active members, added through auto-enrolment, are lower paid employees with lower contributions relative to pensions in payment.

7. Across the SLGPS, total benefits and administration costs exceed current contribution income. The difference is now -£75 million. This negative cash flow emerged in 2016/17 and has steadily grown (Exhibit 2). Seven funds now have negative cash flows compared to five in 2017/18. As funds mature, an element of pension payments is being made from investment returns, rather than being met from ongoing contributions from active members. It's important that funds manage the cash flow implications of this.

Exhibit 2

Cash flows from dealing with members in each of the 11 main SLGPS funds over the past five years

Cash flows from members are becoming increasingly negative.



Source: Audited financial statements of the pension funds 2018/19

Investment returns

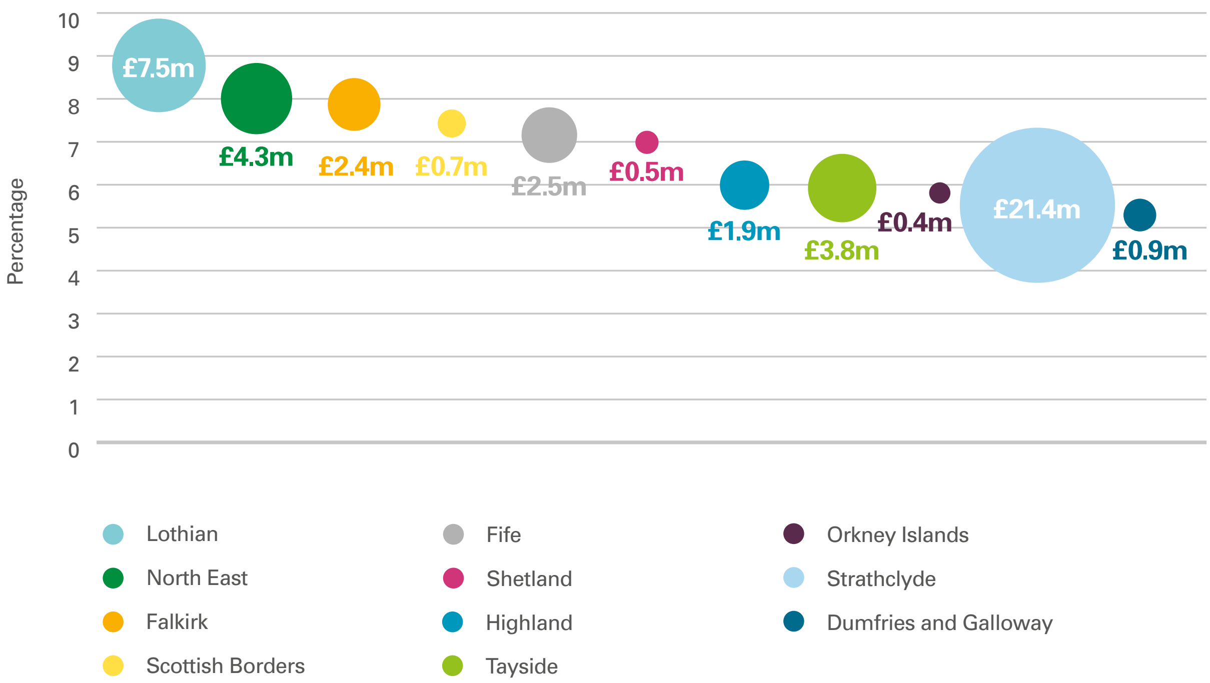
Annual investment returns were more consistent in 2018/19

8. Exhibit 3 illustrates that investment returns for each fund were between 5.3 and 8.8 per cent in 2018/19. These returns are more consistent across funds than in 2017/18.

Exhibit 3

Annual investment returns and fund size 2018/19

Investment returns across the SLGPS were between 5.3 and 8.8 per cent.



Source: Audited financial statements of the pension funds 2018/19 (investment returns net of investment expenses/average net investments)

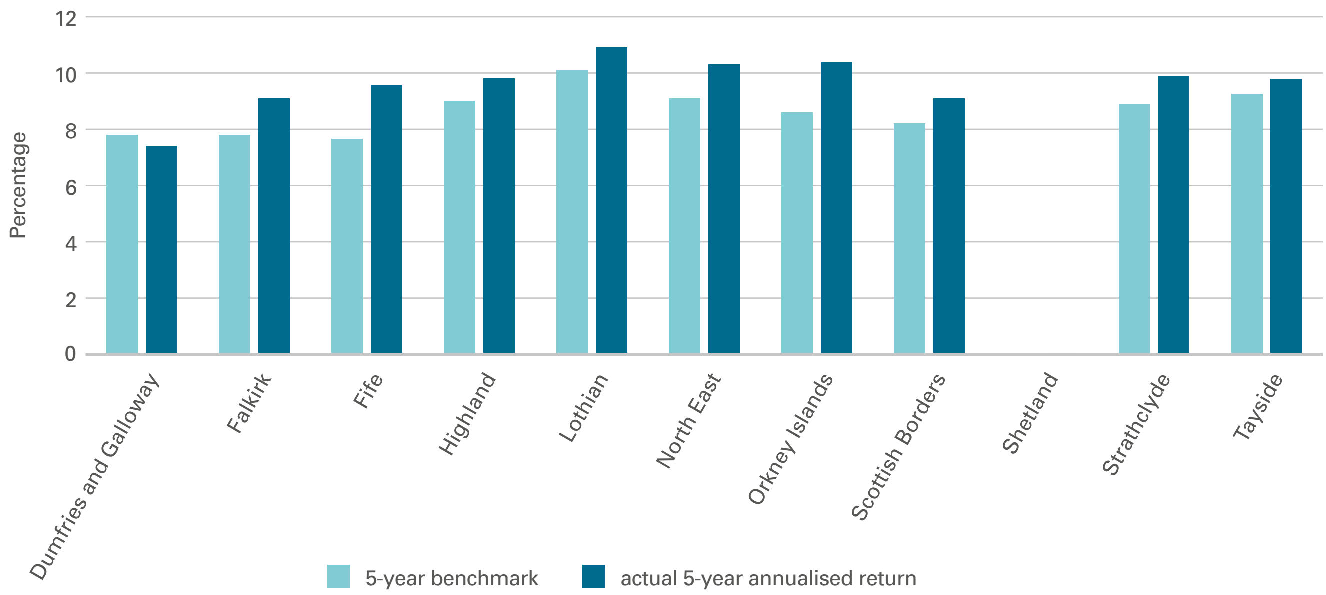
Six pension funds didn't meet their benchmark returns last year, but most of them exceeded their five-year benchmark

9. Variability of investment performance between funds can reflect differences in the type of assets that each fund holds, the way in which these are managed (passive or active) and the related risks. One way of assessing the returns in each fund is to consider how each fund has compared against its benchmarks (typically over 1 year, 3 years and 5 years). The benchmarks are set locally to reflect the different long-term investment requirements to support the future pension payments of each fund. Six pension funds reported that they had not achieved their benchmark returns over the last financial year. However, only one pension fund, Dumfries and Galloway, reported it had not achieved its five-year annualised benchmark. The five-year annualised benchmarks range from 7.8 to 10.1 per cent across the 11 main funds (Exhibit 4).

Exhibit 4

Comparison of five-year annualised investment returns of each fund

Most funds are exceeding their five-year annualised benchmark.



Note: Data not available for Shetland Pension Fund

Source: Audited financial statements 2018/19 and local auditor data

Investment strategies

Pension funds plan to reduce the value of their equity investments

10. In response to increasingly negative cash flow position noted above (Exhibit 2, page 3), most pension funds have been revising their investment strategies to place greater emphasis on cash-generating investments instead of value-generating investments. The actual investment portfolios are not currently consistent with these strategies. It can take some time for changes to take place. For example:

- Dumfries and Galloway Council Pension Fund reported that 'a strategy review was presented to Pensions Sub Committee on 24 May 2018 and members agreed the change in investment strategy from the current allocation to a modest switch from equity investments into alternative return-seeking assets, to improve the risk/return profile of the Fund.'

- Falkirk Council Pension Fund reported that 'the actual allocation at 31/03/2019 is at variance with the strategic allocation… Both Panel and Committee are content with this position noting … that the allocation to Other Real Assets (eg Infrastructure) and Non Gilt Debt (eg Private Debt) depends on the availability of suitable investments'.

