

Pensions Committee

2.30pm, Monday, 24 March 2014

Service Plan Progress

Item number	5.9
Report number	
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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

Now that the proposed changes to the pension scheme have been announced a period of consultation with key stakeholders has commenced.

- A draft version of the Local Government Pension Scheme (Scotland) Regulations 2014 has been issued by the Scottish Public Pensions Agency. Lothian Pension Fund officers worked practitioners from the other Scottish Local Government Pension Funds to provide a joint response to the consultation. The consultation closed on 14 February 2014. The proposed amendments to the existing Regulations are scheduled to be laid before Parliament in April 2014.
- The Pension Fund collated the views of the Committee and Consultative Panel in regards to the proposed changes to the governance arrangements and submitted these to the Scottish Government. A response to these comments is expected in the near future.

Investment & Funding Strategy

Progress continues with the implementation of the 2012-17 investment strategies. The reorganisation of the Lothian Buses Pension Fund is now completed and results in a Fund with lower expected volatility, slightly lower expected return potential, but improved income generation. Investment Strategy Panel has reviewed the details of the reorganisation.

There have been no significant changes to the Lothian Pension Fund investment strategy over the last quarter but the increase in the Alternatives allocation is progressing at a steady rate. The Investment Strategy Panel is in the process of reviewing the bond portfolio and a verbal update will be provided to Committee on the conclusions.

Discussions have been held with Scottish Government regarding the funding position of the Scottish Homes Pension Fund ahead of the 2014 actuarial valuation. The current funding arrangements and employer contributions from the Scottish Government are determined in accordance with the 'Operation of the Scottish Executive (Government) Guarantee'. The Actuary to the Fund assesses the value of the assets and liabilities at each triennial valuation and contributions are determined by comparing the funding level with targets set out in the Guarantee. Essentially, the assets and liabilities are 'marked to market' every three years. Scottish Government has indicated their willingness to review the funding strategy. The priority is to ensure a satisfactory funding position and explore options to potentially reduce the impact of short term market movements on contributions and reduce the likelihood (and size) of further contributions being required from Scottish Government. The review will focus on the liability cashflow and will involve the Fund's Actuary and investment consultants. Updates on the review and its recommendations will be provided to Committee over the course of 2014.

An external consultant has been commissioned to assess internal operational risks, including the risks of managing more assets internally. The conclusions are covered elsewhere on the agenda.

Employer Issues - Survey & On-line System

The annual survey of employers was undertaken in the final quarter of 2014. The results showed that 90% agreed that the overall service was excellent. Satisfaction across all customers is currently in line with the target of 86%.

During 2013, the pensionsWEB employer on-line system was rolled out to all employers, with all data transferred from employers electronically via the secure portal. The portal has also been used to send data to employers, in particular as part of data cleansing exercises. The online monthly contribution return element of the employer on-line has been introduced, and so far around a quarter of employers of varying sizes are using this facility. This allows any missing records or other discrepancies to be identified and resolved at an early stage rather than at year-end. This will mean a less onerous year-end process for these employers. Further training and employer visits in March 2014 will be used to introduce the monthly contribution return process to more employers.

Customer Service Excellence (CSE)

The annual CSE assessment took place on 3rd February and an external assessor visited the Fund and met with staff, customers and partners. The fund was successful in retaining the award. The fund will retain the 'Partial Compliance' for our work with our partners, reflecting the issues we have with data transfer from our employers. However, the assessor recognised the good work the Fund is doing to address this but it will take time to produce real results for members. The fund retained a 'Compliance Plus' for the approach to consulting with customers and achieved a new Compliance Plus for "commitment to putting the customer at the heart of service delivery".

Performance indicators

Performance is broadly on track to achieve respective targets. Three indicators are highlighted as 'amber' and the remaining are 'green'.

Investment Performance: The investment objectives of the Lothian Pension Fund agreed by the Pensions Committee in 2012 are to achieve the same return as the benchmark over the long term economic cycle (typically five years or more). Over shorter periods, the Fund should perform better than the benchmark if markets fall significantly.

The 5 year performance largely reflects the previous investment strategy. Over time, as the new strategy is implemented performance information will become increasingly meaningful to measure Fund and benchmark volatility compared to the target. Hence the performance traffic light is highlighted 'amber'.

Over the 5 years to 31 December 2013, the Fund has delivered a return of 10.3% per annum compared with the benchmark return of 10.9% per annum. The period in late 2008/early 2009 was characterised by extremely volatile markets at the time of the global financial crisis. The Fund performed very strongly relative to the benchmark during the financial crisis and very weakly relative to the benchmark as markets rebounded in 2009. The strong relative performance is now falling out of the 5 year figures and the Fund's 5 year performance is expected to continue to lag the benchmark for some time. (Over the 10 years to December 2013, the Fund's performance is ahead of its benchmark).

