

Pensions Committee

2.00 p.m., Tuesday, 15 March 2016

2015-2018 Service Plan Update

Item number	5.10
Report number	
Executive/routine	
Wards	All

Executive summary

The purpose of this report is to provide an update on progress against the 2015 – 2018 Service Plan, performance indicators and the key actions to enable the Fund to meet its four key objectives:

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

Overall progress is being made against the service plan objectives.

With the exception of the customer satisfaction and the timeliness of employer contribution payments, which remain below target, it is likely that performance targets will be achieved by the end of the year.

Links

Coalition pledges

Council outcomes

[CO26](#)

Single Outcome Agreement

2015-2018 Service Plan Update

Recommendations

- 1.1 That Committee invites the Pension Board to raise any relevant matters or concerns which the Committee should consider.
- 1.2 That the Committee notes the progress of the Fund against the 2015 – 2018 Service Plan.

Background

- 2.1 The 2015 – 2018 Service Plan for Lothian Pension Fund was agreed by Pensions Committee in March 2015.
- 2.2 The purpose of this report is to provide an update on the Plan, performance indicators and the key actions to enable the Fund to meet its four key objectives:
 - Customer First;
 - Honest & Transparent;
 - Working Together; and
 - Forward Thinking.

Main report

- 3.1 Progress on the following areas is covered elsewhere on the agenda:
 - Investment strategy reviews for Lothian Buses Pension Fund and Scottish Homes Pension Fund;
 - Governance including training for Committee and Pension Board.

Other progress of particular note is shown below.

Upgrade of website and My pension Online services

- 3.2 An upgrade is being carried out to both the Fund's website and the My Pension Online service. The website upgrade follows changes to the way the Council's IT is provided and incorporates the April 2015 regulation changes. The service upgrade for the My Pension Online service is designed to add flexibility to the site and resolve difficulties some members encountered in registering for the service.

Investment transition

- 3.3 At the time of writing, plans are in place to further implement Lothian Pension Fund's investment strategy within equities and a verbal update will be provided at Committee.

Internal Investment Team - Terms and conditions

- 3.4 The employment of internal investment team was transferred to LPFE Ltd, a company wholly owned by the Lothian Pension Fund, in May 2015. The LPFE Board has recently completed a review of the terms and conditions, taking into account external benchmarking. Contracts are in the process of being updated. New terms and conditions are now closer to those of potential employers including salaries, holiday entitlement, notice periods (now 3 or 6 months, depending on the role) and confidentiality clauses.

Aiming for A investor coalition

- 3.5 Lothian Pension Fund is supporting the investor call for climate risk transparency from large mining companies. Investors have called on companies to be more transparent over climate change risks and opportunities in their business. The Fund is co-filing a supportive but stretching shareholder resolution at Rio Tinto's AGM. Co-filing the resolution demonstrates the Fund's commitment to responsible stewardship.

Membership and Cashflow monitoring

- 3.6 Officers of the Fund continue to monitor movements in membership numbers in order to assess potential implications upon cashflow. Early retirement initiatives could trigger significant and immediate outflows due to the payment of tax free lump sums and pensions and reductions in contributions received. However payment of strain costs by the employer help to mitigate current cashflow pressures.
- 3.7 A programme of staff departures is being embarked upon by the City of Edinburgh Council. There have been a significant number of early retirements at the end of 2015. It is expected that such programmes will move Lothian Pension Fund to a generally negative cash flow position in the coming years, whereby pension payments exceed total contributions received.

- 3.8 A summary of the year-to-date and projected cash flows for the pension funds is shown below.