11. Notably most Funds are 'overweight' in equities by between 3 and 18 percentage points. However, two funds did not identify their current investment allocation against their target in their accounts. Most funds appear to be targeting reduced equity investments with a target investment of between 55 per cent and 65 per cent in future.

Significant events

Amendments to the accounts arising from legal and other judgements

12. In December 2018, the Court of Appeal upheld a claim from firefighters and judges that changes to their pension schemes were discriminatory based on age. The UK Government sought leave to appeal the decision (commonly known as the McCloud Ruling) to the Supreme Court. However, this was denied at the end of June 2019, after the unaudited accounts were prepared. This ruling impacts on other public sector pension schemes, including LGPS, which have seen similar changes in their pension schemes.

13. Following the decision, Funds requested a revised IAS19 report from their actuary in order to quantify the increase in estimated liabilities as a result of the ruling. The estimated combined increase in the actuarial present value of promised retirement benefits for all 11 Funds was around £500m. These revised assessments do not impact on the primary financial statements of the Funds. However, the relevant disclosure notes in the audited accounts were updated to include the revised values of promised retirement benefits.

Lothian Pension Fund merged the Lothian Buses Fund with main fund

14. Apart from the main 11 funds, there a few other funds managed by councils, but the number of these separate funds is reducing. Following last year's repatriation of the Tayside Transport Fund, this trend continued with Lothian Pensions' Committee deciding in March 2018 to merge the Buses Pension Fund with the main Lothian Pension Fund. The merger took place on 1 February 2019 and resulted in the transfer of £0.5 billion of Buses Fund net asset values into the main fund, which at 31 March 2018, had a net asset valuation of £6.6 billion. The annual report notes that 'the merger creates a bespoke investment strategy for Lothian Buses within the Lothian Pension Fund and will not affect member benefits and is expected to result in more efficiencies leading to lower costs'.

15. A planned transfer of the assets and liabilities, along with members, of the Strathclyde Pension Fund No. 3 Fund to the Aberdeen City Council Transport Fund is expected to take place during 2019/20.

Outlook

SLGPS structural review is ongoing

16. As we noted in last year's pensions supplement, the Scottish Scheme Advisory Board (SSAB) is currently consulting on the future structure of the SLGPS. The report included four options for consideration:

- retain the current structure with 11 funds
- promote cooperation in investing and administration between the 11 funds
- pool investments between 11 funds
- merge the 11 funds into one or more funds.

17. The review is still ongoing, with the SSAB publishing consultation responses on its website including Audit Scotland's, which does not express a preference for any of the four options contained within this consultation exercise due to the important principle of the independence of the auditor of pension funds across the SLGPS.

Management expenses are under-disclosed and there is a complex relationship between risk, return and costs

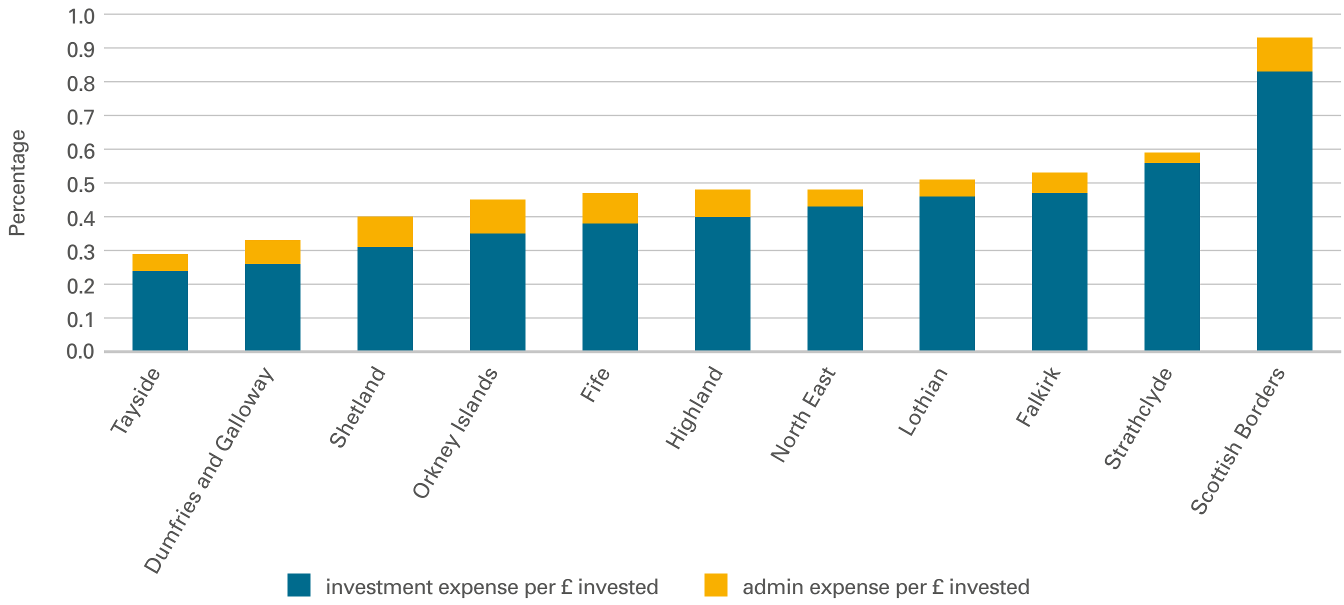
18. The principle of value for money applies to all aspects of SLGPS operation, including the considerable cost of investment management and administration. The cost of investment management needs to be balanced with the potential for investment fund returns and risk which, when taken together, provide evidence of value for money.

19. Exhibit 5 (page 8) shows investment management and administration expenses. Across the 11 main funds, investment management expenses ranged from 0.24 to 0.83 with a median of 0.4 per cent, based on disclosures in the accounts. CIPFA guidance on investment management costs does not necessarily expect funds to include fees and expenses incurred within a pooled investment vehicle as a result of that vehicle's investment in other pooled funds in the Fund's financial statements. Therefore, the analysis is likely to understate the cost of management expenses.

20. The margins are small, but the value of investments is significant and if the median position was achieved by all funds, this would save £36 million (16 per cent of current investment fees). However, this comparison does not take into account the complex relationship between risk and return and costs.

21. Strathclyde Pension Fund identifies that 'the level of fees and expenses paid by the Fund to individual investment managers is relative to the complexity involved in managing a particular investment asset and strategy, the associated risk and expected investment return'. Some funds will invest in passive mandates with lower investment expenses – but also lower returns and lower volatility. Some asset investment types have more significant management costs (for example infrastructure), but the extent of investment in these types of asset varies between funds according to their investment strategy.

Exhibit 5
Investment and administrative costs compared to average investment values 2018/19
Expenses are marginal but can vary according to the type of investments and mandates.



Source: Audited financial statements of the pension funds 2018/19 (investment management expenses and average assets invested)

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Pensions Committee

2.00pm, Wednesday, 25 March 2020

Local Government Pension Scheme Consultation Update – valuation cycle and exit payments

Item number 5.8

1. Recommendations

The Pensions Committee (Committee) is requested to:

1.1 Note the Fund's response to the Scottish Public Pensions Agency's consultation about changes to the local fund valuation cycle and use of suspension notices when an employer exits the Local Government Pension Scheme.

John Burns
Chief Finance Officer, Lothian Pension Fund

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Local Government Pension Scheme Consultation Update – valuation cycle and exit payments

2. Executive Summary

2.1 This report provides the Fund's response to the Scottish Public Pension Agency's consultation about changes to the local fund valuation cycle and use of suspension notices when an employer exits the Local Government Pension Scheme.

3. Background

3.1 The Local Government Pension Scheme (Scotland) Regulations 2018 require funds to carry out a valuation of the assets and liabilities of the fund every three years. As part of this process, employer contribution rates are also set.

3.2 In addition, a further valuation for the Scottish Local Government Pension Scheme is carried out under the Public Service Pensions (Valuation and Employer Cost Cap) Directions 2014. In 2018, HM Treasury amended this legislation moving these statutory valuations from a three yearly to a four-yearly cycle. This change means that the Local Government Pension Scheme in Scotland would be in line with other public sector pension schemes, however it would mean that the fund valuation would be out of line with the statutory valuation

3.3 Following a similar consultation by the Ministry of Housing Communities and Local Government in England and Wales in 2019, the Scottish Public Pension Agency (SPPA) has now issued a consultation on changing the valuation cycle from three to four years in order to better align with the statutory valuation timescale.

