

Pensions Committee

2 pm, Tuesday, 24 September 2013

Service Plan Progress

Item number	5.3
Report number	
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Executive summary

Service Plan Update

Summary

The purpose of this report is to provide an update on the 2013 – 2016 Service Plan, performance indicators and the key actions to enable the Fund to meet its three key objectives:

- To continue to be a top performing pension fund;
- To provide excellent customer care;
- To support and develop staff.

Progress against indicators and key actions agreed in the 2013-2016 Service Plan are set out in the appendix. The following areas are of particular note:

- **2013 Staff Survey** - The annual staff survey was issued in June and the results show that 63% of those who responded agreed that overall they were satisfied with working for the Lothian Pension Fund. This is an increase from 53% in 2012 and marginally exceeds the performance target of 60%. In general, there were also improvements in responses across most areas in the survey – see appendix for further detail. The results are being discussed with staff to agree further and ongoing improvements.
- **Pensions payroll** – The transfer of pensions payroll from the council's payroll system to pensions administration system is progressing well. Data has been successfully input into the pensions administration system for the last two months to enable parallel test runs. The switch over to the new system is expected on schedule by the end of the calendar year.
- **Reform of the LGPS Scotland**- Staff are involved in discussions on scheme reform, advising COSLA on scheme benefits and governance. A more detailed update is provided elsewhere on the agenda.
- **Investment Strategy** - Progress is being made on the implementation of the new investment strategies. Following extensive research by the internal team assisted by the Investment Strategy Panel, the reorganisation of the Lothian Pension Fund's equity portfolios is expected in October. The Fund currently invests a large proportion of equities in line with the market and this will move to investment in lower-risk equities. Reorganisation of the Lothian Buses Pension Fund is also anticipated in the coming months. The changes for both Funds will involve increasing the amount of assets managed by the internal team and a report is being commissioned from an external consultant on the internal operations to assess the risks of doing so in greater detail. For Scottish Homes Pension Fund, following an increase in the funding level over recent

months the proportion of the Fund invested in equities was reduced from 40% to 35% to reduce risk in-line with the new investment strategy.

- The Fund won the award for “Best Scheme Governance (Public Sector)” at the “Engaged Investor Trustee Awards”. It has also been shortlisted for six awards by the journal “Professional Pensions”. Winners will be announced on 19th September.
- **Performance indicators** show performance is broadly on track to achieve their respective targets. Three indicators are highlighted as ‘amber’.

Less than half of staff have completed less than 0.5 days training (one quarter of the target for the year) and efforts are being made to accelerate training to achieve the target by the end of the year. Customer satisfaction performance indicator is also below target (79% compared to 86%). This is due to new members who are least satisfied (69%) largely as a result of delays in communication when joining the scheme. This is a known and ongoing issue which is addressed elsewhere on the agenda. In addition a relatively small number of surveys have been undertaken so far this year. Annual surveys of the broader scheme membership are planned for the coming months. The Fund is comfortable that these issues reflect the relatively short period over which performance has been measured and performance indicators are expected to improve.

The latest 5 year performance for the Lothian Pension Fund largely reflects the previous investment strategy. Over time, as the 2012-2017 strategy is implemented performance information will become increasingly meaningful to measure Fund and benchmark volatility compared to the target.

In summary, the Fund is progressing well against the service plan objectives and the Fund is expected to the outcomes by the end of the year.

Relocation of the Fund’s office

Committee have previously agreed a move of the Fund’s staff to an office, subject to financial implications being within the current budget. Such a move will support the key objective of ensuring effective governance of the Fund by re-enforcing the separation of the management and administration of the Fund from the City of Edinburgh Council, as a major employer. It will also render benefit to the Council’s property rationalisation programme.

A new office location for the Fund has been found and Committee are asked to approve the move to Atria on Morrison Street. The building is currently owned by the Edinburgh International Conference Centre, a Council owned company. The projected financial implication is that initial net capital outlays are estimated to be £132,000. This sum will be amortised over the period of occupancy. Together with lease payments and other revenue expenditure of the new property, overall costs are expected to be neutral as compared to proposed Central Support costs of the current office accommodation.

Committee is asked to approve the relocation of Fund staff to Atria on Morrison Street.

Recommendations

It is recommended that the Pensions Committee

- note the progress of the Fund against its 2013 – 2016 Service Plan;
- approve the relocation of the staff of the Fund to Atria on Morrison Street and the associated capital budget provision for 2013/14 of £132,000.

