

# Pensions Committee

10am, Wednesday, 13 March 2013

## Lothian Pension Fund Service Plan 2013 - 2016

Item number	5.4
Report number	
Wards	All

### Links

---

Coalition pledges

Council outcomes [CO26](#)

Single Outcome Agreement

### Alastair Maclean

Director of Corporate Governance

Contact: Clare Scott, Investment & Pensions Service Manager

E-mail: [clare.scott@edinburgh.gov.uk](mailto:clare.scott@edinburgh.gov.uk) | Tel: 0131 469 3865

# Executive summary

## Lothian Pension Fund Service Plan 2013 - 2016

### Summary

---

The purpose of this report is to present the Service Plan 2013-16 for the Lothian Pension Funds and propose the 2013-14 budget with a further two years indicative figures for 2014-16.

### Recommendations

---

The Pensions and Trusts Committee is recommended to:

- Approve the Service Plan 2013-16 and the budget 2013-14; and
- Note the indicative budgets for years 2014-15 and 2015-16.

### Measures of success

---

The funds key measures of success are:

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

### Financial impact

---

The budget for 2013-14 is recommended for approval. The proposed budget for 2013-14 shows an increase of £192K (1.4%) from 2012-13.

The budgets for years 2 and 3 of the Service Plan, i.e. 2014-15 and 2015-16, are indicative only.

### Equalities impact

---

There are no adverse equalities impacts arising from this report.

### Sustainability impact

---

There are no adverse sustainability impacts arising from this report.

## Consultation and engagement

---

Consultation and engagement via a number of sources has informed the service plan including:

- Customer insight including surveys and meetings;
- Feedback from the Fund's Customer Service Excellence assessment;
- Staff survey and staff meetings.

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

## Background reading / external references

---

Not applicable.

## Lothian Pension Fund Service Plan 2013 - 2016

### 1. Background

---

- 1.1 The Lothian Pension Funds Service Plan is reviewed on an annual basis to ensure its key performance indicators and objectives are up-to-date, clear, challenging and achievable.

### 2. Main report

---

- 2.1 The draft Service Plan for 2013 – 2016 is provided as Appendix 1.

- 2.2 The Fund's three objectives remain unchanged:

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

- 2.3 The changes to the key performance indicators from the 2012-2015 Service Plan are:

- The indicator for the investment performance of the Lothian Pension Fund has amended as a result of the conclusions from the strategy review. The target of outperforming the benchmark by 1% has been removed and replaced with a target of delivering benchmark return over the long-term with lower volatility of returns. (The intention is to develop a broad set of performance indicators with Committee based on investment and funding issues as the new investment strategy is implemented).
- The indicator for the pension administration cost per member performance has been removed. Changes in the Fund's membership are difficult to predict and make managing the cost per member difficult in the short term. Targets previously set by the Fund have been cognisant of peer-group comparisons. It is proposed that more detail on peer-group comparisons of this indicator are provided to Committee in the annual performance report, referred to in agenda item 7. (Based on the proposed budget for 2013-14 and Fund membership at December 2012, the average cost per member would be £24.40, an increase of 0.8% on the estimated outcome for 2012-13 of £24.21).

- Satisfaction of employers, active members and pensioners with communications has been removed. Compliance with the Customer Service Excellence award and the overall customer satisfaction measure are sufficient to give a clear indication on customer satisfaction with communications. However, this indicator will continue to be monitored internally.
- The staff training requirement of an average of at least 2 days per year has been changed to a minimum of 2 days per year. This more stringent target focuses on ensuring all members of staff receive training and development.
- For the first time an unqualified opinion of the Fund's annual report has been included as a key performance indicator. This measure will clearly demonstrate that the Fund is meeting its responsibility in regards to the safe keeping and accounting of fund assets and preparing of annual reports and accounts.

