

Pensions Committee

2.00pm, Monday, 26 March 2018

2018-20 Service Plan and Budget

Item number	5.13
Report number	
Executive/routine	
Wards	All
Council Commitments	Delivering a Council that works for all

Executive Summary

The Service Plan provides details of the pension fund's priorities over the coming years. It also sets budget and performance targets for the service.

2018-20 Service Plan and Budget

1. Recommendations

Committee is requested to:

- 1.1 Approves the two-year Service Plan for 2018-20;
- 1.2 Approves the budget for 2018-19; and
- 1.3 Notes the indicative budget for 2019-20.

2. Background

- 2.1 The Lothian Pension Fund's Service Plan has been reviewed to ensure its key performance indicators and objectives are up-to-date, clear, challenging and achievable.

3. Main report

- 3.1 The draft Service Plan for 2018-20 is provided as Appendix 1.
- 3.2 The challenges and opportunities facing the pension funds over the coming years, and hence the themes in the Service Plan, remain similar to those considered for the 2016-18 Service Plan, namely increased external scrutiny, increasing changes in employer participation in the Fund and opportunities afforded by collaboration. The Pensions Committee regularly considers these issues.
- 3.3 The draft Service Plan includes a 'Purpose' and 'Ambitions' to define priorities more clearly for the next two years. The Fund's values remain unchanged as follows:
 - Customer First;
 - Honest & Transparent;
 - Working Together; and
 - Forward Thinking.
- 3.4 Notable initiatives are:
 - Using the pension administration software system to drive further efficiencies and improvements in service, including the flow of data from employers;
 - Embed the funds' current investment collaboration initiatives and explore opportunities for collaboration on pensions administration;
 - Improve sustainability of the team, including succession planning.

3.5 Notable changes in the plan are:

- Significant expansion of the performance indicators for pensions administration;
- A new section on Risk Assurance, with a high-level summary of the controls and assurance in place to mitigate risks.

3.6 The proposed budget for 2018/19 is included in the Appendix, together with an indicative budget for 2019/20. The main points to note are summarised below at “Financial Impact”.

4. Measures of success

4.1 The funds key measures of success are:

- Meeting key performance indicators; and
- Achieving key actions set out in the Service Plan.

5. Financial impact

5.1 The proposed budget for invoiced costs represents a £474k increase to the comparable 2017/18 budget, including that agreed as part of collaboration business case. The key changes comprise the following:

	Increase/ (Decrease) £'000
<u>Employee Costs</u> – Additional posts have been added, including a temporary HR Manager and additional accounting and legal resources. An increase in employer pension contribution and staff salaries has also contributed to the increase.	304
<u>Supplies & Services</u> – additional expenditure in a front-office trading system which will be used to support internal investment management, risk controls and collaboration.	131
<u>Central Support Costs</u> – Cost savings reflect the current service level agreement in place for 2017/18.	(43)

5.2 Please note there are two significant areas, external investment manager fees and collaboration income where the budget has not changed from 2017/18.

- External Investment Manager fees – following the completion of the 2017 actuarial valuations, the Fund will be reviewing investment strategy which could impact investment manager arrangements. The proposed budget continues to include £10 million contingency to be utilised in the specific event of significant departures from the internal investment team compelling the outsourcing of the investment management function.
- Collaboration income –. The income shown in the budget is the annual income indicated in the business case provided to Committee in March 2017. As reported elsewhere on the agenda, discussions continue with potential partners over the timing, form and structure of services. Further the Fund will be working with Falkirk Pension Fund on the review of investment strategy over coming months which should provide greater certainty of collaborative initiatives.

5.3 Updates on collaboration and revised financial projections will be provided to Committee later in 2018.

5.4 Further, the Fund has not included investment performance fees which are driven by fluctuations in market values and the timing of assets being sold which are very difficult to anticipate. This coupled by inconsistencies in the accounting treatment of investment managers (some reporting performance on an accruals basis, others on a cash basis) make it extremely difficult to accurately forecast costs. In recent years, the Funds' accounts have highlighted the fluctuation in the performance related element of its investments, with 2016/17's figures reported as £4.3m compared to £12.1m in 2015/16. A majority of these performance fees were in relation to the Funds' private equity investments which are now in the realisation stage of their life cycle. The value of 2015/16's figure was also inflated by a change in accounting treatment by a manager recognising performance fees, correctly, on an accruals basis rather than a cash basis.

