

Pensions Committee

2pm, Wednesday, 18 December 2013

Service Plan Progress

Item number	5.5
Report number	
Wards	All

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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 is set out in the appendix. The following areas are of particular note:

Reform of the LGPS Scotland

The draft Heads of Agreement with principles for changing the Local Government Pension Scheme (LGPS) in Scotland have been announced. The key scheme changes are:

- Change to Career Average Revaluation of Earnings (CARE).
- CARE revaluation linked to Consumer Price Index.
- Change in the accrual rate (rate a member's pension builds up) from 1/60th to 1/49th.
- 50:50 Option – allowing members to pay 50% contributions to build up 50% of full benefits for a period.
- Introduction of an Employers' cost cap mechanism to ensure the future affordability and sustainability of the scheme.
- Protection for benefits built up before 1 April 2015 which will continue to be based on final salary at retirement.

COSLA and the Trade Unions have agreed the new design of the Local Government Pension Scheme (LGPS) in Scotland following the recent trade unions ballot on the proposals.

A national seminar for the Councillors of Scotland has been arranged for 17 December to engage in debate on scheme benefits, discuss key issues and the impact of the fund.

Investment Strategy

Progress is being made on the implementation of the 2012-17 investment strategies. A reorganisation of Lothian Pension Fund's equity portfolios was undertaken in November. This has reduced the expected volatility of Fund returns. A similar reorganisation of the Lothian Buses Pension Fund designed to lower expected volatility is expected by year end. The changes for both Funds involve increasing the amount of assets managed by the internal team. For Scottish Homes Pension Fund, increases in the funding level have resulted in reductions in the Fund's equity allocation. An external consultant has been commissioned to assess internal operational risks, including the risks of managing more assets internally.

Pensioner Survey

The results of the Fund's annual survey of pensioners found that 90% agreed that the overall service was excellent. Satisfaction across all customers is currently in line with the target of 86%.

Social Media

A review of potential use of social media by the Fund has concluded. Research showed varying successes of other pension funds in the use of social media. A survey of members of the Fund showed that only half used social media and of those who do, 63% would 'follow' the Fund if it started using social media. These results were higher for younger members. Members indicated that they would be interested messages on pensions clinics, links to videos, Q&A sessions and particularly on scheme changes. The Fund is now planning to pilot a Twitter account.

Pension Administration for the Fire Service

The Fund has received notification that the administration of the uniformed officers of the Scottish Fire & Rescue Service is to be transferred to the Scottish Public Pensions Agency (SPPA, part of Scottish Government) with effect from 1 April 2015. Work will soon commence with the Fire Service and the SPPA to ensure a smooth handover. The administration is undertaken by a number of staff who spend most of their time on administration for the Lothian Pension Fund so there are not expected to be any implications for staff. As this is a relatively small amount of work for the division (less than 1 full time equivalent staff member) and given the current underspend relative to budget on pensions administration salaries, resource will be absorbed internally.

Shared Services – Falkirk Pension Fund

The Fund has continued to work with officers from Falkirk Pension Fund, assisting with monitoring investments and report writing. The initial 18 month agreement expired in September 2013 and has been extended while options for further joint working are explored.

Performance indicators

Show performance is broadly on track to achieve their respective targets. Two indicators are highlighted as 'amber' and one indicated as 'red'.

Less than half of staff have completed 1 days training (half of the target for the year) and efforts are being made to accelerate training to achieve the target by the end of the year. Managers are speaking with all members of staff who have a low number of training hours to ensure they are offered training opportunities and record their training.

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. Over the 5 years to 30 September 2013, the Fund has delivered a return of 9.4% per annum.

The percentage of employer contributions paid within 19 days of month end fell to 87% against the target of 97%. This was due to an error by one of the Fund's largest employers. The error has been resolved and the contributions were paid within two days after the deadline. As this error was one of the fund's largest employers it had a significant impact.

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

Relocation of the Fund's office

Preparations within the office are being made for the Fund's office move which includes clearing out days and the trials of flexible working.

Recommendations

It is recommended that the Pensions Committee note the progress of the Fund against its 2013 – 2016 Service Plan.

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	539	264	187	842	209	2,041	(120)
Transport	27	16	2	2	2	4	26	(1)
Supplies & Services	843	326	148	7	269	83	833	(10)
Investment Managers	10,093	9,580	0	0	0	0	9,580	(513)
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	10,543	844	216	1,259	304	13,166	(644)
Allocated Central Support	552	184	73	0	295	0	552	0
Income	(870)	(37)	(700)	0	(43)	0	(780)	90
Total Costs to the Fund	13,492	10,690	217	216	1,511	304	12,938	(554)

The projection shows an underspend of approximately £554K. The key variances against budget are:

- Employees - £120k underspend. This is mainly due to unfilled posts across the division and decrease in working hours for some staff, 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 – £513k underspend. This is partly due to the reduction in investments managed externally and partly due to the reduction in the property exposure in the Fund.
- Income – £90K less than expected. Stock lending commission income has been decreased by £100K to show more realistic outcome based on the experience so far this year.

Relocation of the Fund's office

The provisional costs of the office move are estimated as

Net capital outlay	£195k
Net revenue cost per annum	£187k
Current accommodation budget	£160k
Accommodation costs to be contained	£27k

As previously advised the office move is expected to be contained within the anticipated equivalent net revenue costs per annum of Waverley Court.

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.

Background reading / external references

None.