2.4 The proposed budget for 2013-2014 and indicative figures for 2014-2015 and 2015-2016 are provided in Appendix 2. The following areas account for the movement in budget from 2012-13 to 2013-14 of £192K:

- Investment management -£8K. This includes a reduction in external investment management fees of £191K largely offset by increases in internal management costs. This includes the recruitment of an additional portfolio manager (as agreed by Committee in December 2012) and system costs. Work is ongoing on the implementation of the new investment strategy and therefore the budget for external management fees is largely indicative. It allows for an increase of approximately 10% in the size of the Fund over the year and the removal of active currency management - these two factors would have increased investment management fees by approximately £1million.
- Accounting service +£42K. This is due to the take up of the accounting service from the Fund's custodian partly offset by savings from the termination of associated ICT contracts.
- Employer on-line service £30K. These revenue costs have been offset, to some degree, by capital expenditure savings of £20K in 2012/13.
- Transfer of Pensioner Payroll +£27K. The budget assumes the service (and associated staff) will transfer to the Fund in the summer of 2013. The increase in budget allows for temporary support from the City of Edinburgh payroll department during the transition.
- Various staffing changes +£16K – this is made up of salary increases partially offset by savings from changes to management structure (early

retirement) as well as reductions in pay as a result of the 2010 modernising pay changes.

- Various additional supplies and services (+£71K) associated with general Fund and investment governance including the independent observer, audit of currency trading, overseas tax returns and tracing of deferred members.
- Central Support Costs are provisional, pending receipt of final calculations. Adjustments have been made to reflect estimated savings through in-house provision of pensioner payroll and legal services.

- 2.5 The capital budget 2013/14 includes provision of £260,000 for the procurement of an integrated payroll system. This is rolled forward from the previously approved 2012/13 budget of £230,000, increased by £30,000 to reflect the contract award.
- 2.6 Consideration is currently being given to relocation of the Fund's staff. Such a move would be conditional on costs being within the budget.

### 3. Recommendations

---

3.1 The Pensions Committee is recommended to:

- Approve the Service Plan 2013-16 and the budget 2013-14;
- Note the indicative budgets for years 2014-15 and 2015-16; and
- Note that the intention to relocate the Fund's staff within the existing budget.

## Alastair Maclean

Director of Corporate Governance

### Links

---

#### Coalition pledges

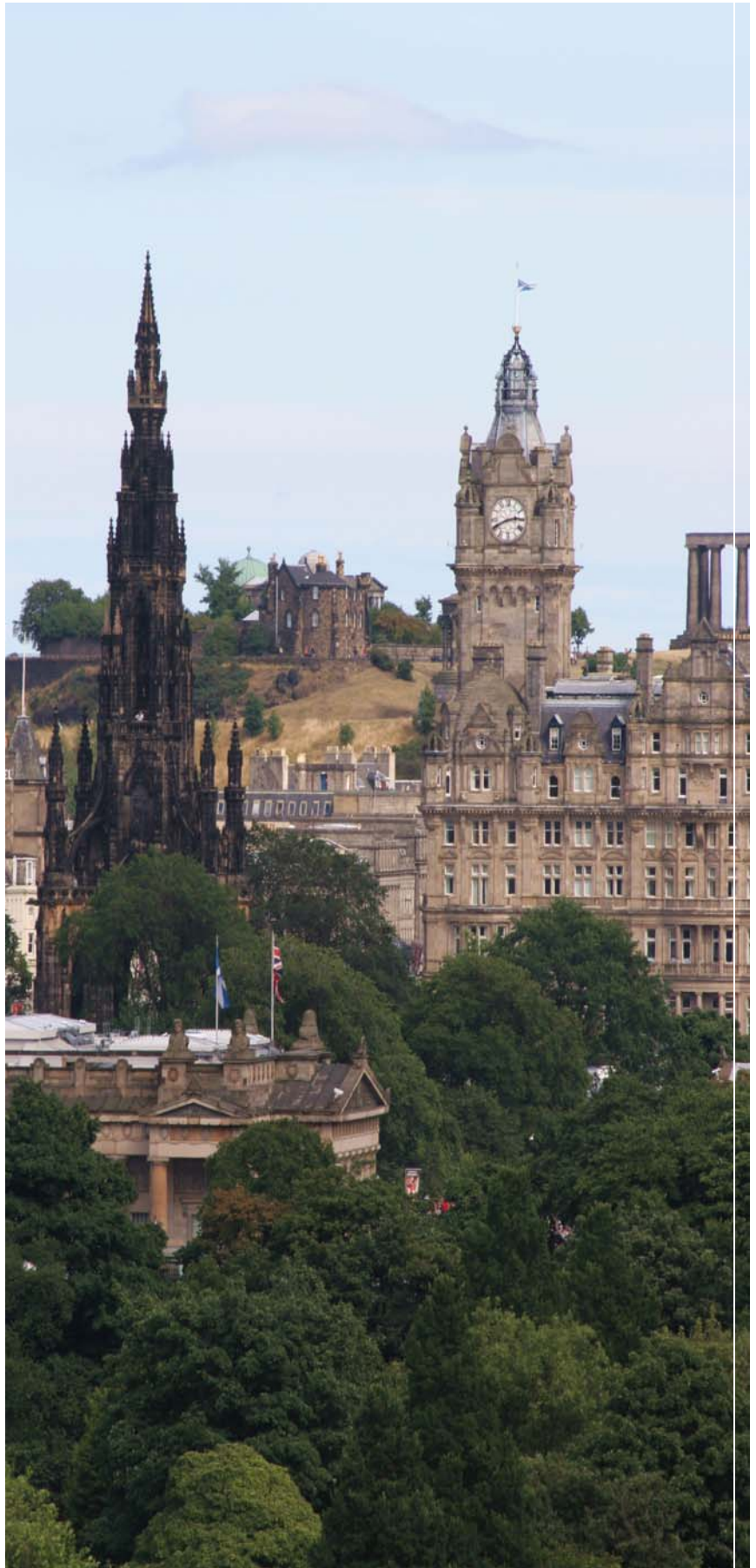
**Council outcomes** CO26 – The Council engages with stakeholders and works in partnerships to improve services and deliver agreed objectives.

