

Pensions Committee

2.30 p.m., Tuesday, 23 September 2014

Service Plan Update 2014 - 2017

Item number	5.6
Report number	
Executive/routine	
Wards	All

Executive summary

The purpose of this report is to provide an update on the first quarter of the 2014 – 2017 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

Overall progress is being made against the service plan objectives and it is expected that performance targets will be achieved by the end of the year.

Additionally, it is considered prudent to seek approval of a contingency budget provision in the event that externalisation of the investment management function should be required.

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

Service Plan Update 2014 - 2017

Recommendations

- 1.1 It is recommended that the Committee should:
 - 1.1.1 Note the progress of the Fund against the 2014 – 2017 Service Plan;
 - 1.1.2 Approve the provision of an annual contingency budget of £10 million for external investment fees to be used in the event of significant team departures, in consultation with the Convener and reporting to the following Pensions Committee.

Background

- 2.1 The purpose of this report is to provide an update on the 2014 – 2017 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

Main report

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

Implementation of the new LGPS Scotland 2015

- 3.2 The Fund is assisting in the development of the Scotland-wide communications for the new LGPS. A newsletter with details of the changes to the new scheme, and details of the new website, www.scotlgps2015.org were issued to active members in July/August.

2014 Actuarial Valuation & Funding

- 3.3 Progress is being made with the 2014 actuarial valuations. Initial results for the Lothian Buses Pension Fund and the Scottish Homes Pension Fund have been received and consultation with the employers has commenced.

- 3.4 Work has also progressed on a potential alternative funding approach for the Scottish Homes Pension Fund and initial discussions have been held with the Scottish Government.
- 3.5 Data for the Lothian Pension Fund has been provided to the Actuary. Initial results are expected later in the year and consultation with employers is scheduled for December 2014.

Pensions Administration Data Quality

- 3.6 The Fund is continuing with its efforts to improve the flow of membership data from employers through regular reporting and meetings to discuss issues and improvements. Sixty-two employers are currently submitting monthly contribution returns.
- 3.7 Committee will recall that the Fund's Pension Administration Strategy includes the scope to levy charges to cover any resultant costs if an employer's performance continues to fall below acceptable tolerances. This provision ensures that the administrative costs of the Fund are borne equitably by all the employers.
- 3.8 The Fund has considered the criteria for passing on costs of poor performance from employers and they consist of any of the following:
- contributions received later than the regulatory standard;
 - not regularly addressing membership data queries;
 - consistent and repeatedly failing to meet service standards for new starts, leavers, retirements and deaths as per the PAS and no clear commitment to improve: and
 - not submitting monthly contributions via PensionsWEB or no clear commitment to implement before 1 April 2016.
- 3.9 It will be proposed that this is put in place with effect from 1 April 2015. The Fund will consult with employers over the coming months on this proposal.

Investment

- 3.10 The Fund continues to implement the 2012-17 investment strategy of the pension funds, with oversight and advice from the Investment Strategy Panel.
- 3.11 The corporate bond portfolio managed by Rogge was terminated in April 2014, with the proceeds transferred to index linked gilts and US treasuries. Research into other suitable bond opportunities is ongoing. This continues to be a challenging area of the market to achieve a target return of 3.5% above inflation.
- 3.12 At the end of June, Baillie Gifford gave 3 months notice to terminate the agreement to manage Asia Pacific equities for the Lothian Pension Fund. As a temporary measure, a portfolio manager has been recruited to the internal team

and with effect from the close of business on 15 August, the portfolio has been monitored internally. The longer-term future of this portfolio is being considered alongside the Fund's efforts to reduce the volatility of the overall equity allocation.

- 3.13 Efforts to increase the allocation to 'Other Real Assets' continue. The investment strategy has included, for some time, a small allocation to timberland investments (2% for each of Lothian Pension Fund and Lothian Buses Pension Fund). The small allocation reflects the fact that it has proven difficult to source satisfactory investments in this sector. In July of this year the Funds completed the acquisition of a portfolio of four Timberland Fund interests from a seller on the secondary market, at a material discount to the net asset value for those assets. This increased the investments by approximately 1%.
- 3.14 Committee will recall the external consultant's assessment of the in-house investment operations which was reported in March 2014. Progress made on the recommendations is reported elsewhere on the agenda. This includes the development of a contingency options plan if there were significant departures from the internal investment team. The plan outlines various options for different portfolios and will be reviewed regularly as the investment strategy develops. If enacted, prompt consideration of the options will be required by officers and the Investment Strategy Panel. As outsourcing of the function is necessarily a key part of the contingency plan, particularly if the majority of the team were to leave, Committee is asked to agree an annual contingent budget of £10 million for external investment fees to be used in the event of significant team departures, in consultation with the Convener and reporting to the following Pensions Committee.