3.4 The consultation also covers the use of suspension notices. This regulatory provision allows administering authorities to suspend payment of an exit debt identified when an employer leaves the Fund. A suspension notice allows the exiting employer to continue contributing to the Fund until a new valuation is carried out and the notice is withdrawn

4. Main Report

4.1 The deadline for responses to the consultation was 9 March 2020. Lothian Pension Fund has submitted a response to the SPPA providing comments on the potential change to fund valuation cycles and on the use of suspension notices.

4.2 The Fund's response is attached at Appendix 1 to this report.

5. Financial impact

5.1 There are no direct financial impacts arising from this paper. However, the options being considered in this consultation could have an impact on the finances of the pension fund.

5.2 If the frequency of the fund valuation cycle was changed to three years, there may be a saving in actuarial fees. However, additional monitoring may be required in between valuations and the cost of such additional monitoring may offset any savings made.

5.3 Actuarial providers have also highlighted the potential for resource pressures should there be alignment of LGPS valuation timescales between Scotland and that of England and Wales. The impact on valuation fees is therefore uncertain.

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 Consultation letter January 2020: https://pensions.gov.scot/sites/default/files/2020-01/LGPS%20Consultation%20Letter%20Jan%202020.pdf

8. Appendices

Appendix 1: Lothian Pension Fund Consultation response

Annex A

Appendix 1

The Local Government Pension Scheme (Scotland) Regulations 2018

RESPONDENT INFORMATION FORM

Please Note this form **must** be returned with your response to ensure that we handle your response appropriately

1. Name/Organisation

Organisation Name

Lothian Pension Fund

Title Mr ☐ Ms ☐ Mrs ☐ Miss ☐ Dr ☐ ***Please tick as appropriate***

Surname

Forename

2. Postal Address

Atria One
144 Morrison Street
Edinburgh

Postcode EH3 8EX	**Phone**	**Email**

3. Permissions - I am responding as…

Individual / Group/Organisation

Please tick as appropriate

(a) Do you agree to your response being made available to the public (in Scottish Government library and/or on the Scottish Government web site)?

Please tick as appropriate ☐ **Yes** ☐ **No**

(b) Where confidentiality is not requested, we will make your responses available to the public on the following basis

Please tick ONE of the following boxes

Yes, make my response, name and address all available ☐

or

Yes, make my response available, but not my name and address ☐

or

Yes, make my response and name available, but not my address ☐

(c) The name and address of your organisation ***will be*** made available to the public (in the Scottish Government library and/or on the Scottish Government web site).

Are you content for your ***response*** to be made available?

Please tick as appropriate x **Yes** ☐ **No**

(d) We will share your response internally with other Scottish Government policy teams who may be addressing the issues you discuss. They may wish to contact you again in the future, but we require your permission to do so. Are you content for Scottish Government to contact you again in relation to this consultation exercise?

Please tick as appropriate x **Yes** ☐ **No**

Annex A

Lothian Pension Fund (LPF) administers the Local Government Pension Scheme (LGPS) in Edinburgh and the Lothians. LPF is a multi-employer scheme with over £8billion assets and 98% funded. It has 84,000 members and serves 80 employers and is the second largest LGPS fund in Scotland.

As well as Lothian Pension Fund, LPF also manages the Scottish Homes Pension Fund which has 1,550 members and investments amounting to £0.16 billion.

LPF's investment team is unique in Scotland in holding FCA authorisation. It manages over 85% of assets in-house via internal equity and bond portfolios and infrastructure investment.

LPF has also established a regulated investment company, LPFI, which provides resourcing, operational support, governance and deal execution for their private markets and gained FCA authorisation in 2015. This enables collaboration with other LGPS funds offering a clearing house service.

LPF's staffing resource is employed by an arms-length company, LPFE Limited (LPFE), which is owned by the Council who act as administrating authority, and it is supervised by a Board of Directors. LPF's functions include investment management, pension administration, employer liaison, data quality, member support, accounting, legal, risk and compliance, people and communications, communications and business admin.

In March 2017, LPF became the first UK Local Government pension fund to be awarded accreditation for the Pensions Administration Standards Association and have held the Customer Service Excellence Award for the last 10 years.

LPF maintains a comprehensive website for easy access to all relevant pension information and this is found at www.lpf.org.uk.

Annex A

Questions: Quadrennial valuations

Q1. Should the local fund valuation cycles move from the current three year cycle to a four year cycle in line with the statutory valuation cycle?
If not, why not?

Lothian Pension Fund is broadly supportive of a move from a three-year valuation cycle to a four-year cycle. Such a change, however should come in tandem with powers to carry out interim valuations (see Q3.) as required at the discretion of the individual fund (administering authority).

Q2. If the local and statutory valuation processes were to remain out of sync, do you think there will be any issues in providing the necessary data for the statutory valuation from 2024 on?

This is not considered to be problematic: timescales are currently out of sync, and data is provided via Fund Actuaries without further queries being raised. Data provision is not the issue, rather the alignment of outputs.

Q3. If local valuations were changed to a quadrennial cycle, would you expect to see additional powers to allow funds to undertake an interim valuation and/or reassess employer contribution rates in between valuations e.g. following covenant checks or a significant change in liabilities?

Lothian Pension Fund would strongly support additional powers to allow funds to carry out interim valuations and/or reassess employer contribution rates where this is deemed necessary to protect member interests. We note that in the corresponding consultation carried out by MHCLG in 2019, interim valuations were proposed.
Our understanding is that, (as is the case with Lothian Pension Fund), most funds offer contribution stability for larger employers and these employers would therefore little affected by a change in the valuation cycle. However, we do have concerns relating to smaller employers. Contribution stability is generally unsuitable for such employers. They have a shorter expected duration within the fund, typically have a weaker covenant and are more vulnerable to funding variances. These employers are generally funded on an annual basis, and therefore the four-year period may be too long and subsequently we believe that powers to carry out additional monitoring and interim valuations would be needed for these employers.
At Lothian Pension Fund, we have carried out employer covenant monitoring for more than a decade, which is now an annual exercise. We provide all employers with an indicative exit valuation with their individual valuation results and carry out regular monitoring of membership data in order to maintain up-to-date information of our employers. Through our funding strategy statement, we also require employers to confirm that contribution rates as certified by the actuary are not unaffordable.

Q4. If stakeholders are in agreement with moving to a quadrennial basis, views are also sought on what measures would be needed to ensure that a lengthening of the valuation cycle would not materially increase the risks that pension funds and their employers face?

We would strongly advocate additional measures being put in place in order to ensure that lengthening the valuation cycle does not lead to increased risks for both pension funds and employers.

Suggested measures would include powers to carry out interim valuations, as suggested in last year's MCHLG consultation.

We feel that this is particularly important for smaller employers who receive funding on a year-to-year basis and are vulnerable to funding cuts and as such could be less able to afford increased contributions rates.

Employers with smaller pensionable payrolls are subject to inherent volatility, therefore more regular cashflow and asset modelling for these employers would also be important.

Q5. Are there any other issues or risks to consider in making changes to the local valuation cycle?

At present, valuation data is 'rolled-forward' for use in annual accounting reports. It is unclear whether a longer intra-valuation period will mean that auditors will be happy to use data which is four years out of date. If they are not, this may mean additional fees would be incurred for employers to obtain more accurate information for use in their accounts. We would suggest that the SPPA consults with auditors to assess whether or not this would impact on the employer year-end process.

Questions – Suspension Notices
Local Government Pension Scheme (Scotland) Regulations 2018
Regulations 61(3) & (4)

Q6. Have administering authorities used the option of suspending the employer's liability to pay an exit payment when an employer leaves the scheme?

If the answer is 'yes' - how often have you used this option?

Lothian Pension Fund has not used this option to date, and we believe that there are only limited circumstances where this could be utilised to facilitate satisfactory outcomes for both funds and employers. Specifically, suspension provisions would be considered only where there may be potential to recognise improving financial strength of the employer over time and therefore it may be beneficial for the fund to grant short-term latitude in terms of payment rather than crystallising a debt which the employer's balance sheet cannot support. That said, it is emphasised that for most charitable sector employers with LGPS liabilities, there is no real prospect of material improvement over time and granting suspension would simply mean 'kicking the can down the road' and perpetuating detrimental financial uncertainty.

and b) has this action been effective in managing the exit from the scheme?

We do not feel that this option is effective in managing employer exits – please see below.

If the answer is 'no' - please provide reasons why

The Regulations as currently worded are vague and unhelpful for both funds and employers. Regulation 61(4) states:
'If an administering authority serves a suspension notice the employer must continue to make such contributions towards the liabilities of the fund in respect of benefits for the employer's current and former employees until a new and satisfactory valuation is carried out and the suspension notice is withdrawn.'