6. Risk, policy, compliance and governance impact

6.1 The service plan includes plans in place to manage key risks to the pension funds

7. Equalities impact

7.1 There are no adverse equalities impacts arising from this report.

8. Sustainability impact

8.1 There are no adverse sustainability impacts arising from this report.

9. Consultation and engagement

- 9.1 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.
- 9.2 Consultation and engagement via a number of sources has informed the service plan including:
- Input from staff;
 - Customer insight including surveys and meetings;
 - Feedback from the Fund's Customer Service Excellence and Pensions Administration Standards Association assessments.

10. Background reading/external references

- 10.1 None

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11. Appendices

Appendix 1 – Draft Lothian Pension Fund Service Plan 2018-2020



Service Plan 2018 - 2020



Our purpose

To provide a highly professional and responsive service to members and employers

Introduction

The City of Edinburgh Council is the administering authority for the Local Government Pension Scheme in the Lothian area. The Council administers the benefits and invests the assets of three Local Government Pension Scheme (LGPS) funds, Lothian Pension Fund, Lothian Buses Pension Fund and Scottish Homes Pension Fund.

Lothian Pension Fund is the second largest Local Government Pension Fund in Scotland with assets of approximately £6.8 billion, 90 employers with active members and over 76,000 members.

The Lothian Buses Pension Fund holds assets of £0.5 billion and 3,800 members, while Scottish Homes Pension Fund investments amount to £0.17 billion with 1,700 members.

How the Funds are run

All pension matters are delegated to the Pensions Committee of the Council and its members act as 'quasi trustees'. The day to day running of the Fund is delegated to a specialist team who undertake pension administration, accounting and investment functions, managing the majority of the Fund's assets internally. The team is employed by an arms-length company which is owned by the Council and is supervised by a board of directors chaired by the Council's Executive Director of Resources.

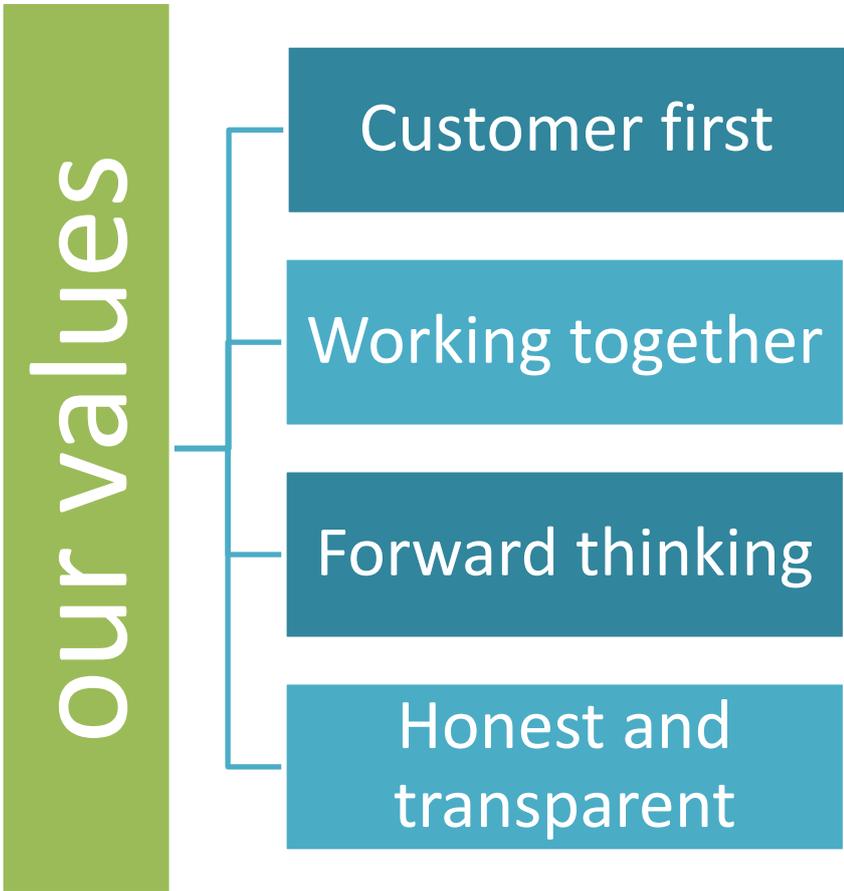
A Pension Board, made up of 5 employer and 5 union member representatives, assists the Pensions Committee in securing compliance with legislation and other requirements of the Pensions Regulator.

Investment strategy guidance to the Committee is provided by an Investment Strategy Panel, working in collaboration with Falkirk Pensions Fund. The Investment Strategy Panel includes senior officers and external investment advisers. The Pensions Committee of each Council agree their own investment strategy but delegate the implementation of strategy, including selection of investment managers, to officers. The Investment Strategy Panel advises the Finance Directors of each administrating authority (the City of Edinburgh Council and Falkirk Council) on implementation of investment strategy. The assets of Lothian Pension Fund and Falkirk Council Pension Fund remain separate.