#### Single Outcome Agreement

**Appendices** Appendix 1 – Lothian Pension Fund Proposed Service Plan 2013-2016  
Appendix 2 - Proposed budget for 2013-2014 and indicative figures for 2014-2015



# Service Plan 2013 - 2016



# Service Plan 2013 - 2016

## Introduction

The City of Edinburgh Council is the administering authority for the Local Government Pension Scheme in the Lothian area. As such, the Investment and Pensions Division of 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 £3.8 billion. The audited Annual Report and Accounts 2011/12 shows that the Fund has 185 employers (105 of those with active members) and over 66,300 members participate in the Fund.

The Lothian Buses Pension Fund held assets of £0.27 billion and 4,011 members as at 31 March 2012, while Scottish Homes Pension Fund totaled £0.13 billion with 1,952 members.

The Division also provides pension administration services for the Fire-fighters' Pension Schemes for Lothian and Borders Fire and Rescue Service which will be merged into the Scottish Fire and Rescue Service from 1 April 2013.

## How the Fund is 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 the Investment and Pensions Division under the supervision of the Director of Corporate Governance.

A Consultative Panel, made up of employers and members, meets with the Pensions Committee and it considers the views of the Panel when making decisions.

Investment strategy guidance to the Committee is provided by the Investment Strategy Panel, which includes senior officers and specialist investment advisers.

The Fund has its own internal investment management staff and also appoints external managers to invest in specific investment markets. Additionally, internal staff provide the pension administration, accounting and ICT functions. The fund maintains a comprehensive website for easy access to all relevant pension information and this is found at [www.lpf.org.uk](http://www.lpf.org.uk). This includes the audited Annual Report 2011/12 of the three pension funds.

## Policies

The policies of the Fund, including the Statement of Investment Principles, Funding Strategy Statement, Pensions Administration Strategy and Pensions Discretions Policy are published on the Fund's website.



## Our Service

The Fund is committed to continuously developing to provide the best possible service to our customers.

To ensure we meet this aim we have set the following three objectives for our service:

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

To enable us to achieve these objectives we must:

- meet our statutory responsibilities
- develop our performance, our customer service and our people beyond our statutory responsibilities taking into account internal and external influences. This will ensure that the Fund continuously evolves, develops and improves its service.

## Our Responsibilities

The Fund is responsible for all aspects of the pension funds, including investment, administration and accounting. The principal responsibilities are:

- Carrying out the funding strategy aimed at ensuring the assets of the Fund are sufficient to meet pension liabilities.
- Investing fund assets, implementing investment strategy and investing responsibly.
- Administering pension services including calculating and paying benefits.
- Safe keeping and accounting of fund assets and preparing the Fund's annual report and accounts.
- Providing an excellent service to key stakeholders, including, members of the Fund and employers.
- Ensuring the Fund has committed, knowledgeable and customer-focused staff.

To ensure we meet our responsibilities, we use a range of indicators covering different aspects of the service. We set challenging targets for the performance indicators and monitor performance against the targets on a regular basis.

The key performance indicators and targets are shown next.