It is not clear how such contributions are to be calculated or reviewed and this ambiguity may mean it is difficult to reach agreement. The term 'new and satisfactory valuation' is undefined – who decides when to carry out a further valuation (or indeed valuations) and whether or not this is satisfactory? We also understand that Actuarial firms there can only be one exit valuation carried out

When the suspension provisions were initially introduced in 2015, there was a maximum period of 3 years for which payment of an exit payment could be suspended. This maximum period was removed when the Local Government Pension Scheme (Scotland) Regulations 2018 were introduced. Lothian Pension Fund responded to the consultation on the 2018 Regulations, commenting that the open-ended nature of the suspension notice is not beneficial to employers who are exiting the Scheme in order to reduce costs and gain budgetary certainty.

Lothian Pension Fund have successfully used another method to manage employer exits from the scheme. Please see below for further details.

and b) what other interventions are being used & why?

Lothian Pension Fund maintain close relationships with our employers and engage with them regularly through events and communications. We provide employers with indicative exit valuations with triennial valuation results to ensure that employers are aware of their obligations to the Fund. We regularly meet with employers and their Boards to discuss participation in the Scheme and the implications of certain decisions. We have been acutely aware for some time now that many small employers are in an very difficult position – they can't afford to continue paying the pension contributions, but leaving the fund crystallises a debt which is completely unaffordable as a one-off payment and would in many cases put the organisation's future existence in jeopardy. Given the profile of and the work carried out by such organisations (often under contracts from Local Authorities), this would have wide-ranging consequences – not least negative publicity. We believe that it is beneficial for all stakeholders that employers are able to exit the Fund rather than continuing to accrue unaffordable liabilities, the burden of which will ultimately be borne by other fund employers, typically local authorities.

Lothian Pension Fund's solution has been to work with employers to put in place long-term repayment plans for the repayment of the exit debt. Payments are agreed based on affordability, predicated upon employer balance sheet strength, with built-in insolvency protections. Agreement is reached following receipt of a payment proposal from the employer and rigorous assessment of the employer's recent financial statements.

Our experience is that employers are struggling with increasing pension costs and are often unable to repay what are can be large cessation debts. Allowing dispensation to repay cessation debts over a longer period with set agreed payments presents a more mutually acceptable solution. Where possible, Lothian Pension Fund has also obtained security over employer assets.

These arrangements provide cost certainty for the employers and allow them to pursue a voluntary exit from the fund on a sounder financial footing to deliver charitable services.

Our approach has been widely praised by employers and their advisers.

Q7. Does the wording of the regulations provide sufficient clarity for administering authorities and employers? If not, can you identify changes that might improve the provision?

We do not believe the current wording is sufficiently clear (see above).

Q8. a) Would guidance be helpful and effective in providing for a more consistent approach across the Scottish funds?

Whilst guidance might be helpful, it should be borne in mind that each case does have its own particular issues and therefore wording which is too prescriptive may make dealing with particular employers difficult.

b) If so, what body is best placed to provide this guidance?

Q9. Are there any other mechanisms that could be considered to allow some flexibility in the settling of the employer's exit payment, whilst protecting other employers in the scheme?

Please see comments above regarding Lothian Pension Fund's approach.

Thank you for your comments.

Pensions Committee

2.00pm, Wednesday, 25 March 2020

Service Plan 2018-20 Update

Item number 5.10

1. Recommendations

The Pensions Committee (Committee) is requested to:

1.1 note progress of the Lothian Pension Fund group (LPF) against the 2018-2020 Service Plan, together with specific updates on:

- performance indicators, including customer satisfaction;
- website;
- membership and cashflow monitoring; and
- projected financial outturn for the year 2019/20.

Doug Heron

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Service Plan Update

2. Executive Summary

2.1 The purpose of this report is to provide an update on progress against the 2018–2020 Service Plan, performance indicators and the actions to enable LPF to meet its key objectives.

2.2 Overall progress is being made against the service plan objectives for 2019/20. An underspend is projected for the financial year.

3. Background

3.1 The 2018-2020 Service Plan outlines the performance indicators and the key actions to enable LPF to meet its then four key objectives:

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

3.2 LPF's Service Plan is reviewed every two years. Item 5.11 within the Committee agenda therefore sets out the new plan from 2020, which updates the objectives and values of the LPF group to reflect the substantial organisational developments that have taken place since the 2018 plan was conceived.

4. Main Report

4.1 Progress is being made against the service plan and the areas of particular note since the last update to Committee are shown below. The following areas are covered elsewhere on the agenda:

- audit reports and plans;
- review of policies and strategies; and
- risk management.

Freedom of Information requests – annual update

4.2 LPF receives regular FOI requests and in 2019 responded to 16 that covered topics such as private market investments, shareholdings and climate change voting. We also received one data subject access request from a member requesting a copy of the information LPF held on them. These requests can be resource intensive and, where possible, requesting parties are referred to the website for publicly available information.

Performance Indicators

4.3 Performance Indicators for the third quarter of the 2019/20 financial year are provided in appendix 1. Committee will recall there are currently 27 indicators including a wider range of pensions administration targets.

4.4 Eight of the indicators are currently amber.

4.5 These include:

- 67.31% of transfer-in quotes were provided within 10 working days of receiving the Cash Equivalent Transfer Value. The target is 96%. The dip in performance is a result of the team working thorough historic work. We expect the position to recover over the remaining months.
- Proportion of staff engaged as measured in the Staff Engagement Survey 69%, with a target of 70%.
- Proportion of staff training is 92.6% against a target of 100%. LPF is confident it will meet this target by the end of March 2020.

Customer Satisfaction

4.6 The rolling 12 months survey results for overall customer satisfaction (including active, new members, retired and email survey results) to the end of December was 93.1% ahead of the target of 91%. This is due to the annual employer survey which showed 100% of respondents were satisfied with the overall service, and moves LPF ahead of target after the dip in performance reported last quarter.

Employers' survey

4.7 31 responses were received this year and the key results were as follows:

- 100% of the respondents this year said they were satisfied with the overall service provided by LPF. This is a return to the exceptional performance seen in previous surveys following the 86% satisfied in 2018 mostly due to the introduction of i-Connect.
- the monthly employer bulletin continues to be well received with 86% (94% in 2018) satisfaction and is the preferred method of communications for most;
- questions were also asked around i-Connect and GoAnywhere. In response to the question around how straightforward submitting information using i-Connect was, 95% agreed the new joiner process was straightforward. 100% agreed that GoAnywhere was straightforward to use when submitting forms

and documents. 94% agreed receiving forms and documents from LPF was also easy.

The results and comments made by employers reflect the impact this change has had, as the new service was introduced in October 2019 and the survey carried out in December of the same year. Previous issues with these services have been addressed but it is acknowledged that future development by our software provider would enhance the service and are being followed up.

Website

4.8 LPF has now replaced its website with a new corporate and, separate, members site. The sites provide an improved web experience for users with a fully accessible site.

4.9 LPF is also working with our software supplier to provide more services online, through the My Pension Online service. This secure site provides members with access to personal information and has included a facility to update address and nomination details. In January, a document upload and bank details update facility was provided. Work is continuing to allow members to carry out processes such as refunds online using the document upload facility.

4.10 Payslips and P60s are being made available online in a printable and HMRC compliant format. Retired members signed up for the online service have been opted in to view their information online and letters sent provided details of the new service and how to opt out if they wish. Members who have not signed up for the online will continue to receive paper P60s and payslips in April and May. Details of the online service and registration code will be sent with their Spring Penfriend to encourage sign up to the online service. Following the implementation, newly retired members will be automatically enrolled in the electronic option with the ability to opt out.

4.11 Further online services will be introduced in the coming months as they are developed.

Customer Service Excellence

4.12 LPF's annual Customer Service Excellence assessment will take place on Tuesday, 31 March 2020. The assessment will cover key customer service provisions such as complaints, listening to customers and responding to feedback.

Pension Administration Standards Association (PASA)

4.13 LPF holds the PASA accreditation after a three-day assessment held in 2017. The Board of the Association has made the decision to extend its accreditation cycle from two years to three years, with an annual self-certification being held in between. LPF's self-certification accreditation was successfully completed in September 2019. The next full inspection will be held in September 2020.