Measures of success

Performance indicators in the Service Plan are used to measure the attainment of the Fund's objectives.

Financial impact

A summary of the projected financial outturn compared to the approved budget for 2013/14 is shown in the table below:

	Budget	Projected Outturn						Variance
		Invest Mgmt	Invest Acc	Head of Service	Pension Admin	Comms	Total	
Category	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Employees	2,161	552	277	187	889	212	2,117	(44)
Transport	27	13	3	3	3	5	27	0
Supplies & Services	843	333	150	7	274	83	847	4
Investment Managers	10,093	9,610	0	0	0	0	9,610	(483)
Other Third Party Payments	612	82	420	20	90	0	612	0
Depreciation	74	0	10	0	56	8	74	0
Direct Expenditure	13,810	10,590	860	217	1,312	308	13,287	(523)
Allocated Central Support	552	184	74	0	294	0	552	0
Income	(870)	(37)	(700)	0	(40)	0	(777)	93
Total Costs to the Fund	13,492	10,737	234	217	1,566	308	13,062	(430)

The projection shows an underspend of approximately £430K. The key variances against budget are:

- Employees - £44k underspend. This is mainly due to unfilled posts across the division partly offset by temporary agency costs and anticipated change in payroll (1% pay increase and staff salaries increasing from October 2013 as a result of the modernising pay agreement);
- Investment management fees – £483k underspend. This relates to underspend in the first quarter of the financial year. Further savings are expected in the financial year as

the new investment strategy is implemented but a prudent approach to the projection has been adopted at this stage.

- Income – expected £93 less. Stock lending commission income has been decreased by £100K to show more realistic outcome based on the experience so far this year.
- Pending approval of the office relocation, associated costs have been excluded from the above projection. As stated previously, however, the office move is expected to be revenue cost neutral as compared to Central Support charges included in the Fund's budget.

Equalities impact

There is no equalities impact relating to this report.

Sustainability impact

There is no sustainability impact relating to this report.

Consultation and engagement

The Consultative Panel for the Lothian Pension Funds, comprising employer and member representatives, is integral to the governance of the Funds.

Links

Coalition pledges

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

Single Outcome Agreement

Appendices Service Plan Update 2013 - 2016



24 September 2013

Service Plan Update 2013 - 2016

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Service Plan Performance Indicators

Performance Indicators and targets	Apr-13	May-13	June-13	Target	Status
Performance of Lothian Pension Fund over rolling 5 year periods. When markets are falling, the Fund should perform better than the return of the strategy, when markets are rising, the Fund may lag the return of the strategy	Implementation of new strategy is progressing. Over the 5 years to 30 June 2013, the Fund delivered 7.2% per annum while the strategy delivered 5.9% per annum.			Meet the benchmark return with lower volatility	
Audit of annual report	Unqualified opinion due September 2013				
Proportion of critical pensions administration work completed within standards	94%	93%	91%	Greater than 90%	
Percentage of employer contributions paid within 19 days of month end	91%	99%	99%	97%	
Data quality – compliance with best practice as defined by the Pensions Regulator	Outcome of this measure will be available in April 2014				
Customer Indicators and targets					
Maintain Customer Service Excellence Standard	Annual assessment for Customer Service Excellence in January 2014.				
Overall satisfaction of employers, active members and pensions measured by surveys	79%			86%	
Proportion of active members receiving a benefit statement and time of year when statement is issued	On track to achieve the target			Over 95% by September	
Staff					
Level of sickness absence	2.1%	1.6%	1.2%	4%	
Annual staff survey question to determine satisfaction with present job	June 2013 Annual Staff Survey 63%			60%	
Minimum number of days training per year for each member of staff	30% of staff meeting pro-rata target	44% of staff meeting pro-rata target	46% of staff meeting pro-rata target	2 days	