## Key Performance Indicators\*

Performance Indicators	Target & (Actual)*				
	2011/ 2012	2012/ 2013	2013/ 2014	2014/ 2015	2015/ 2016
<b>Performance</b>					
Performance of Lothian Pension Fund over rolling 5 year periods	n/a	n/a	Meet benchmark return with lower volatility		
Audit of annual report	Unqualified opinion (Yes)	Unqualified opinion			
Proportion of critical pensions administration work completed within standards (see table below)	Greater than 90% (94%)	Greater than 90% (94%)	Greater than 90%	Greater than 90%	Greater than 90%
Percentage of employer contributions paid within 19 days of month end	97% (97%)	97% (98%)	98%	98%	99%
Data quality - compliance with best practice as defined by The Pensions Regulator	Fully compliant (Yes)	Fully compliant			
<b>Customers</b>					
Maintain Customer Service Excellence Standard	Maintain CSE (Yes)	Maintain CSE (Yes)	Maintain CSE	Maintain CSE	Maintain CSE
Overall satisfaction of employers, active members and pensioners measured by surveys	80% (88%)	85% (86%)	86%	86%	86%
Proportion of active members receiving a benefit statement and time of year when statement is issued	Over 95% by Sept (95%)	Over 95% by Sept (97%)	Over 95% by Sept	Over 95% by Aug	Over 95% by Aug
<b>Staff</b>					
Level of sickness absence	3.0% (4.9%)	4.0% (4.4%)	4.0%	4.0%	4.0%
Annual staff survey question to determine satisfaction with present job	55% (45%)	60% (53%)	60%	65%	65%
Minimum number of days training per year for each member of staff	n/a	n/a	2 days	2 days	2 days

\* Actual performance to the time of writing, where known, is shown in brackets against previous targets

### Customer Care Standards:

New starts information sent out  
 Payment death lump sum  
 Payment of dependent's pension  
 Payment of retirement pension  
 Provision of retirement quote  
 Early leaver payment of refund  
 Early leaver - transfer out quote  
 Transfer in

### Target is 90% within time limit below

20 days  
 5 days  
 5 days  
 5 days  
 10 days  
 10 days  
 30 days  
 30 day

# Continuous improvement

We are committed to continuously improving our service and we take a number of factors into account when developing the service including:

**Customer Insight** - The Fund has a wide range of internal and external customers. We use a variety of engagement techniques to develop our understanding of different customer groups and our staff (for example face to face meetings, surveys and customer journey mapping techniques). Their needs, experiences of our service and their perception of the Fund help us to continually improve and become more efficient and effective.

**Risk Management** - The Fund is committed to a strong control environment to ensure that risks are identified, understood, managed and monitored appropriately. The risks faced by the Fund change over time and ongoing management of risk is crucial.

**Scrutiny** - The Fund is subject to both internal and external audit. In addition, we invite external assessment of our customer services via the Customer Service Excellence award. We use the Investors in People award to assess how we support and develop our staff.

## Other Current Influences

Political	<ul style="list-style-type: none"> <li>- The Public Service Pensions Bill is likely to have significant impact on the Local Government Pension Scheme in Scotland by 2015. Changes to the Scheme benefits and governances are expected.</li> </ul>
Economic	<ul style="list-style-type: none"> <li>- Austerity measures within the economy have impacted upon investment markets, with concerns over economic growth and historically low gilt yields.</li> <li>- Continuing budgetary constraints across the public sector have led to sizeable reductions in employee numbers with further cutbacks anticipated. This has significant implications for the Fund. The maturity profile of liabilities is expected to increase and in particular, real pressure is exerted on Fund cash-flows.</li> <li>- Severe funding constraints have highlighted the need to improve efficiency and reduce costs. New ways of working such as joint procurement initiatives with other public sector pension funds are, therefore, being considered.</li> </ul>
Social	<ul style="list-style-type: none"> <li>- Customers' expectations of service delivery continue to increase.</li> <li>- There is a risk to sustainability should significant numbers of members decide to opt-out of the Fund on grounds of affordability or lack of appreciation of the value of pension benefits.</li> </ul>
Technological	<ul style="list-style-type: none"> <li>- Advances in information technology facilitating on-line self-services and data transfer for both scheme members and employers.</li> </ul>
Legal	<ul style="list-style-type: none"> <li>- The Fund's governance arrangements changed during 2012/13 with the introduction of a pensions audit sub-committee and an Independent Observer to the Pensions Committee.</li> <li>- The Pensions Regulator is expected to take on the role of regulatory oversight of public sector pension schemes from 2015.</li> </ul>
Environmental	<ul style="list-style-type: none"> <li>- The Fund continues to strive to be an active shareholder to enhance the long-term value of our investments, including engagement on environmental, social and governance issues.</li> </ul>