Staffing

- 3.15 Recent years have seen a number of changes to the resourcing in the pensions administration section including maternity leaves, individuals reducing their working hours and departures of trainees. In order to ensure succession planning and sufficient resource is in place to manage the forthcoming changes to the Scheme, the Fund recruited 5 trainee pensions administrators in July. This follows an unsuccessful attempt to recruit trainees in 2013. Staffing costs remain within the agreed budget.
- 3.16 Appointments have also been made to the vacant posts of Finance Manager and Investment Analyst.
- 3.17 A three month trial period of home-working has commenced for staffing in pensions administration, where approximately half the team will work from home one day per week. Operational changes and measures to manage associated risks have been put in place.

- 3.18 The 2014 staff survey has been undertaken and results are expected to be available in the coming weeks.

Shared Services

- 3.19 Since 2012, officers of the Fund have been assisting Falkirk Council Pension Fund with duties relating to overseeing investments, attending Committee meetings and training.
- 3.20 Following a decision by the Falkirk Pensions Committee to invest £30 million in UK infrastructure, options for Falkirk to further access Lothian Pension Fund's investment team's expertise have been explored. Arrangements are being made for officers of the Lothian Pension Fund to be seconded on a part-time basis to Falkirk Pension Fund in order for some infrastructure investments to be made jointly for the two pension funds.

Performance Indicators

- 3.21 Performance for the key performance indicators against targets are shown in the Appendix. Three indicators are highlighted as 'amber' and one as 'red'.
- 3.22 The proportion of pensions administration critical work completed on time is below the target of 90% as the demands of resource and in clearing
- 3.23 Employer contributions paid on time so far this year (97%) is below the target of 98%.
- 3.24 Customer satisfaction over the 12 months to 30 June is marginally below target (84.7% compared to target of 86%). This is due to new members who are least satisfied (67%) largely as a result of delays in communication when joining the scheme. There are initial indications that satisfaction for new members is starting to improve but so far, this is based on a relatively small number of survey responses.
- 3.25 Less than half of staff have completed less than 0.5 days training (one quarter of the target for the year).
- 3.26 The Fund is comfortable that these issues reflect the relatively short period over which performance has been measured and initiatives are in place to address weaknesses. It is anticipated that performance indicators are expected to improve to achieve respective targets over the rest of the year.
- 3.27 Lothian Pension Fund recently won the award for 'Best Use of Alternatives Investments' in the 2014 Pension Scheme of the Year awards.

Measures of success

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

Financial impact

- 5.1 A summary of the projected administrative financial outturn compared to the approved budget for 2014/15 is shown in the table below:

	Approved Budget	Projected Outturn	Projected Variance
Category	£'000	£'000	£'000
Employees	2,253	2,145	(108)
Transport & Premises	104	104	-
Supplies & Services	952	1,020	68
Investment Managers Fees	9,453	8,428	(1,025)
Other Third Party Payments	522	522	-
Depreciation	80	80	-
Direct Expenditure	13,364	12,299	(1,065)
Allocated Central Support Costs	281	281	-
Income	(772)	(772)	-
Total Cost to the Funds	12,873	11,808	(1,065)

- 5.2 The projection shows an underspend of approximately £1,065K. The key variances against budget are:

- Employees - £108k underspend. This is mainly due to unfilled posts across the division during the first quarter of 2014/15, partly offset by temporary agency costs.
- Supplies & Services - £68k overspend. This is mainly due to higher than expected system licence for the new scheme (£25K), additional office move costs (£26.5K) and higher than expected postage costs relating to pension payroll slips (£16.5K).
- Income: Securities lending income so far this year has been higher than anticipated. However given the irregular timing of this income, the projection has been maintained at the budgeted level at this early stage in the year. The Fund is also considering a proposal from the custodian to change the terms of the stock lending agreement which may provide additional income.
- Investment management fees – £1,025K underspend. This is due to termination of the Rogge and Baillie Gifford mandates. The assets have been transferred in-house.

- 5.3 It is considered prudent to seek Committee's approval of a contingency budget provision of £10 million per annum in the event that externalisation of the investment management function should be required.
- 5.4 Committee are reminded that the investment management fees included in the budget are for mandates managed on a segregated basis (i.e. where the Fund assets are not comingled with those of other investors).

Risk, policy, compliance and governance impact

- 6.1 The pension funds' service plan aims to manage risk, improve compliance and governance. There are no direct implications on these issues as a result of this report.