Membership and Cashflow monitoring

4.14 Tables detailing the cashflows as at the end of January 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).

4.15 It is expected that Lothian Pension Funds' active members as a proportion of total membership will continue to decrease during the year, causing a fall in contributions and increase in pension and lump sum payments.

4.16 The fund's expenditure cashflows are anticipated to continue to exceed cashflow income. The projected expenditure for the year has spiked due to a bulk transfer of an employer to another scheme taking place before the end of the financial year.

4.17 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 2019/20 is shown in the table below:

Category	Revised Approved Budget £'000	Projected Outturn £'000	Projected Variance £'000	Budget to date £'000	Actual to date £'000	Variance to date £'000
Employees	5,354	4,800	(554)	4,462	3,982	(480)
Transport & Premises	255	255	-	213	211	(2)
Supplies & Services	2,128	1,935	(193)	1,773	1,538	(235)
Investment Managers Fees -Invoiced	5,200	4,650	(550)	4,333	3,932	(401)
-Uninvoiced	19,700	19,700	-	16,417	16,417	-
Other Third Party Payments	1,439	1,380	(59)	1,199	1,182	(17)
Central Support Costs	643	358	(285)	535	298	(238)
Depreciation	147	147	-	123	123	-
Gross Expenditure	**34,866**	**33,225**	**(1,641)**	**29,055**	**27,682**	**(1,373)**
Income	(1,915)	(1,837)	78	(1,596)	(1,367)	229
Total Cost to the Funds	**32,951**	**31,388**	**(1,563)**	**27,459**	**26,315**	**(1,144)**

5.2 The financial outturn includes year to date budget, actual expenditure and variance as at the end of January 2020. Year to date actual expenditure includes provision for services incurred but for which no invoice has yet been received.

5.3 The projection shows an underspend of approximately £1,563,000. The key variances against budget are:

- *Employees* - £554k underspend. A review of LPFE's staffing structure took place in the first quarter of the year with a number of new posts created and responsibilities clarified. The underspend represents posts that have been filled for the partial year and those that remain vacant. LPF has ongoing recruitment projects to fill the remaining vacant posts.
- *Investment Management Fees (Invoiced)* – £550k underspend. At the end of September 2019 the newly created in-house investment property team took over the management of the Aberdeen Standard property portfolio. This delivered a significant saving against budget.
- *Supplies and Services* - £193k underspend. A majority of this underspend relates to investment systems, with the front office system licence being lower than anticipated and property management systems not being required.
- *Central Support Costs* - £285k underspend. The budget for the year included a £500k contingency budget in relation the procurement of enhanced ICT provision. The completion of this procurement is expected to take place in 2020/21. The recharge for 2019/20 represents the service level agreement charge by City of Edinburgh Council for services including the existing ICT provisions, which represents £169k of the expense.
- *Income* - £78k below budget. Income in relation to collaborative partners is based on a cost sharing mechanism. Due to underspend against budget, in particular against staff costs and investment systems, income is expected to be below original forecast

5.4 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. LPF continues its efforts to enhance the monitoring of these fees and is working with managers to improve the transparency of these charges.

5.5 As part of the extension of LPFI Limited's FCA permissions, LPF is required to meet new ICAAP capital requirements. This has been assessed by the LPFI board, with support from BDO, as part of a detailed process which assesses LPFI's risks, down-side scenarios, exit strategy and the value of assets under management. LPF will be required to finance an additional c£520k of share capital for LPFI, taking the total LPFI share capital to c£580k. It is expected that the issue of this additional share capital be completed before the financial year end (as a prerequisite to the FCA granting extended permissions) following consultation with the Convenor. Thereafter the LPFI board will be required to continue to maintain the ICAAP on an ongoing basis and this exercise will be a meaningful enhancement to LPFI and the wider LPF group's assurance stack.

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 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 LPF Service Plan 2018-2020

8. Appendices

Appendix 1 – Service Plan Performance Indicators
Appendix 2 – Forecast Cashflows 2019/20

Appendix 1

Service Plan Performance Indicators – Targets & Actual Performance 2019/20

	Q1 April to June	Q2 July to Sept	Q3 Oct to Dec	Target	Status
Customer First					
Maintain Customer Service Excellence Standard	Annual assessment will be carried out on 31 March 2020			Retain CSE Award	Not yet known
Maintain Pensions Administration Standards Association (PASA) accreditation (assessment March 2019).	Annual accreditation to be carried out in Autumn/Winter 2019			Retain PASA accreditation	
Overall satisfaction of employers, active members and pensions measured by surveys	Rolling 12-month performance to end December 2019 is 93.1%			92%	
Proportion of active members receiving a benefit statement and time of year statement is issued	100% issued in August 2019			100% issued by 31 August 2019	
Forward Thinking					
Performance and Risk of Lothian Pension Fund	Actual 10.2%pa, Benchmark 10.2%pa. Exceeding benchmark with lower risk.			Meet benchmark over rolling 5 year periods with lower risk with risk/return measures including performance in rising and falling markets	
Proportion of critical pensions administration work completed within standards	96.6%	84.1%	95.3%	Greater than 92%	
Provide new members with scheme information within 20 working days of getting details from employer	N/A	100%	100%	100%	
Provide transfer-in quote within 10 working days of receiving the Cash Equivalent Transfer Value (CETV) from member's previous pension provider.	83.33%	82.6%	67.3%	96%	
Notify members holding more than 3 months, but less than 2 year service, of their options at leaving. As there is a one month and a day lying period, the target	82.61%	40.29%	73.6%	85%	

	Q1 April to June	Q2 July to Sept	Q3 Oct to Dec	Target	Status
is within 10 days of the end of the lying period or after the employer providing full leaving information if later.					
Pay a refund of contributions within 7 working days of receiving the completed declaration and bank detail form.	95.12%	80.43%	90.2%	91%	✔
Notify early leavers entitled to deferred benefits of their rights and options within 10 days of being informed of end of pensionable service.	98.83%	92.39%	97.5%	91%	✔
Provide a maximum of one guaranteed Cash Equivalent Transfer Value (CETV) within 10 working days of receiving a request.	98.38%	97.55%	97.17%	91%	✔
Payment of CETV within 20 working days of receiving all completed transfer out forms.	95.24%	86.67%	92.39%	96%	▲
Pay lump sum retirement grant within 7 working days of receiving all the information we need from the member.	99.13%	98.93%	98.76%	96%	✔
Estimate requested by employer of retirement benefits within 10 working days	93.64%	67.96%	82.58%	91%	▲
Pay any lump sum death grant within 7 working days of receipt of the appropriate documentation.	93.24%	93.44%	91.54%	96%	▲
Notification of dependant benefits within 5 working days of receiving all necessary paperwork.	97.98%	95.06%	94.59%	96%	▲
Acknowledge the death of a member to next of kin within 5 working days.	98.65%	99.32%	98.40%	96%	✔
Respond in writing within 20 working days to formal complaints that have escalated from frontline resolution, or recorded directly as an investigation.	100%	100%	100%	100%	✔
Pension Admin Workflow - Non Key Procedures Performance.	81.39%	74.34%	74.67%	76%	▲
Honest & Transparent					
Audit of annual report				Unqualified opinion	Not yet known
Percentage of employer contributions paid within 19 days of month end	99.5%	99.9%	99.5%	99.00%	✔

	Q1 April to June	Q2 July to Sept	Q3 Oct to Dec	Target	Status
Data quality – compliance with best practice as defined by the Pensions Regulator	Assessment made at 2020 year-end			Fully compliant	Not yet known
Monthly Pension Payroll paid on time	100%	100%	100%	Yes	✓
Working Together					
Level of sickness absence	4.72%	2.54%	1.73%	4%	✓
Proportion of staff engaged as measured in the Staff Engagement Survey	69%			70%	▲
Percentage of staff that have completed two days training per year.	66.3%	86.9%	92.65%	100%	▲

Appendix 2

Service Plan Membership and Cashflow Monitoring 2019/20

Lothian Pension Fund	**2019/20 YTD**	**2019/20 Projected**
Income	**£'000**	**£'000**
Contributions from Employers	146,199	194,000
Contributions from Employees	41,987	50,000
Transfers from Other Schemes	4,365	5,000
	192,551	**249,000**
Expenditure		
Pension Payments	(148,662)	(180,000)
Lump Sum Retirement Payments	(57,772)	(70,500)
Refunds to Members Leaving Service	(742)	(750)
Transfers to Other Schemes	(8,846)	(36,000)
Administrative expenses	(2,083)	(2,500)
	(218,055)	**(289,750)**
Net Additions/(Deductions) From Dealings with Members	**(25,504)**	**(40,750)**

Scottish Homes Pension Fund	**2019/20 YTD**	**2019/20 Projected**
Income	**£'000**	**£'000**
Administration charge	80	80
Expenditure		
Pension Payments	(5,472)	(6,545)
Lump Sum Retirement Payments	(471)	(655)
Transfers to Other Schemes	-	(100)
Administrative expenses	(67)	(80)
	(6,010)	**(7,380)**
Net Additions/(Deductions) From Dealings with Members	**(5,930)**	**(7,300)**

Pensions Committee

2.00pm, Wednesday, 25 March 2020

Risk Management Summary

Item number 5.11

1. Recommendations

The Pensions Committee (Committee) is requested to:

1.1 note the Quarterly Risk Overview and the LPF group's approach to risk management.