## Our Performance

The Public Service Pensions Bill, if enacted, will bring significant changes and challenges for the Fund in terms of both scheme benefits and governance. There will be significant communication demands on the Fund and delivery risks in meeting service standard expectations, should a new scheme bring additional administrative complexity. Changes in the governance of public service pension schemes could also lead to greater scrutiny of the Fund's service.

By striving to continually improve our performance, the Fund will be position to meet these challenges.

### Objective

- To continue to be a top performing pension fund

Action	Description
Ensure effective Governance of the Fund	<ul style="list-style-type: none"> <li>- Embed the Fund's new governance arrangements including the new pensions audit sub-committee and independent observer</li> <li>- Reinforce the separation of the Fund from the City of Edinburgh Council</li> <li>- Continue to improve the Fund's approach to 'trustee' training</li> </ul>
Successful implementation of Scheme changes	<ul style="list-style-type: none"> <li>- Engage in debate on scheme benefits</li> <li>- Communicate with stakeholders</li> <li>- Review internal processes and procedures</li> <li>- Provide training for staff on new arrangements</li> </ul>
Monitor financial and economic pressures and scheme maturity	<ul style="list-style-type: none"> <li>- Implement new investment strategies</li> <li>- Prepare for the Fund's 2014 actuarial valuation</li> <li>- Improve membership and cash flow monitoring and forecasting</li> <li>- Monitor the risk profile of the participating employers</li> <li>- Manage the pension implications of organisational and staffing changes of employers.</li> </ul>
Provide an efficient, accurate and effective service	<ul style="list-style-type: none"> <li>- Implement the transfer of the pensions payroll service</li> </ul>
Risk is managed effectively	<ul style="list-style-type: none"> <li>- Review and strengthen internal controls and documentation</li> <li>- Ensure up-to-date procedure manuals for all key responsibilities are maintained</li> </ul>
Shared services/governance	<ul style="list-style-type: none"> <li>- Provide excellent service to Falkirk Pension Fund</li> <li>- Participate in relevant joint procurement initiatives</li> </ul>

## Our Customers

We aim to provide our customers with the very best service. Our Customer Service Excellence award demonstrates that we consistently strive to meet our customers' needs. Our latest assessment endorsed our approach to consulting with all our customer groups and improving the service as a result. It also recognised that we need to improve our partnership working with our employers to deliver the service our customers expect.

The lack of new entrants to the Fund, particularly younger employees is a very pertinent concern, as is the awareness customers have of the value of their pension benefits and the contributions made by their employer.

Developments in technology mean we have a great opportunity to make it easier for customers to access information regarding their pension and communicate the benefits of the local government pension scheme.

### Objective

#### - To provide excellent customer care

Action	Description
Develop and improve customer insight	<ul style="list-style-type: none"> <li>- 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.</li> <li>- Continue to deliver best practice standards for Customer Journey Mapping and develop greater use of customer insight.</li> <li>- Develop members' awareness of the value of the pension benefits and the contributions their employers make towards their pension.</li> <li>- Improve analysis of consultations to ensure it remains integral to our service.</li> <li>- Seek additional insight to assist the implementation and development of the pension payroll service.</li> </ul>
Improve timeliness and quality of customer service.	<ul style="list-style-type: none"> <li>- Implement "employer on-line" access, thereby facilitating up to date records through electronic transfer of information in standardised formats.</li> <li>- Partnership accountability – review and monitor service standards to ensure we have an effective and accountable partnership with employers.</li> <li>- Re-assess our service standards and targets for members.</li> </ul>
Develop and improve our information and access.	<ul style="list-style-type: none"> <li>- Ensure we communicate regularly with employers including newsletters, events and meetings.</li> <li>- Assess our approach to delivering services to members on a face-to-face basis including pension clinics and presentations.</li> <li>- Continue to review and update the Fund's communications based on customer and staff insight.</li> <li>- Assess potential uses of social media for communicating with stakeholders.</li> <li>- Develop channel usage monitoring.</li> </ul>

## Our Staff

Our people are at the very heart of our business and key to delivering our responsibilities and objectives. We work hard to equip our staff with the right skills and support to drive the service forward. Staff receive support in studying for professional qualifications related to the service.