Our Performance - To be a top performing pension fund

Project	Status	Overall Progress	Project Summary
Ensure effective Governance of the Fund.		<ul style="list-style-type: none"> - Independent Observer has met all committee members individually to discussed governance and training and Committee has set the Observer's objectives. - Self assessment for Committee and Panel members is in progress. - Following a recruitment drive for the two vacancies on the Consultative Panel; one for an employer and one for a member. The Fund has appointed Sharon Dalli, Pensions Manager, Edinburgh Police Scotland as an employer representative and John Anzani, a business advisor from Midlothian Council, as the member representative. - A new office has been found and subject to approval the move is expected to take place by the end of 2013. The move from the main City of Edinburgh Council offices will help reinforce the separation of the Fund from the City of Edinburgh Council. - Further training sessions are scheduled. Regular e-mail of pensions news to Committee members is being initiated. 	<ul style="list-style-type: none"> - Embed the Fund's new governance arrangements including the new pensions audit sub-committee and independent observer. - Reinforce the separations of the Fund from the City of Edinburgh Council. - Continue to improve the Fund's approach to 'trustee' training.
Successful implementation of the Scheme changes.		<ul style="list-style-type: none"> - Officers and the Convener of the Pensions Committee have been involved in the debate on scheme benefits and governance. (Please see the new scheme changes update that is reported separately to committee). 	<ul style="list-style-type: none"> - Engage in debate on scheme benefits - Communicate with stakeholders - Review internal processes and procedures - Provide training for staff on new arrangements.
Monitor financial and economic pressures and scheme maturity.		<ul style="list-style-type: none"> - Following completion of research, reorganisation of the Lothian Pension Fund and Lothian Buses Pension Fund equity portfolios is expected in the coming months. - The first stage of reducing the equity allocation of the Scottish Homes Pension Fund was implemented in August following increases in the funding level. - The Fund's Actuary has been commissioned to undertake financial modelling of a potential contribution stability mechanism. Consideration of outputs and liaison with fund employers is set to follow in autumn 2013. An employer survey has been issued to employers to inform this exercise. (Please see separate reports on Contribution Stability Mechanism and Employer Update.) 	<ul style="list-style-type: none"> - Implement new investment strategies - Prepare for the Fund's 2014 actuarial valuation. - Improve membership and cash flow monitoring and forecasting. - Monitor the risk profile of the participating employers. - Manage the pension implications of organisational and staffing changes of employers.

Our Performance - To be a top performing pension fund continued

Project	Status	Overall Progress	Project Summary
Provide an efficient accurate and effective service.		<ul style="list-style-type: none"> - Parallel test running between the current live payroll system and the new module is ongoing. - 3 payroll staff due to be transferred into the division are being integrated into their new teams. Suitable training is being provided to both new and existing members of staff. - The planned electronic payment (BACs) testing cycle is incomplete and therefore the go live date will be delayed for a month to allow time for this to be completed. This is precautionary but vital so the fund can be absolutely sure there is no disruption to pensioners and so the fund can ensure a seamless transition to the new service. - Overall the project is progressing well and the first live payments are expected to commence in October and the merge of services by December, in line with the original plan. 	<ul style="list-style-type: none"> - Implement the transfer of the pensions payroll service from the Council payroll system to the pensions administration system
Risk is managed effectively		<ul style="list-style-type: none"> - Risk register has been expanded with specific focus on operational investment issues. Summaries of the register are now being reported to Committee. - A briefing session on legal, risk and compliance was held for all staff to raise awareness. - Work on procedures manuals is ongoing. 	<ul style="list-style-type: none"> - Review and strengthen internal controls and documentation. - Ensure up-to-date procedure manuals for all key responsibilities are maintained.
Shared services/governance		<ul style="list-style-type: none"> - Service provision to Falkirk continues. With the initial 18 month arrangement coming to an end in September 2013, a review meeting has been held. At the time of writing, an agreement on the way forward is being sought. - The Fund is looking to access services investment consultancy services via a national framework put in place by Norfolk Pension Fund. Other opportunities will be sought when required. 	<ul style="list-style-type: none"> - Provide excellent service to Falkirk Pension Fund - Participate in relevant joint procurement initiatives.