Lothian Pension Fund	2015/16 YTD	2015/16 Projected
<u>Income</u>	£'000	£'000
Contributions from Employers	114,185	157,213
Contributions from Employees	33,424	42,824
Transfers from Other Schemes	2,229	2,829
	149,838	202,866
<u>Expenditure</u>		
Pension Payments	(111,504)	(134,254)
Lump Sum Retirement Payments	(33,005)	(42,570)
Refunds to Members Leaving Service	(714)	(796)
Transfers to Other Schemes	(5,125)	(5,925)
Other Expenditure	(6,914)	(11,757)
	(157,263)	(195,303)
Net Additions/(Deductions) From Dealings with Members	(7,425)	7,563
Lothian Buses Pension Fund		
Income	7,156	9,406
Expenditure	(9,189)	(11,454)
Net Additions/(Deductions) From Dealings with Members	(2,032)	(2,048)
Scottish Homes Pension Fund		
Income	7,156	9,406
Expenditure	(9,189)	(11,454)
Net Additions/(Deductions) From Dealings with Members	(2,032)	(2,048)

- 3.9 Cashflow projections indicate that income and expenditure will remain broadly the same for the Lothian Pension Fund for the next year, taking into account forecast early retirements from City of Edinburgh Council. This is helped by the strain costs received from the employer. Thereafter expenditure is expected to exceed income. Increased investment income has been targeted in recent years, partly for use in this scenario and investment income is expected to exceed net cashflow for the foreseeable future.
- 3.10 In Lothian Buses and Scottish Homes Pension Funds expenditure is expected to continue to exceed income.

Pension Increase 2016

- 3.11 Each April, HM Treasury uses the Consumer Price Index from the previous September to ensure pensions are keeping up with the cost of living. The Consumer Price Index is the Government's measure of how prices are rising or falling. In September 2015, the Consumer Price Index was -0.1%.
- 3.12 Her Majesty's Treasury has laid a Parliamentary Order requesting that the negative pension increase be applied to benefits. At the time of writing this report, the Order is being debated in Parliament and no decision has been made.
- 3.13 This Order would only apply where a member has Career Average benefits and how this applies to members with active, deferred and pensioner benefits is complex. The Fund has received contradictory advice from the Scottish Public Pension Agency (SPPA) and the Local Government Association (LGA) and is awaiting clarification of the position. A verbal update will be provided on the position.

Performance Indicators

- 3.14 Performance for the key performance indicators against targets are shown in the Appendix.
- 3.15 Following an external assessment, the Fund has successfully retained the award Customer Service Excellence (CSE) award. The Fund remains compliant in all of the 57 award criteria and now has six 'compliance plus' awards, increased from four. The additional two compliance plus awards cover customer insight and analysis of the customer journey.
- 3.16 Performance indicators highlighted as 'amber' are:
- Customer satisfaction over the 12 months to 31 December 2015 is behind target at 84.6% compared to the target of 87%. The satisfaction of new members continues to be strong at 84%. The email survey is showing the lowest satisfaction at 60% and work is continuing to improve these results including ensuring respond within the target of 10 days.
 - The staff training indicator is still behind target at 87.2%. However, staff training is ongoing and this indicator is expected to be met by the end of the year.
 - The timeliness of payment of employer contributions has improved but the year-to-date performance (98.6%) remains below target of 99%. The cumulative year total is 98.64% to the end of December.

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 and year-to-date financial outturn compared to the approved budget for 2015/16 is shown in the table below:

Category	Approved Budget £'000	Projected Outturn £'000	Projected Variance £'000	Budget to date £'000	Actual to date £'000	Variance to date £'000
Employees	2,489	2,253	(236)	2,074	1,792	(282)
Transport & Premises	225	234	9	188	172	(16)
Supplies & Services	1,095	1,037	(58)	912	882	(30)
Investment Managers Fees	8,100	7,800	(300)	6,750	6,460	(290)
Other Third Party Payments	1,286	751	(535)	1,072	490	(582)
Central Support Costs	276	315	39	230	262	32
Depreciation	80	91	11	67	76	9
Direct Expenditure (Invoiced)	13,551	12,481	(1,070)	11,293	10,134	(1,159)
Income	(1,657)	(1,203)	454	(1,381)	(1,002)	379
Net Expenditure (Invoiced)	11,894	11,278	(616)	9,912	9,132	(780)
Indicative Expenditure (Un-invoiced Manager Fees)	18,924	19,024	100	15,770	16,187	417
Total Cost to the Funds	30,818	30,302	(516)	25,682	25,319	(363)

5.2 The financial outturn includes year to date budget, actual expenditure and variance as at the end of January 2016. Year to date actual expenditure includes provision for services incurred but for which no invoice has yet been received. Un-invoiced expenditure (i.e. investment management costs deducted from capital) is generally assumed to be in-line with the budget. With delays in splitting out research costs from brokers fees (see below) a £500k overspend in un-invoiced fees has been forecast with a corresponding underspend in 'Other Third Party Payments'.