The Fund maintains a comprehensive website for easy access to all relevant pension information and this is found at www.lpf.org.uk. This includes the Annual Report & Accounts of the three pension funds, Statement of Investment Principles, Funding Strategy Statement and Pensions Administration Strategy and Pensions Discretions Policy.

Our Ambitions and Our Values

- To provide an excellent service to our members and employers
- To provide funding and investment strategies for employers to manage affordability and mitigate risk
- To be a partner of choice for other local government pension funds to improve efficiency and sustainability



Service plan priorities

Customer first	Provide an excellent service to members <ul style="list-style-type: none">❖ Implement new technology, improving service and maximising efficiencies.❖ Continue to improve the flow of data from employers and the quality of member data.❖ Broaden our performance indicators and targets for pensions administration to improve service.
	<ol style="list-style-type: none">1. Implementation of new pension administration systems.2. Explore automation of pension administration work to improve productivity, efficiency and customer experience.3. Review Pensions Administration Strategy.4. Introduce broader pension administration performance measures.5. Continue to improve member communications through a new website, provision of improved material.6. Communicate new flexibilities introduced by the 2018 regulation changes.7. Complete reconciliation of members' Guaranteed Minimum Pensions with HMRC information.8. Continue to use the Customer Service Excellence and Pension Administration Standards Association criteria to enhance our service.

Collaboration

- ❖ **To be the partner of choice for other Scottish LGPS funds.**
- ❖ **Inform and influence decisions on the LGPS at national level.**
- ❖ **Review opportunities to work with English & Welsh LGPS investment pools.**
- ❖ **Extend collaboration services to provide access to LPF's in-house investment portfolios.**
- ❖ **Explore options for collaboration in pensions administration and Joint Investment Strategy Panel.**
- ❖ **Develop communications strategy around our collaborations.**

1. Deliver extended collaborative services to Falkirk Pension Fund and beyond.
2. Work with the Joint Investment Strategy Panel to review the Investment Strategies of the Lothian and Falkirk Pension Funds.
3. Continue to support collaboration efforts, with appropriate accounting and financial reporting.
4. Implementation of Front Office Investment System, maximising efficiencies and controls.
5. Strengthen resources to support increasing collaborative opportunities and regulatory developments.

Develop team-based culture of excellence

- ❖ **Develop and embed culture of excellence following transfer of staff to LPFE Limited.**
- ❖ **Celebrate and reward team and individual successes, incentivising excellent performance.**
- ❖ **Improve sustainability of the team, building support, developing capabilities and succession planning.**
- ❖ **Put in place a business support function.**

1. Create flexible, supportive and empowering working environment focused on productivity and high quality output.
2. Introduce new performance review process for staff and managers.
3. Deliver high professional standard of internal service delivery to support staff, external parties and business in all areas.
4. Develop and enhance procedures manuals.