Struan Fairbairn
Chief Risk Officer, Lothian Pension Fund

Contact: Susan Handyside, Governance Manager, Lothian Pension Fund

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Risk Management Summary

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, 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 Audit Sub Committee which highlights the material risks facing the pension funds and identifies any new risks/concerns and the progress being made over time by the officers in mitigating the relevant risks (the Quarterly Risk Overview).

4. Main Report

4.1 The Operational Risk Register is issued to the Conveners of the Committee and the Pensions Audit Sub Committee and the Independent Professional Observer on a quarterly basis. It is also submitted annually to the Pensions Audit Sub Committee for a detailed review.

4.2 The Quarterly Risk Overview, as at 17 February 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 LPF's:

4.3.1 *Assurance Mapping Process and* Overview *(LPF Group Controls and Compliance report):* which is managed by the Senior Leadership Team (SLT) and presented to the Pensions Audit Sub Committee annually.

4.3.2 *Third Party Supplier Management Framework:* which is managed and overseen on an ongoing basis by the SLT.

4.3.3 *Internal Capital Adequacy Assessment Process (ICAAP)*: which is managed on an ongoing basis by the SLT and overseen by the LPFI board.

4.3.4 *ICT Oversight and Governance Procedures:* which are managed by the ICT Oversight Group on an ongoing basis and overseen by the SLT.

4.3.5 *People and HR Procedures:* which are managed by the People Group on an ongoing basis and overseen by the SLT and the LPFE board.

4.3.6 *Investment Controls and Parameters (LPF Group Controls and Compliance report) :* which are now automated on the Front Office system, managed by SLT and overseen by the LPFI board and JISP (with annual reporting to Pensions Audit Sub Committee).

4.3.7 *Overall review of Governance and the LPF Group Structure:* managed by SLT and overseen annually by the Committee and Pensions Audit Sub Committee.

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 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 Summary, as at 17 February 2020

Appendix 1

LOTHIAN PENSION FUND

QUARTERLY RISK OVERVIEW

17 February 2020

UPDATE ON MOST NOTABLE RISKS

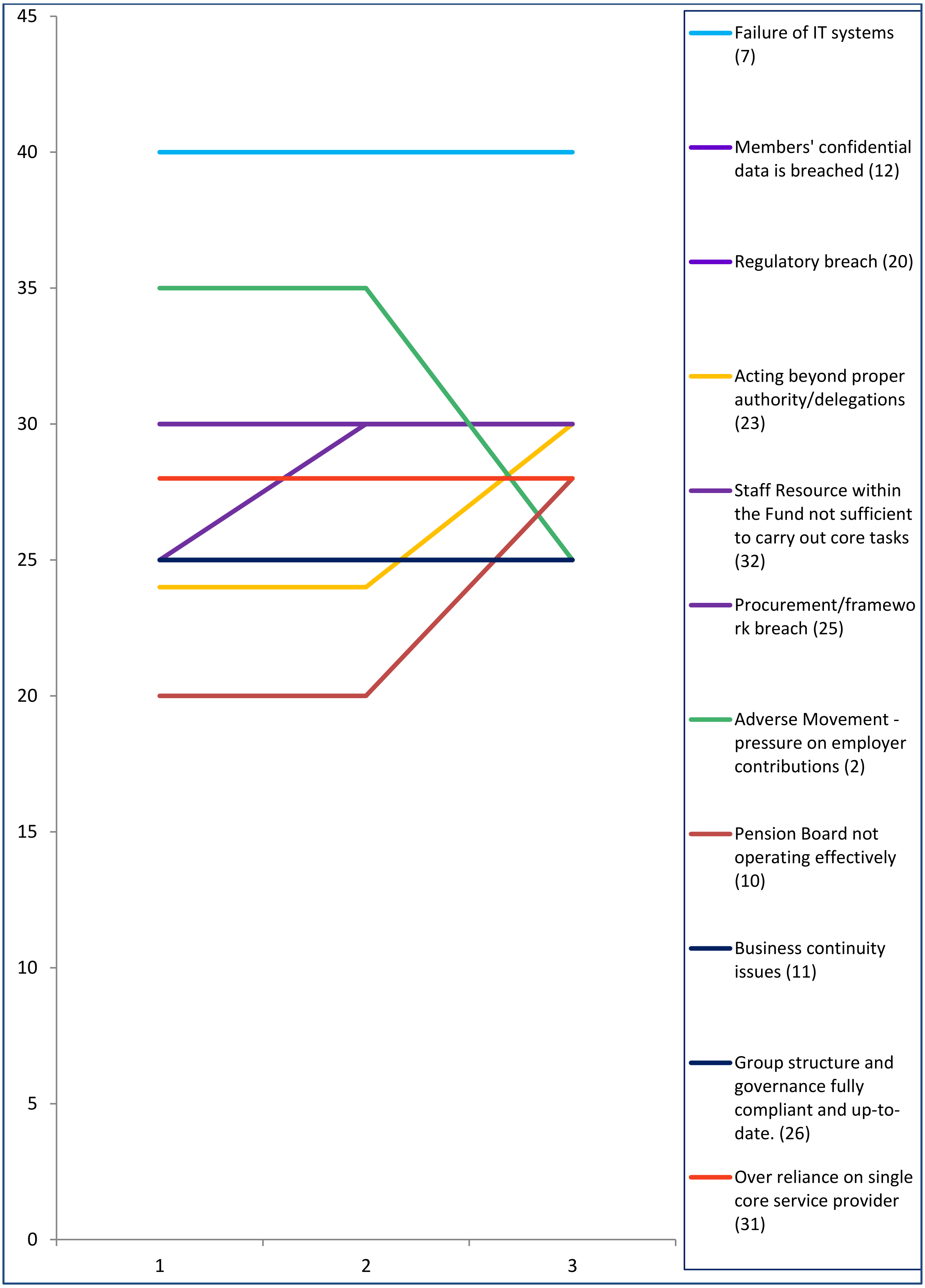
Risk & Reference Number	Update	Trend / RAG
Failure of IT systems used in the fund with serious consequences for investment management, benefit administration and oversight activities **(7)**	Whilst the overall ICT service received is good, LPF continues to experience delays and associated actions are tracked via monthly supplier performance reporting. Operational issues are, to some extent, being managed by liaising directly with LPF's ICT relationship manager in the Council and escalating relevant issues. Critically, key supplier management assurances, particularly around performance and security, are being followed up on, to ensure they continue to meet LPF's requirements. *Since the date of the risk meeting, additional key assurance has been provided and a verbal updated will be provided to Committee on this.* Although the risk is static this quarter work on mitigating this risk continues with ongoing monthly ICT governance and oversight meetings at a senior level; with the purpose of raising awareness of issues and ICT governance and security progress, as well as tracking progress of the procurement of a new IT Managed Service provider. In addition, key policies for staff such as ICT acceptable use policy and LPF password standard guidance have been updated as well as the development and update of training around information security, phishing and cyber risks. This will be rolled out to all staff this quarter and completion by all staff monitored. It is anticipated that existing supplier management and implementation of LPF's Digital Strategy will result in a steady reduction of this risk over the coming quarters.	**Static** ⬌
Members' confidential data is lost or made public. Breach of Data Protection Act. **(12)**	As reported last quarter, in order to strengthen LPF's controls it has requested that the Pensions Administration system provider set tolerances for employers to alert them when uploading data on to the system. Until the tolerance levels are in place the risk will remain at the slightly increased level. LPF will otherwise continue to mitigate this risk by continuing manual checks until the process is automated.	**Static** ⬌