Equalities impact

- 7.1 None.

Sustainability impact

- 8.1 None.

Consultation and engagement

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

Background reading / external references

None.

Alastair Maclean

Director of Corporate Governance

Contact: Clare Scott, Investment & Pensions Service Manager

E-mail: clare.scott@edinburgh.gov.uk | Tel: 0131 469 3865

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



23 September 2014

Service Plan Update 2014 - 2017

Lothian Pension Fund

The City of Edinburgh Council
Atria One, 144 Morrison Street
Edinburgh, EH3 8EX

pensions@lpf.org.uk

0131 529 4638

Service Plan Performance Indicators – Targets & Actual Performance

	Apr-14	May-14	June-14	Target	Status
Performance					
Performance and Risk of Lothian Pension Fund	Actual 12.0%pa, Benchmark 11.7%pa. Exceeding benchmark. Risk/return measures will take some time to demonstrate the success or otherwise of the investment strategy.			Meet benchmark over rolling 5 year periods with lower risk with risk/return measures including performance in rising and falling markets.	
Audit of annual report	Due September 2014			Unqualified opinion	
Proportion of critical pensions administration work completed within standards	93.9%	82.77%	85.63%	Greater than 90%	
Percentage of employer contributions paid within 19 days of month end	99.36%	96.29%	95.28%	98%	
Data quality – compliance with best practice as defined by the Pensions Regulator	Assessment will be made at year-end			Fully compliant	Not yet known
Pension Payroll complete on due dates	Yes	Yes	Yes	Yes	
Customer Indicators and targets					
Maintain Customer Service Excellence Standard	Annual assessment expected early 2015			Retain CSE Award	Not yet known
Overall satisfaction of employers, active members and pensions measured by surveys	Rolling 12 month performance is 84.7%			86%	
Proportion of active members receiving a benefit statement and time of year when statement is issued	None yet issued. Expected July/August			Over 95% by August	Not yet known
Staff					
Level of sickness absence	3.68%	2.48%	2.76%	4%	
Annual staff survey question to determine satisfaction with present job	Awaiting results of staff survey 2014			65%	Not yet known
Percentage of staff that have completed two days training per year.	11%	33%	35%	100%	

Our Performance - To be a top performing pension fund

Project	Status	Overall Progress	Project Summary
Successful implementation of the Scheme changes		<ul style="list-style-type: none"> - The Fund's Communications Officer continues to work with the other funds to develop clear communications for employers and scheme members. - An internal project team will aim to ensure effective co-ordination of all aspects of the implementation of the scheme changes, including staff training. - Further training for committee is also being arranged. 	<ul style="list-style-type: none"> - Communicate changes to scheme benefits to employers and members - Review internal processes and procedures - Provide training for staff on new arrangements
Ensure effective Governance of the Fund		<ul style="list-style-type: none"> - Internal investment training held for Committee & Panel in June. External training opportunities continue to be offered. - The Fund continues to keep up-to-date with the governance changes. Progress is expected over the coming months. - 	<ul style="list-style-type: none"> - Engage in debate on governance changes for the Fund - Participate in the review of the structure of the LGPS in Scotland - Reinforce the separation of the Fund from the City of Edinburgh Council and review dependencies on its services - Continue to improve the Fund's approach to 'trustee' training
Monitor financial and economic pressures and scheme maturity.		<ul style="list-style-type: none"> - Implementation of investment strategies is ongoing and is a regular agenda item at Investment Strategy Panel meetings. - Progress is being made on the 2014 Actuarial valuation. Initial results for Lothian Buses Pension Fund and Scottish Homes Pension Fund have been received. - Employer covenant work has progressed and is covered elsewhere on the Committee's agenda. 	<ul style="list-style-type: none"> - Continue to implement new investment strategies - Undertake the Fund's 2014 actuarial valuation - Review Funding Strategy Statement - Improve membership and cash flow monitoring and forecasting - Review the risk profile of the participating employers and manage the pension implications of organisational and staffing changes - Explore potential options for unitisation of the Fund