Effective Governance

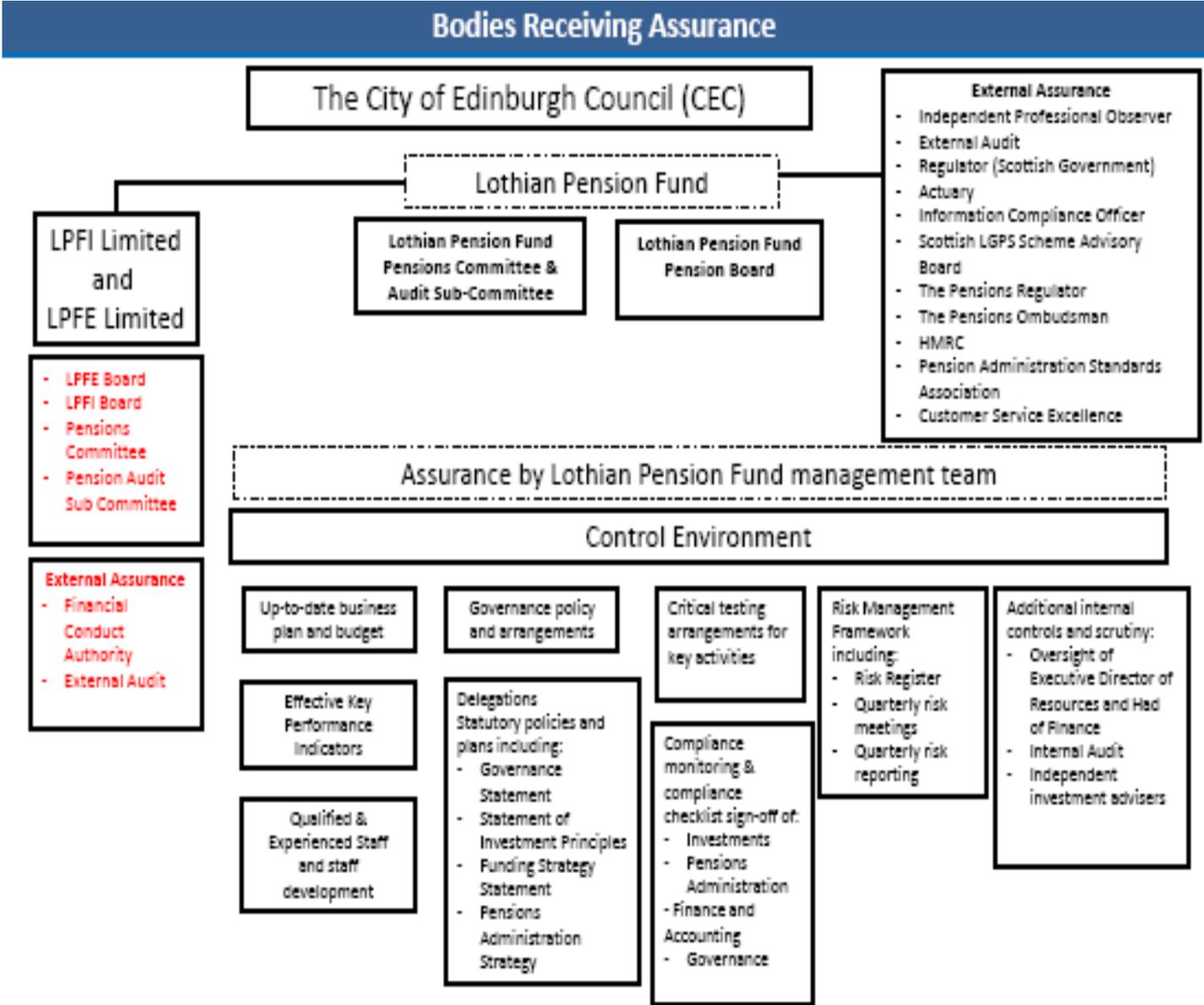
- ❖ **Focus on our accountability to members and employers, whilst continuing to report to the general public.**
- ❖ **Knowledgeable and resourced governance.**
- ❖ **Greater transparency on pensions administration performance.**
- ❖ **Develop support services, including those received from Council departments.**

1. Ensure processes, systems and communications comply with new data protection and financial services legislation.
2. Ensure successful consolidation of Lothian Pension Fund and Lothian Buses Pension Fund.
3. Enhance reporting facilities of the employer unitisation of Lothian Pension Fund.
4. Complete review of admission agreements.
5. Ongoing employer covenant analysis and develop process for ongoing management and monitoring of employer funding (cessation) agreements.
6. Develop governance processes and procedures for the Fund's arm's length companies.
7. Focus on Investment Management Fee transparency.
8. Improve communication of efforts around responsible investment and analysis of environmental, social and governance issues.
9. Maintain a leading approach to risk management.

Risk Assurance

The Fund operates a bespoke assurance framework designed to ensure it meets its objectives, is adequately resourced, managed to high professional standards, meets legislative requirements and has high customer satisfaction.

The framework is illustrated below:



An extensive risk register is maintained covering a wide range of issues across investments and benefit operations. The register is subject to internal review each quarter and a summary is reported to Pensions Committee and Pensions Audit Sub-Committee. On an annual basis the Pensions Audit Sub-Committee reviews the register.