Risk & Reference Number	Update	Trend / RAG
Regulatory breach **(20)**	LPF continues to be engaged in a compliance readiness project to ensure it is well placed for additional regulations that will come into scope on LPFI providing extended services to collaborative partners (c.Q2 2020). This also now includes the impact of the Competion and Market Authority's recent order around the investment consultancy industry/services, and the subsequent implementing regulations and guidance from the government bodies and regulators (TPR, FCA and HMRC). LPF are meeting with the FCA on 3 March 2020, as part of a wider industry group, to discuss the impact on LGPS collaborative structures. BDO continues to be instructed to carry out on-site regulatory compliance audits, tied to a detailed Compliance Monitoring Programme, of LPFI in order to ensure assurance in this area. As part of implementing the organisational structure in respect of SM&CR, all members of the LPF group will have reviewed and redesigned job descriptions put in place in a new format during Q2 2020. There are a number of ongoing actions to be addressed during the course of the next 12 months, and which tie in with the 2019 Organisational Design Review. The next formal deadline for the completion of actions is December 2020. As above, LPF's ICT provision is a critical aspect of its ongoing compliance with existing and enhanced data protection and financial services regulations, and so this risk will remain amber until such time as LPF has sufficiently addressed key aspects of its Digital Strategy. In particular, the ICT transformation will support key strategic initiatives, including the implementation of a new document management system.	**Static** ⬌
Acting beyond proper authority/delegations. **(23)**	LPF is looking to update and refresh its delegations to take account of: (i) Organisational Review appointments and updates, (ii) the new property team, (iii) SM&CR implementation, (iv) the LPF Governance Review, and (v) the implementation of the new Front Office system. In addition LPF intends to improve employee communications, raise awareness of scheme of delegation requirements and update the new website to ensure its group governance structures are clearer. Due to the outstanding actions the risk has been increased until they are complete, although there has been no breach in existing delegations.	**Increase** ⬆

Risk & Reference Number	Update	Trend / RAG
Procurement/framework breach **(25)**	LPF is continuing to work with CEC's Chief Procurement Officer to best position the procurement processes and procedures in a manner that fits with the specific needs of the LPF group business and satisfies CEC's parent oversight requirements. 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).	**Static** ⬌
Staff Resource within the Fund not sufficient to carry out core tasks in conjunction with active or anticipated projects. **(32)**	This risk remains at amber due to the additional resource attributable to significant strategic initiatives such as the implementation of the Digital Strategy and new Front Office System, the office move and the implementation and refinement of the staff orgainsational review. Preparation work has also begun for the triennial actuarial valuation.	**Static** ⬌
Pension Board does not operate effectively to detriment of the Fund (e.g. due to lack of attendance/participation or not maintaining sufficient levels of knowledge, skill and/or expertise.) **(10)**	The Pension Board currently has two vacancies. The continued requirement to fill these vacancies, and recent levels of turn-over, has presented a continuity challenge for LPF and the Pension Board itself. The Pension Board will be discussing a proposal by LPF to reduce the number of board members to 8 (4 member/4 employer) to mitigate this issue.	**Increase** ⬆
Over reliance on single service provider for core functions, potential leading to loss of service on the collapse or withdrawal of that provider. **(31)**	This risk remains at amber and is likely to do so until there is less dominance of key service providers in key sectors and greater options available to LPF.	**Static** ⬌

Risk & Reference Number	Update	Trend / RAG
Adverse change in non-investment actuarial assumptions cause either funding levels to fall or requiring higher employer contributions **(2)**	LPF continues to review its communication with employers around comparative LGPS contribution rates, including on the longer-term implications and the potential benefits of LPF's unitisation strategy and internal investment approach. Effective communication regarding this is critical to the fund's wider strategy of ensuring the long-term sustainability of the scheme and that it is a destination of choice for employers. The above work combined with ongoing monitoring of funding levels and the engagement with smaller employers to put in place bespoke arrangements to help manage affordability issues, as well as the robust controls now in place, has reduced the current impact of this risk, albeit it is still not within appetite.	**Decrease** ⬇
Business continuity issues **(11)**	LPF continues to work towards a new business continuity management standard (BCMS), ISO 22301. The business continuity risk remains static and is expected to reduce once LPF has completed (i) the Office Relocaiton (c.Q3 2020), and (ii) the transition to a new ICT suppler (c.Q4 2020/Q1 2021). However, LPF does anticipate short term spikes in this risk coinciding with each of those projects.	**Static** ⬌
Group Structure and Governance not compliant and up to date (including integration of subsidiaries) or working effectively resulting in adverse impact on group strategy and business plan delivery **(26)**	The risk remains static to reflect transitional risk in implementing both the organsiational development review of the staff structure and also the changes being introduced by the LPF Governance Review. In addition, LPF continues to monitor the resourcing of certain internal teams on which it relies for intra-group services.	**Static** ⬌

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



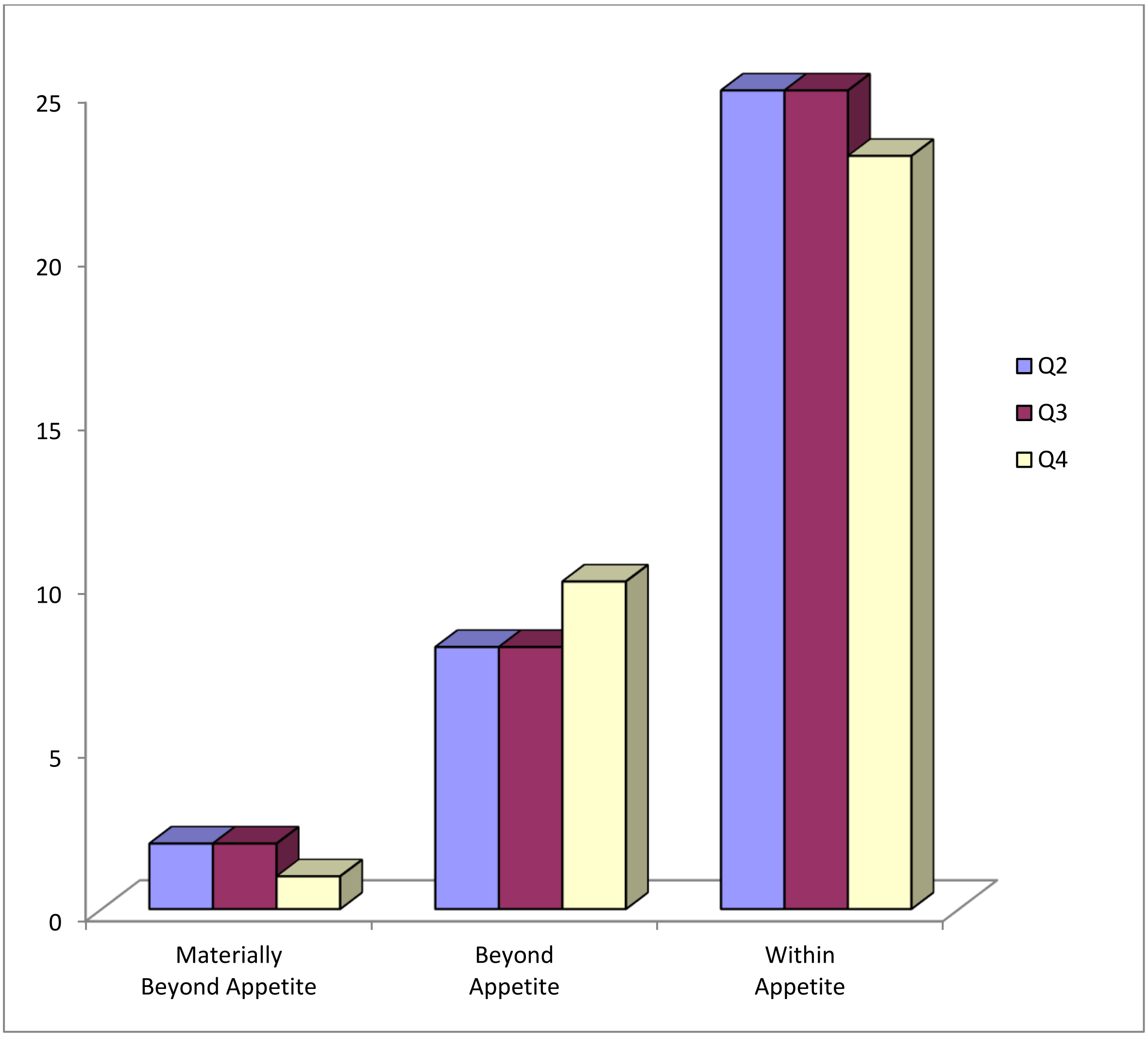
Please note that:
Risk 12, 20, 25, 32 share the same score
Risks 11, 26 share the same score