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"> - Underlying investment costs have been included in the 2013/14 accounts. - The main focus for the system support team this year is data cleansing and to improve key pension administration reports on performance. So far the team are progressing well and have resolved many of the data cleansing issues with Heywoods as well as co-ordinating the data cleansing from Club Vita. They have also begun to monitor how many hours work are lost by the administration team due to system 'down time'. - Pension Payroll is running smoothly however some development work was delayed due to the resignation of the Finance Manager that was leading project. An interim manager was put in place to address this and now a permanent Finance Manager has been appointed. Work has started on a one-off payments system that should be implemented later in the year. 	<ul style="list-style-type: none"> - Explore ways to improve transparency of investment costs. - Improve use of systems and data analysis skills. - Complete full implementation of payroll
Risk is managed effectively		<ul style="list-style-type: none"> - Progress is being made in FCA authorisation and progress is being made in implementing the recommendations for improvements in the internal investment controls. - Risk register continues to be updated regularly. 	<ul style="list-style-type: none"> - Investigate gaining of authorisation from Financial Conduct Authority to improve investment controls. - Ensure up-to-date and streamlined procedure manuals for all key responsibilities are maintained
Shared services /governance		<ul style="list-style-type: none"> - Joint working with Falkirk is progressing to implementing joint infrastructure investments via relevant staff being seconded on a part-time basis to Falkirk Council. - Progress is being made in the transfer of the Fire Fighters to the Scottish Government. 	<ul style="list-style-type: none"> - Developed shared-services with Falkirk Pension Fund. - Transfer administration of the Fire Fighters pensions schemes to the Scottish Public Pensions Agency

Our Customers - To provide excellent customer care

Project	Status	Overall Progress	Project Summary
Develop and improve customer insight.		<ul style="list-style-type: none"> - A mystery shopping exercise has taken place to analyse customers who contact us by e-mail. The results confirmed that the recent improvements by frontline staff have been successful. - A telephone survey helped us to analyse customers experience by telephone. The suggestions were taken forward to improve the customers experience when telephoning us (use of voicemail). 	<ul style="list-style-type: none"> - Continue to regularly engage with all customer groups using a variety of techniques including mystery shopping and transactional surveys. - Improve analysis of consultations to ensure it remains integral to our service.
Improve timeliness and quality of customer service.		<ul style="list-style-type: none"> - Efforts continue to assist employers to submit member contribution details to the Fund on a monthly basis to improve data quality and member service. - Employer performance reports for 13/14 have been issued and meetings with employers are ongoing. - Pensions Administration is monitoring communications through the telephone and using the information to identify (1) service improvements, (2) opportunities to change channel preferences and (3) ways to promote and encourage scheme members to use our website and member self service at the initiation point of their communication. - We have awarded a contract to Tracesmart to conduct a tracing exercise on members that we have lost touch with. - Pensions Administration workflow has been set up to distribute both urgent and non urgent cases. 	<ul style="list-style-type: none"> - Extend usage of "employer on-line" system. - Partnership accountability – monitor and publish performance against service standards to ensure we have an effective and accountable partnership with employers. - Review the way we deal with members' first point of contact with the Fund. - Attempt to trace members who we've lost touch with. - Focus efforts on non-urgent member cases. - Re-assess our service standards and targets for members.
Develop and improve our information and access.		<ul style="list-style-type: none"> - A social media project team has been set up to undertake a trial for Facebook and Twitter. We are planning to use social media to communicate pension changes from 1 April 2015 (LGPS2015). - The Customer First Team continue to gather evidence on the ways customers contact us (phone, e-mail and face-to-face). 	<ul style="list-style-type: none"> - Promote, and improve usability of, member on-line system. - Improve Frequently Asked Questions on website - Undertake trial of social media for communicating with stakeholders. - Provide more on-line training facilities for employers and members. - Develop way to monitor the ways customers contact us.

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"> - Regular 1-1 meetings with staff take place regularly. 	<ul style="list-style-type: none"> - Continue to have regular and engaging team meetings and 1-to-1s with all staff, to discuss progress, achievements and changes.
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. 	<ul style="list-style-type: none"> - Continue to communicate regularly via face-to-face briefings and via email on issues affecting the division. - Review the success of major changes and learn lessons in how we manage change.
Ensure development and training for all staff.		<ul style="list-style-type: none"> - Training and development continues to be encouraged via 1:1 and staff meetings. The achievement of training and development is being assessed regularly. - Regular briefing sessions are held internally to inform staff about current issues and developments. - Compulsory data protection training was held during the first quarter. - Project management tools are promoted internally. 	<ul style="list-style-type: none"> - Continue to promote learning and development opportunities for all staff, including those who have already achieved qualifications - Develop ICT and project management skills.
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 full testing of home-working has commenced. 	<ul style="list-style-type: none"> - Empower staff to make changes to the way they work to improve the service and efficiency, particularly around work-flow management. - Implementation of flexible working options.
Ensure team is robust and sustainable		<ul style="list-style-type: none"> - Options to address the risk associated with the internal investment team have been explored. The preferred option is to transfer staff to a special purpose vehicle to put in place specific terms and conditions. 	<ul style="list-style-type: none"> - Explore options and review plans for a sustainable team.