Performance Indicators

	2016/ 2017	2017/ 2018	2018/ 2019	2019/ 2020
	Target (Actual or Actual Year-to-Date)		Target	Target
Maintain Customer Service Excellence Standard (CSE) (Annual assessment)	Retain (Retained)	Retain (Assessment March 2018)	Retain	Retain
Maintain Pensions Administration Standards Association (PASA) accreditation (achieved in 2017 with biannual assessment)			Retain	-
Overall satisfaction of employers, active members and pensioners measured by surveys	88% (90%)	89% (92.5%*)	90%	91%
Proportion of members receiving a benefit statement and by August	100% (99.6%)	100% (99.9%)	100%	100%
Investment performance and Risk of Lothian Pension Fund	Meet benchmark over rolling 5 year periods with lower risk with risk/return measures including performance in rising and falling markets			
	(Met)	(Met)		
Audit of annual report	Unqualified opinion			
	Unqualified opinion	Unqualified opinion		
Percentage by value of pension contributions received within 19 days of the end of the month to which they relate	99% (98.6%)	99% (99.7%*)	99%	99%
Data quality - compliance with best practice as defined by The Pensions Regulator	Fully compliant			
	Fully compliant	Fully compliant		
Monthly pension payroll paid on time	Yes (Yes)	Yes (Yes)*	Yes	Yes
Level of sickness absence	4.0% (0.9%)	4.0% (1.3%*)	4.0%	4.0%
Proportion of staff engaged			Greater than 70%	Greater than 80%
All staff complete at least two days training per year	Yes (Met)	Yes (on track*)	Yes	Yes
Proportion of critical pensions administration work completed within standards – individual performance within this indicator are shown below	Greater than 90% (93%)	Greater than 90% (96%*)	Greater than 91%	Greater than 92%
❖ Provide new members with scheme information within 20 working days of getting details from employer	-	-	100%	100%

	2016/ 2017	2017/ 2018	2018/ 2019	2019/ 2020
❖ Provide transfer-in quote within 10 working days of receiving the Cash Equivalent Transfer Value (CETV) from member's previous pension provider	-	-	95%	96%
❖ Notify members holding more than 3 months, but less than 2 years' service, of their options at leaving. As there is a one month and a day lying period, the target is within 10 days of the end of the lying period or after the employer providing full leaving information if later	-	-	80%	85%
❖ Pay a refund of contributions within 7 working days of receiving the completed declaration and bank detail form	-	-	90%	91%
❖ Notify early leavers entitled to deferred benefits of their rights and options within 10 days of being informed of end of pensionable service	-	-	90%	91%
❖ Provide a maximum of one guaranteed Cash Equivalent Transfer Value (CETV) within 10 working days of receiving a request	-	-	90%	91%
❖ Payment of CETV within 20 working days of receiving all completed transfer out forms	-	-	95%	96%
❖ Pay lump sum retirement grant within 7 working days of receiving all the information we need from the member	-	-	95%	96%
❖ Estimate requested by employer of retirement benefits within 10 working days	-	-	90%	91%
❖ Pay any lump sum death grant within 7 working days of receipt of the appropriate documentation	-	-	95%	96%
❖ Notification of dependant benefits within 5 working days of receiving all necessary paperwork	-	-	95%	96%
❖ Acknowledge the death of a member to next of kin within 5 working days	-	-	95%	96%
❖ Respond in writing within 20 working days to formal complaints that have escalated from frontline resolution, or recorded directly as an investigation	-	-	95%	96%
**Proportion of non-key procedures completed within standard including Additional Regular Contributions, responding to member communications, updating nominations and maintaining the member database.	65% (64%)	65% (79.4%)	75%	76%

* Performance for financial year to January 2018, ** previously an internal performance indicator

Our Budget

The budget for 2018-2019 and indicative figures for 2019-2020 are as follows:

	Projected 2017/18 £000	Budget 2017/18 £000	Movement £000	Budget 2018/19 £000	Movement £000	Indicative Budget 2019/20 £000
Employees	2,707	3,210	304	3,514	38	3,552
Property Costs	201	201	1	202	1	203
Plant and Transport	41	41	7	48	-	48
Supplies and Services	1,021	1,594	131	1,725	(95)	1,630
Third Party Payments	1,055	1,404	35	1,439	(25)	1,414
Investment Managers Fees*	22,300	22,300	0	22,300	-	22,300
Support Costs	250	286	(43)	243	-	243
Capital Funding	82	82	39	121	(8)	113
Gross Expenditure	27,657	29,118	474	29,592	(89)	29,503
Income - Stock Lending	(770)	(550)	-	(550)	-	(550)
- Collaboration	(287)	(740)	-	(740)	-	(740)
- Other	(25)	(20)	-	(20)	-	(20)
Total Income	(1,082)	(1,310)	-	(1,310)	-	(1,310)
Net Expenditure	26,575	27,808	474	28,282	(89)	28,193

* External Investment Management Fees include uninvoiced investment expenditure.

Pension Administration	2,076	2,213	33	2,246	(1)	2,245
Investment Management	24,499	25,595	441	26,036	(88)	25,948

Investment Managers Fee Contingency	-	10,000	-	10,000	-	10,000
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Capital Expenditure

Loan Facility - LPFE	358	358	(358)	-	-	-
- LPFI	250	250	(250)	-	-	-
LPFI Share Capital	60	150	(60)	90	(90)	-
Total Capital Expenditure	668	758	(668)	90	(90)	-