

Pensions Committee

2.30 p.m. Wednesday, 24 March 2014

Lothian Pension Fund Service Plan 2014 - 2017

Item number	5.5
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Executive summary

Lothian Pension Fund Service Plan 2014 - 2017

Summary

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

The draft Service Plan for 2014 – 2017 is provided as Appendix 1. The Fund's three objectives remain unchanged:

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

The Service Plan provides details of the pension fund's key challenges over the coming years including changes to the local government pension scheme and governance.

The following changes to the performance indicators are of particular note:

- A new performance indicator monitoring the monthly pensions payroll has been introduced.
- Some of the key performance indicator targets have been improved. The target for the overall customer satisfaction will increase to 87% in 2015/16 and 88% in 2016/17. The target timescale for issuing benefit statements to active members is brought forward to August from of September. The staff satisfaction target will rise to 65% in 2014/15.

Recommendations

The Pensions Committee is recommended to:

- Approve the Service Plan 2014-17 and the budget for 2014-15; and
- Note the indicative budgets for years 2015-16 and 2016-17.

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 proposed budget for 2014-2015 of £12.87million and indicative figures for 2015-2016 and 2016-2017 are provided in the service plan. The following areas account for the reduction in the budget from 2013-14 to 2014-15 of £618K:

- Investment management -£600K, largely as a result of a reduction in external investment management fees, partly offset by increase in costs relating to strengthening internal controls.
- Income +£100K. A reduction in income largely due to more limited opportunities for the custodian to stock lend on the Fund's behalf.
- Actuarial Valuation and Funding +£50K for the external costs for the 2014 actuarial valuations.
- Central Support Costs are provisional, pending receipt of final calculations. Allowance has been made for reduced central support costs and direct expenditure as a result of the transfer of payroll and the office move.

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). Audit Scotland highlighted to Committee in December 2013 that investment management expenses disclosed in the Pension Fund Account and supporting notes do not fully reflect the fees charged. The Fund is participating in a CIPFA working group which is reviewing the guidance for local government pension funds on the disclosure of investment fees. Guidance is expected to be issued soon.

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.

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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 objectives.

Single Outcome Agreement

Appendices Appendix 1 – Lothian Pension Fund Proposed Service Plan 2014-2017



Service Plan 2014 - 2017



Service Plan 2014 - 2017

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 £4.2 billion, 196 employers (102 of those with active members) and over 69,657 members.

The Lothian Buses Pension Fund holds assets of £0.34 billion and 3,924 members, while Scottish Homes Pension Fund investments amount to £0.13 billion with 1,854 members.

The Division also provides pension administration services for the Fire-fighters' Pension Schemes for some employees of the Scottish Fire and Rescue Service.

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. This includes the Annual Report & Accounts 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

provide excellent customer care

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 to deal with the potential demands of the future.

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.

Key Performance Indicators*

Performance Indicators	Target & (Actual)*				
	2012/ 2013	2013/ 2014	2014/ 2015	2015/ 2016	2016/ 2017
Performance					
Performance and Risk of Lothian Pension Fund	n/a	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	Unqualified opinion (Yes)	Unqualified opinion			
Proportion of critical pensions administration work completed within standards (see table below)	Greater than 90% (94%)	Greater than 90% (91%)*	Greater than 90%	Greater than 90%	Greater than 90%
Percentage of employer contributions paid within 19 days of month end	97% (97.5%)	98% (94.3%)*	98%	98%	98%
Data quality - compliance with best practice as defined by The Pensions Regulator	Fully compliant (Yes)	Fully compliant (TBC)	Fully compliant		
Pension Payroll complete on due dates	n/a	Yes	Yes	Yes	Yes
Customers					
Maintain Customer Service Excellence Standard (CSE)	Maintain CSE (Yes)	Maintain CSE (Yes)	Maintain CSE	Maintain CSE	Maintain CSE
Overall satisfaction of employers, active members and pensioners measured by surveys	85% (86%)	86% (88%)*	86%	87%	88%
Proportion of active members receiving a benefit statement and time of year when statement is issued	Over 95% by Sept (97%)	Over 95% by Sept (96%)	Over 95% by Aug	Over 95% by Aug	Over 95% by Aug
Staff					
Level of sickness absence	4.0% (3.87%)	4.0% (2.01%)*	4.0%	4.0%	4.0%
Annual staff survey question to determine satisfaction with present job	60% (53%)	60% (63%)	65%	66%	67%
Percentage of staff that have completed two days training per year.	n/a	2 days (On track)*	100%	100%	100%

* Performance at financial year to date at the time of writing is shown in brackets against previous targets

Customer Care Standards:

New starts information sent out (within 20 days of receiving the information)
 Letter notifying dependants benefits
 Acknowledgement of death
 Payment of retirement benefits (when provided with all necessary information).
 Provision of retirement quote
 Early leaver payment of refund (from when declaration form and bank details are received).
 Early leaver - transfer out quote
 Letter with transfer in quote