5.3 Committee will recall that a budget of £200K was included in the budget for increased opportunities for direct investment to enable the team to pursue investments where costs may be incurred during the due diligence process before the investment is made. Five such opportunities have arisen during the year. So far no such costs have been incurred by the Fund as all investments have completed. £200k continues to be included in the projection.

5.4 The projection shows an underspend of approximately £516k. The key variances against budget are:

- Investment Managers Fees - **£300k underspend**. Manager fees are based on market values. An 8% increase in market values was projected however year to date market prices have fallen.
- Other Third Party Payments - **£535k underspend**. A majority of this underspend is due to delays in splitting out research costs from broker's fees. A £500k budget was allocated to this however the new arrangement will not be in place before the end of the financial year. As mentioned above these costs have been offset in the Un-invoiced expenditure.
- Employees - **£236k underspend**. Various recruitment exercises have taken place through the year to fill vacant positions. The primary reason for the underspend are vacant positions of a solicitor and a portfolio manager where recent recruitment exercises have been unsuccessful. (Note that an additional Portfolio Manager was included in the budget incorrectly).
- Central Support Costs (CSC) - **£39k overspend**. Budgeted figures produced from forecasted 2014/15 figures. Final 2014/15 CSC was actually £50k higher. Work commencing to have service level agreements in place instead of CSC allocation to provide more certainty of actual costs.
- Income - **£454k below budget**. This relates to stock lending commission. The budget was modelled on Northern Trust projections based on last year's income. 50% of last years revenue was derived from one stock. The income from this stock was less reliable in the first quarter of the year and the stock was sold (unrelated to stock lending revenue) during the second quarter.

5.5 Contained within the table of 5.1 are the expenses in relation to LPFE Limited. LPFE is the company that employs the key investment personnel of the Fund. To date the total expenditure of LPFE is £660k with projected outlays for the year expected to be below £900k.

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 Pension Board, comprising employer and member representatives, is integral to the governance of the Funds.

Background reading/external references

None

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Links

Coalition pledges

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

Single Outcome Agreement

Appendices Appendix 1 – Performance Indicators

Service Plan Performance Indicators – Targets & Actual Performance

	Q1 April to June	Q2 July to Sept	Q3 Oct to Dec	Target	Status
Customer First					
Maintain Customer Service Excellence Standard	Annual assessment carried out in February 2016 – CSE retained			Retain CSE Award	
Overall satisfaction of employers, active members and pensions measured by surveys	Rolling 12 month performance is 84.6%			87%	
Proportion of active members receiving a benefit statement and time of year statement is issued	98% issued on 28 August			Over 96% by end August	
Forward Thinking					
Performance and Risk of Lothian Pension Fund	Actual 8.4%pa, Benchmark 6.9%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.	
Proportion of critical pensions administration work completed within standards	91.5%	91.8%	92.5%	Greater than 90%	
Honest & Transparent					
Audit of annual report	Achieved			Unqualified opinion	
Percentage of employer contributions paid within 19 days of month end	98.96%	97.27%	99.6%	99%	
Data quality – compliance with best practice as defined by the Pensions Regulator	Assessment will be made at year-end			Fully compliant	Not yet known
Monthly Pension Payroll paid on time	Yes	Yes	Yes	Yes	
Working Together					
Level of sickness absence	1.45%	0.28%	1.05%	4%	
Annual staff survey question to determine satisfaction with present job	73%			67%	
Percentage of staff that have completed two days training per year.	61%	74%	87%	100%	