Our Customers - To provide excellent customer care

Project	Status	Overall Progress	Project Summary
Develop and improve customer insight.		<ul style="list-style-type: none"> - Pensioners have been consulted on the pension payslip in order to provide the right information for the customer. - The annual customer surveys have commenced with the pensioner survey sent out in July. Results will be analysed and action plan drawn up in September. - The annual employer survey will be issued in September. - The mystery shopping exercise (testing the service via a number of channels) will commence in September. 	<ul style="list-style-type: none"> - Regularly engage with all customer groups and use the insight to improve our service using a variety of techniques including mystery shopping and transactional surveys. - Continue to deliver best practice standards for Customer Journey Mapping and develop greater use of customer insights. - Develop members' awareness of the value of the pension benefits and the contributions their employers make towards their pension. - Seek additional insight to assist the implementation and development of the pension payroll service.
Improve timeliness and quality of customer service.		<ul style="list-style-type: none"> - Employer on-line system for the transfer of member data has been implemented. All employers are being referred to the new service to encourage use. Submission of contribution details via the system is being rolled out gradually to employers. - The Pension Administration Strategy has been reviewed and submitted to committee for approval (see separate agenda item). - Pension administration task management system service standards are being reviewed. 	<ul style="list-style-type: none"> - Implement 'employer on-line' access, thereby facilitating up to date records through electronic transfer of information in standardised formats. - Partnership accountability – review and monitor service standards to ensure we have an effective and accountable partnership with employers. - Re-assess our service standards and targets for members.
Develop and improve our information and access.		<ul style="list-style-type: none"> - Annual Finance Briefing has been held for employers and the Annual Seminar is planned for December. Monthly email bulletins for employers continue. - Social media project has researched how other pension services use social media and their experiences. Members' views will be gathered over the coming months. - Projects on channel usage and face-to-face service delivery are in the very early stages. 	<ul style="list-style-type: none"> - Ensure we communicate regularly with employers including newsletters, events and meetings. - Assess our approach to delivering services to members on a face-to-face basis including pension clinics and presentations. - Continue to review and update the Fund's communications based on customer and staff insight. - Assess potential uses of social media for communicating with stakeholders. - Develop channel usage monitoring.

Our Staff - To support and develop staff

Project	Status	Overall Progress	Project Summary
Develop trust between line managers and staff and promote an open culture.		<ul style="list-style-type: none"> - 100% of staff who responded to the 2013 staff survey that was issued in June strongly/tended to agree that they have regular 1-1 meetings with their manager. This is an increase from 79% in 2012. - In addition to this the staff survey results showed that 79% of staff agreed that their manager listens to and is open to their suggestions an increase from 56% in 2012. - The staff survey results showed that only 54% of staff feel they have an acceptable workload and have the right amount of responsibility an increase of only 1% from last year. It is anticipated that the better delegation of tasks will improve this feeling. However, the results will be discussed further with staff to enable further actions or areas of improvement to be found. 	<ul style="list-style-type: none"> - Ensure line managers have regular 1-1 meetings with all staff to discuss progress and achievements - Ensure effective delegation of tasks.
Communicate effectively, especially around change.		<ul style="list-style-type: none"> - Senior management team continues to communicate in a regular monthly update, face to face and via e-mail. In addition to this senior managers meet with small groups of staff. - Annual appraisals have been undertaken for all staff and objectives set based on service plan priorities and/or personal development needs. - Still more work is required to ensure staff feel informed about changes that affect them as there was only a 1% increase from 58% to 59% of staff agreeing with this statement. 	<ul style="list-style-type: none"> - Communicate regularly via face-to-face briefings and via email on issues affecting the division. - Provide clear objectives at annual appraisal meetings and review progress on a regular basis.
Ensure development and training for all staff.		<ul style="list-style-type: none"> - 90% (an increase of 74% in 2012) of staff tended/strongly agreed that their learning and development opportunities were agreed at their annual appraisal. - ICT champions have been identified to share knowledge across the division and support others. - Analysis of attained training has been developed to enable staff and managers to better monitor progress. 	<ul style="list-style-type: none"> - Provide learning opportunities at all levels to suit the needs of the service including ICT skills. - Provide staff with career and personal development opportunities to make the most of their talents. - Review training and development evaluation process.
Support staff well-being		<ul style="list-style-type: none"> - Staff forum continues to provide feedback from staff as do the regular 1-1s. - The project exploring flexible working options is progressing and suggestions for improvements from the pensions administration business process review are being implemented. - 58% of staff responding to the survey agreed that their morale was good, this is an increase from 40% in 2012. - The staff survey was conducted in June 2013. The results and further improvements are currently being discussed in team meetings. An action plan will then be produced. 	<ul style="list-style-type: none"> - Encourage suggestions and empower staff to make changes to the way they work to improve the service. - Provide clear feedback in response to staff suggestions. - Explore flexible working options - Help staff develop to their full potential.