The Fund is committed to supporting a culture of openness, honesty and transparency. Staff are expected to comply with the Employee Code of Conduct Policy which includes the seven principles of public life (Selflessness, Integrity, Objectivity, Accountability, Openness, Honesty and Leadership). By adopting an open culture, the Fund encourages staff to contribute to the continuous improvement of the service. This includes learning from mistakes by reporting and investigating them in a positive, open and structured way.

Managers receive feedback from staff in a number of ways including informal communication as well as surveys and a staff forum. This feedback is used to improve the service.

### Objective

- To support and develop staff

Action	Description
Develop trust between line managers and staff and promote an open culture	<ul style="list-style-type: none"> <li>- Ensure line managers have regular team meetings and 1-to-1s with all staff, to discuss progress, achievements and changes.</li> <li>- Ensure effective delegation of tasks.</li> </ul>
Communicate effectively, especially around change	<ul style="list-style-type: none"> <li>- Communicate regularly via face-to-face briefings and via email on issues affecting the division.</li> <li>- Review the success of major changes and learn lessons in how we manage change.</li> <li>- Provide clear objectives at annual appraisal meetings and review progress on a regular basis.</li> </ul>
Ensure development and training for all staff	<ul style="list-style-type: none"> <li>- Provide learning opportunities at all levels to suit the needs of the service including ICT skills.</li> <li>- Provide staff with career and personal development opportunities to make the most of their talents.</li> <li>- Review training and development evaluation process.</li> </ul>
Support staff well-being	<ul style="list-style-type: none"> <li>- Encourage suggestions and empower staff to make changes to the way they work to improve the service.</li> <li>- Provide clear feedback in response to staff suggestions.</li> <li>- Explore flexible working options.</li> <li>- Help staff develop to their full potential.</li> </ul>

## SUMMARY PENSION FUND BUDGETS 2013/2014 TO 2015/2016

BUDGET FOR 2012/2013 PROVIDED FOR COMPARISON PURPOSES

Budget Head	Budget 2012/13 £	Movements £	Budget 2013/14 £	Movements £	Budget 2014/15 £	Movements £	Budget 2015/16 £
Employees	1,914,643	246,851	2,161,494	27,764	2,189,258	40,364	2,229,622
Property Costs	0	0	0	0	0	0	0
Plant and Transport	26,735	0	26,735	0	26,735	0	26,735
Supplies and Services	863,855	-20,695	843,160	49,705	892,865	5,000	897,865
Third Party Payments	349,000	242,700	591,700	39,900	631,600	-43,100	588,500
Investment Managers Fees	10,284,098	-170,940	10,113,158	807,453	10,920,611	872,049	11,792,659
Transfer Payments	0	0	0	0	0	0	0
Support Costs	701,586	-149,903	551,683	-123,369	428,314	0	428,314
Capital Funding	44,333	29,867	74,200	26,000	100,200	0	100,200
<b>Gross Expenditure</b>	<b>14,184,250</b>	<b>177,880</b>	<b>14,362,130</b>	<b>827,453</b>	<b>15,189,583</b>	<b>874,313</b>	<b>16,063,895</b>
Specific Government Grants	0	0	0	0	0	0	0
Other Grants and ontributions	0	0	0	0	0	0	0
Customer and Client Receipts	-84,441	34,441	-50,000	0	-50,000	0	-50,000
Interest	0	0	0	0	0	0	0
Income - Fire	0	-20,000	-20,000	0	-20,000	0	-20,000
Income - Other	-800,000	0	-800,000	0	-800,000	0	-800,000
<b>Total Income</b>	<b>-884,441</b>	<b>14,441</b>	<b>-870,000</b>	<b>0</b>	<b>-870,000</b>	<b>0</b>	<b>-870,000</b>
<b>Net Expenditure</b>	<b>13,299,809</b>	<b>192,321</b>	<b>13,492,130</b>	<b>827,453</b>	<b>14,319,583</b>	<b>874,313</b>	<b>15,193,895</b>
<b>Capital Budget</b>	<b>0</b>	<b>260,000</b>	<b>260,000</b>	<b>-260,000</b>	<b>0</b>		<b>0</b>