Target is 90% within time limit below

20 days
 5 days
 5 days
 5 days
 10 days
 10 days
 30 days
 15 days

Continuous improvement

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

<p>Political & Regulatory</p>	<p>The Local Government Pension Scheme in Scotland will change from April 2015 as a result of the Public Service Pensions Act 2014. The current final salary scheme will change to a career average scheme. Changes to governance are also expected for the Fund as well as the Scheme at a national level. A review of the structure of the LGPS in Scotland will be undertaken. In addition, the Pensions Regulator will take on the role of regulatory oversight of public sector pension schemes.</p>
<p>Economic</p>	<p>Continuing budgetary constraints across the public sector have led to reductions in employee numbers with further cutbacks anticipated. There is also a risk that members decide to opt-out of the Fund on grounds of affordability or lack of appreciation of the value of pension benefits. In addition, employers are faced with a new requirement to enroll employees into a pension arrangement on a regular basis. These are impacting on the Fund’s membership and liabilities, and will continue to do so over the coming years.</p> <p>Economic growth has increased over recent years. However yields on government bonds remain stubbornly low impacting on the cost of pensions. This, together with the abolishment of contracting out of the State Earnings Related Pension Scheme, could mean significant increases in costs for employers. Therefore there continues to be a need to improve efficiency and reduce costs. New ways of working such as sharing services and joint procurement initiatives with other public sector pension funds continue to be explored.</p>
<p>Customer Insight</p>	<p>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.</p>
<p>Technology</p>	<p>Advances in information technology facilitating on-line self-services and data transfer for both scheme members and employers.</p>
<p>Environmental</p>	<p>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.</p>
<p>Scrutiny</p>	<p>The Fund uses feedback from scrutiny of services to help. Such scrutiny includes internal and external audit, the Customer Service Excellence award and Investors in People award. In 2013 the Fund undertook a review of its investment operations.</p>
<p>Risk Management</p>	<p>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.</p>

Our Performance

Changes to the Local Government Pension Scheme in Scotland will bring significant challenges for the Fund. There will be significant communication challenges to explain the new career average pension scheme to both members and employers. It will be more complex to administer and there will also be greater scrutiny of the Fund's service.

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

Objective: [continue to be a top performing pension fund](#)

Action	Description
Successful implementation of Scheme benefit changes	<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	<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"> – 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
Provide an efficient, accurate and effective service	<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"> – Investigate gaining of authorisation from Financial Conduct Authority to improve investment controls. – Ensure up-to-date and stream-lined procedure manuals for all key responsibilities are maintained
Shared services	<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

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.

We also need to continue to strive improve our partnership working with our employers to deliver the service our customers expect.

The general lack of awareness of our customers of the value of their pension benefits, and the contributions made by their employer, is a concern. The changes to the pension scheme in 2015 give an ideal opportunity to ensure the scheme is appreciated as a valuable part of an employee's remuneration.

Developments in technology mean we have are able to give customers greater access to information regarding their pension.

Objective: provide excellent customer care

Action	Description
Develop and improve customer insight	<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.
Develop and improve customer awareness	<ul style="list-style-type: none"> – Develop members' awareness of the value of the pension benefits and the contributions their employers make towards their pension. – Improve external communications and understanding of investment strategy.
Improve timeliness and quality of customer service	<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"> – 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

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.

As a relatively small team of 50, there are risks associated if the Fund were to experience high staff turnover, particularly in key positions requiring specialist knowledge. The Fund aims to reduce such risks by ensuring staff experience a fulfilling role, including ensuring they have development opportunities and attractive remuneration. Up-to-date procedures for all processes and job shadowing also ensure that the Fund can continue to provide services.

Objective : Support and develop staff

Action	Description
Develop trust between line managers and staff and promote an open culture	<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"> – 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"> – 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"> – 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"> – Explore options and review plans for a sustainable team

Our Budget

The budget for 2014-2015 and indicative figures for 2015-2016 and 2016-2017 are as follows:

	Budget 2013/14 £	Movements £	Budget 2014/15 £	Movements £	Budget 2015/16 £	Movements £	Budget 2016/17 £
Employees	2,161,494	91,506	2,253,000	57,242	2,310,242	50,141	2,360,383
Property Costs	0	77,103	77,103	1,419	78,522	1,448	79,970
Plant and Transport	26,735	0	26,735	0	26,735	0	26,735
Supplies and Services	843,160	109,046	952,206	-14,691	937,515	315	937,830
Third Party Payments	591,700	-70,100	521,600	-43,100	478,500	0	478,500
Investment Managers Fees	10,113,158	-659,881	9,453,277	754,662	10,207,939	815,035	11,022,974
Transfer Payments	0	0	0	0	0	0	0
Support Costs	551,683	-270,620	281,063	0	281,063	0	281,063
Capital Funding	74,200	6,162	80,362	1,156	81,518	0	81,518
Gross Expenditure	14,362,130	-716,784	13,645,346	756,688	14,402,034	866,939	15,268,973
Specific Government Grants	0	0	0	0	0	0	0
Other Grants and contributions	0	0	0	0	0	0	0
Customer and Client Receipts	-70,000	18,000	-52,000	0	-52,000	0	-52,000
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	100,000	-700,000	0	-700,000	0	-700,000
Total Income	-870,000	98,000	-772,000	0	-772,000	0	-772,000
Net Expenditure	13,492,130	-618,784	12,873,346	756,688	13,630,034	866,939	14,496,973
Capital Budget	260,000	-226,125	33,875	-33,875	0		0