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



18 December 2013

Service Plan Update 2013 - 2016










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Service Plan Performance Indicators

Performance Indicators and targets	1 st quarter April-June	2 nd quarter July - Sept	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 September 2013, the Fund delivered 9.4% per annum while the strategy delivered 8.2% per annum.		Meet the benchmark return with lower volatility	
Audit of annual report	Unqualified opinion achieved			
Proportion of critical pensions administration work completed within standards	93.38%	91.28%	Greater than 90%	
Percentage of employer contributions paid within 19 days of month end	96.71%	87.66%	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 3 rd February 2013 for Customer Service Excellence			
Overall satisfaction of employers, active members and pensioners measured by surveys	86%	86%	86%	
Proportion of active members receiving a benefit statement and time of year when statement is issued	96% by September		Over 95% by September	
Staff				
Level of sickness absence	1.63%	2.35%	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	50%	49%	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"> - On 12th November two consultative panel members were elected on to the Pensions Committee. Darren May and John Anzani were unanimously voted onto the Pension Committee. - Self assessment for Committee and Panel has been issued so far 9 members have responded. - There have been a number of training opportunities over the last quarter for the Pensions Committee and Panel, for example; <ul style="list-style-type: none"> - Baillie Gifford Local Authority Training and Investment Seminar - The Actuary, Funding and Employers. - Consultative Panel Induction training 	<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"> - Fund officers have been involved in the debate on scheme changed. - The draft Heads of Agreement with principles for changing the Local Government Pension Scheme (LGPS) in Scotland have been announced and initial communications have been issued to employers and members registered to receive email alerts. - A national seminar for the Councillors of Scotland has been arranged for 17 December to engage in debate on scheme benefits, discuss key issues and the impact of the fund. 	<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"> - Progress is being made on the implementation of the 2012-17 investment strategies. A reorganisation of Lothian Pension Fund's equity portfolios resulted in a large transition in November. This has reduced expected volatility of Fund returns. A similar reorganisation of the Lothian Buses Pension Fund designed to lower expected volatility is expected by year end. The changes for both Funds involve increasing the amount of assets managed by the internal team. - An external consultant has been commissioned to assess internal operational risks, including the risks of managing more assets internally. - For Scottish Homes Pension Fund, the funding level is being monitored closely – an improved funding level could trigger another reduction in equities while alternative strategies focused on income and income growth are being investigated. Officers are in dialogue with the Scottish Government about the options. - The Funds Actuary has undertaken financial modelling of a potential contribution stability mechanism. Fund employers have been consulted and a proposal has been made. - A survey has been issued to the employers in the Fund to gather financial and organisation information. 	<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
<p>Provide an efficient accurate and effective service.</p>		<ul style="list-style-type: none"> - The payroll project continues to progress well. The team are currently working through operational issues. The pension administration and payroll systems will merge on 6th December. In preparation for this the team are looking at mismatches and differences that may cause problems before the merge takes place. 	<ul style="list-style-type: none"> - Implement the transfer of the pensions payroll service from the Council payroll system to the pensions administration system
<p>Risk is managed effectively</p>		<ul style="list-style-type: none"> - The compliance checklists and procedures have been updated and continue to be in the process of being refined as part of a review carried out by the Legal, Risk and Development Manager. A report on our compliance procedures is being produced for the Pensions Committee meeting in December 2013 - A general review and update of the risk register and risk reporting procedures have been concluded. The risk register continues to be updated on a quarterly basis and a summary of the key points is reported to each Pensions Committee and Audit Sub-Committee meeting. - We have separately carried out, and submitted, a wider council Risk Assurance report (covering all the operations of our division within the wider Council) and expect to be able to report back any feedback from this shortly. 	<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.
<p>Shared services /governance</p>		<ul style="list-style-type: none"> - Service provision to Falkirk continues. Both Funds are discussing the potential for sharing specific services, but no decision has been made yet. - The Fund is accessing investment consultancy services via a national framework put in place by Norfolk Pension Fund and is contributing to the search for legal services. 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"> - The results of the annual pensioner survey have now been gathered. 500 surveys were issued and the fund received 131 responses. Overall, 90% of pensioners who responded agreed/strongly agreed that overall the service the Lothian Pension Fund provided was excellent, an increase from 84% in 2012. - The majority of comments from our pensioners suggest that they are very happy with the service the Fund provides. - A number of 'pension clinics' have taken place over the last few weeks providing an opportunity for scheme members to meet and speak with our Pension Administrators at different locations. The feedback from the sessions have been positive however the Fund aims to review of how effective the pension clinics are at meeting its customers' needs on a wider scale. 	<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"> - The majority of employers are now using the Employer on-line system for the transfer of member data. The contribution data is currently being transferred onto employer on-line. - Face to face meetings have been held with the Fund's larger employers to discuss performance against the pension administration strategy. - Pensions Administration Strategy has been reviewed and updated. Pension administration task management system service standards continue to be 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. - A project has commenced to evaluate and review how our members interact with the Fund via e-mail. The project will include mapping the process and the customer journey. - The social media project is complete and a pilot of a Twitter account is being planned. 	<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"> - Regular 1-1 meetings with staff take place regularly. - Recent staff survey has highlighted a further improvement to make team meetings more engaging. This will be explored. 	<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. - 6 monthly PRD reviews have taken place for staff to ensure objectives are progressing well. - Separate communications about the office move have been introduced. 	<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"> - 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. 	<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 testing of home-working has commenced. 	<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.