OTHER KEY POINTS

	Comments
New notable risks	The risk management group agreed that the current procurement breach risk (25) should be split into two risks to monitor the risk associated with both (i) breach of the procurement regulations, and (ii) any adverse impact of the procurement regime on the delivery of LPF's business strategy. The new risks will be reported in Q2's risk update.
Other new risks	None.
New controls	Formal review of strategy and investment assumptions as part of triennial actuarial valuation. (1) Funding Strategy Statement includes alignment of higher risk employers to Councils as appropriate. (3) Talent and succession planning are regular agenda items at Senior Leadership Team (SLT) meetings. (4) Appropriate HR policies in place and job descriptions reviewed on an ongoing basis to ensure fit for purpose and aligned to group strategy. (6) LPF has continued to monitor the developments around the Coronavirus and put in place appropriate processes around staff travelling to/returning from affected areas (whether work or personal) and in-office procedures, whilst also communicating to staff current recommendations and best practice to minimis exposure to them and LPF. LPF continues to monitor the position closely and in particular with respect to whether it may require to put in place any restrictions around non-essential UK business travel or attendance at events, ICT reliance around increased homeworking capabilities, isolation protocols etc. (11) Contract refresher as part of ongoing supplier management. (13) The Securities Lending contract has been updated as part of the fund's ongoing supplier management initiative. As part of that process, the indemnity coverage for security and collateral arrangements has been refined. (13) Annual e-signature of compliance policy acceptance. (16) Pensions Committee and Board code of Conduct in place and updated. (18) New investment front office trading system in place (11, 16, 17, 20) Regular review of headcount structure and resource levels at people group. (32)
Eliminated risks	Risk 8 (adverse employer decisions around employees without considering fund impact/strain) has been removed from the register.

	Comments
	This remains a key area managed and overseen by LPF's existing employer team, but has been deemed not to be of a sufficiently strategic nature to warrant inclusion in the risk register. Note that critical employer matters continue to be covered my many of the other monitored risks, including specifically risks 1, 2, 3 and 29.
Notable initiatives / actions	Recruitment of staff for Compliance, Investments and Pensions Administration teams ongoing. (4) Independent IT Consultant is currently being procured to review the funds digital strategy. (7) LPF's acceptable use policy has been updated to more closely align with industry best practice, and guidance on passwords has been developed. Existing policies are currently under review. (7) On-line staff training on information security and phishing being developed to ensure all staff are fully aware of cyber risks and how to mitigate them. Training will be monitored to ensure all staff complete this training annually. (7) Phase 2 of the implementation of processes and procedures for the new Investment Management System to be finalised during Q1 2020. (7) *This was finalised shortly after the risk meeting.* Review of Pension Board composition and engagement with the Chair and board on proposed changes to the constitution around membership. (10) Planning underway to mitigate any transitional risks associated with the proposed property move. (11) Procurement processes and services being reviewed as part of the ongoing Governance Review. (19) Delegations to be updated to incorporate recent work on new business strategies. (23) Review of all health and safety policies and procedures to be completed. (33)
Material litigation	None.

All Risks: Status Overview



QUARTER 3
2019/20 ALL RISKS: IMPACT AND PROBABILITY OVERVIEW

Probability	1	2	3	4	5	6	7	8	9	10
10										
9										
8										
7				3	2					
6				14	20					
5				10	11, 26	12, 25, 32		7		
4			8	5, 28, 29, 33, 34	1, 6, 9, 18, 19, 22, 27	4, 23, 30	31			
3			13	24	16			35		
2				17						
1					21				15	

Impact

QUARTER 4
2019/20 ALL RISKS: IMPACT AND PROBABILITY OVERVIEW

Probability	1	2	3	4	5	6	7	8	9	10
10										
9										
8										
7				10						
6				14	20					
5					2, 11, 26	12, 23, 25, 32		7		
4				3, 5, 28, 33, 34	1, 6, 18, 19, 22, 27, 29	4, 30	31			
3			13	24	9, 16			35		
2				17						
1					21				15	

Impact

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 cause 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 ***to be split into two risks.***
7	Failure of IT systems used in the fund with serious consequences for investment management, benefit administration and oversight activities	26	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.
8	*Employers make individual or collective employee decisions without considering the impact on the pension fund causing exceptional benefit entitlement or additional fund strain not able to be recovered at point of decision.* ***To be removed.***	27	Claim or liability arising from shared services
9	Committee members take decisions against sound advice	28	Unauthorised access to PensionsWEB
10	Pension Board not operating effectively	29	Incorrect data from Employers leading to fines etc
11	Business continuity issues	30	Inadequate contractual protection for services
12	Members' confidential data is breached	31	Over reliance on single core service provider
13	Loss due to stock lending default	32	Human resource insufficient to carry out active projects
14	Risk of incorrect pension payments	33	Breach of health and safety regulations
15	Failure to pay pensions as they fall due	34	Inadequate, or failure of, supplier and other third-party systems (including IT and data security)
16	Market abuse by investment team or others		
17	Portfolio transition issues	35	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		

	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

Description	Q2 2016/17 Total	Q3 2016/17 Total	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
Investment Performance pressure on employer contributions (1)	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
Adverse Movement - pressure on employer contributions (2)	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red	Amber
Collapse of an employer (3)	Amber	Amber	Amber	Amber	Amber	Amber	Amber	Amber	Amber	Amber	Amber	Amber	Amber	Amber	Green
Retention of key staff (4)	Amber	Amber	Amber	Amber	Amber	Red	Red	Red	Red	Amber	Green	Green	Green	Green	Green
Fraud or theft of Council/Pension Fund assests (5)	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
Staff negligence, maladministration or lack of specialist knowledge (6)	Green	Green	Green	Green	Green	Green	Green	Amber	Amber	Green	Green	Green	Green	Green	Green
Failure of IT systems (7)	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red
Employers HR decisions without consideration of fund (8)	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
Elected members take decisions against sound advice (9)	Green	Green	Green	Amber	Amber	Amber	Amber	Amber	Amber	Amber	Amber	Amber	Green	Green	Green
Pension Board not operating effectively (10)	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Amber
Business continuity issues (11)	Amber	Amber	Amber	Amber	Amber	Amber	Amber	Amber	Amber	Amber	Amber	Amber	Amber	Amber	Amber
Members' confidential data is breached (12)	Amber	Amber	Amber	Amber	Amber	Amber	Amber	Amber	Amber	Amber	Green	Green	Amber	Amber	Amber
Loss due to stock lending default (13)	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
Risk of incorrect pension payments (14)	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
Late payment of pension (15)	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
Market abuse by investment team (16)	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
Portfolio transition issues (17)	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
Disclosure of confidential information (18)	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
Material breach of contract (19)	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
Regulatory breach (20)	Amber	Amber	Amber	Amber	Amber	Amber	Amber	Amber	Amber	Amber	Amber	Amber	Amber	Amber	Amber
FOI process in accordance with law (21)	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
Incorrect communication with members (22)	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
Acting beyond proper authority/delegations (23)	Green	Green	Green	Green	Amber	Amber	Amber	Amber	Green	Green	Green	Green	Green	Green	Amber
Inappropriate use of pension fund monies (24)	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
Procurement/framework breach (25)	Green	Green	Green	Green	Green	Green	Amber	Amber	Amber	Amber	Amber	Amber	Amber	Amber	Amber
Group structure and governance fully compliant and up-to-date. (26)	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Amber	Amber	Amber
Claim or liability arising from shared services (27)	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
Unauthorise access to PensionsWEB (28)	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
Incorrect data from Employers leading to fines (29)	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
Inadequate contractual protection for services (30)	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
Over reliance on single core service provider (31)	Amber	Amber	Amber	Amber	Amber	Amber	Amber	Amber	Amber	Amber	Amber	Amber	Amber	Amber	Amber
Staff Resource within the Fund not sufficient to carry out core tasks (32)	Green	Green	Amber	Red	Red	Red	Red	Red	Red	Red	Red	Red	Amber	Amber	Amber
Breach of Health and safety regulations (33)	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
Inadequate, or failure of, supplier and other third-party systems (including IT and data security). (34)	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
Cybersecurity protections and/or back-up not sufficient to prevent/minimise cyber-attacks. (35)													Green	Green	Green

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End of Summary of March Committee Reports