The new investment strategy targets benchmark returns with outperformance likely in falling markets and underperformance likely in rising markets. It puts far less emphasis on short term relative benchmark performance and puts more emphasis on mitigating downside risk to achieve required long term returns. A more detailed update on the implementation of the investment strategy and investment performance will be provided to Committee in June 2014.

Employer Contributions: For the period of 1 October to 31 December 98.77% of employers paid their contributions within 19 days meeting the target of 98%. However the indicator remains at amber because the year to date figure is currently 94.35% as two employers have paid the contributions late, albeit only 1 day late.

Staff Training: As at 31st December, 87% of staff had completed 2 days training (15 hours). The efforts made in the previous quarter to accelerate training efforts have had a positive impact. Managers are speaking with all members of staff who still have a low number of training hours to ensure they are offered training opportunities and recording their training properly.

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

The Fund has settled into temporary accommodation within the City Chambers. The staff are located on two different floors. The legal paperwork for the new offices is near completion and the office has been fitted out. The move is now dependent on the installation of information technology links.

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	523	248	186	828	204	1,989	(172)
Transport	27	17	2	1	2	2	24	(3)
Supplies & Services	843	253	152	16	307	78	806	(37)
Investment Managers	10,093	9,380	0	0	0	0	9,380	(713)
Other Third Party Payments	612	82	448	40	90	0	660	48
Depreciation	74	0	10	0	56	8	74	0
Direct Expenditure	13,810	10,255	860	244	1,283	292	12,933	(877)
Allocated Central Support	552	184	73	0	295	0	552	0
Income	(870)	(37)	(700)	0	(45)	0	(782)	88
Total Costs to the Fund	13,492	10,402	233	244	1,533	292	12,703	(789)

The projection shows an underspend of £789K. The key variances against budget are:

- Employees - £172k underspend. This is mainly due to unfilled posts across the division, partly offset by temporary agency costs, the implications of the modernising pay agreement and pay award of 1%.
- Investment management fees – £713k underspend. This is partly due to the reduction in external investment mandates and partly due to the reduction in the property exposure of the Fund.
- Other Third Party Payments reflect additional costs, £48K, of the review of investment operations and custody services costs of transition. These are largely offset by general savings in Supplies and Services and Transport of £37K.
- Income – £88K less than expected. Stock lending commission income has been decreased by £100K to reflect reduction in market demand.

Given the present uncertainty of the timing of the office move, no allowance has been made in the 2013/14 projection. Allocated Central Support costs remains in line with budget as the projection has not yet been revised by the Council's Finance team.

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






24 March 2014
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	3 rd quarter Oct-Dec	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 31 December 2013 (a period of strongly rising markets), the Fund delivered 10.3% per annum while the strategy delivered 10.9% 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%	90.77%	Greater than 90%	
Percentage of employer contributions paid within 19 days of month end	96.71%	87.66%	98.77%	98%	
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 Award attained - 				
Overall satisfaction of employers, active members and pensioners measured by surveys	86%	86%	88%	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%	1.56%	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	67%	68%	87%	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"> - Alison Cosgrove, a member of the Pensions Committee and Consultative Panel stepped down from her role in December. Another union representative is being sought. - New members have been welcomed onto the Consultative Panel. - The Committee and Panel sat for a special session regarding the Scottish Governments consultation on the proposed changes to the governance arrangements of Local Government Pension Schemes in Scotland. - Various training events have been organised recently including reform of Local Government Pension Scheme seminar and presentation from Hermes. - The Fund has settled into their temporary accommodation within the City Chambers. We await time scales from BT open reach so we may confirm our move date to Morrison Street. 	<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"> - Now that the proposed changes to the pension scheme have been announced a period of consultation with key stakeholders has commenced. - The draft regulations have been circulated and a joint response on the technical details with other pension fund practitioners has been submitted. - The Pension Fund collated the views of the Committee and Consultative Panel in regards to the proposed changes to the governance arrangements and submitted these to the Scottish Government. 	<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 continues with the implementation of the 2012-17 investment strategies. The reorganisation of the Lothian Buses Pension Fund is now completed. - A contribution stability mechanism for Lothian Pension Fund was agreed by Committee in December 2013. Timetables for the 2014 valuation are being put in place and the Actuary is currently undertaking a pre-valuation data cleanse. A review of the Scottish Homes Pension Fund funding strategy is underway. - Paper 5.8 provides an update on participating employers within the Lothian Pension Fund. 	<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
Provide an efficient accurate and effective service.		<ul style="list-style-type: none"> - The pension administration and payroll systems are now merged and payroll is now integrated into the pension fund service with staff now trained on new procedures. Work will continue to further automate the process. 	<ul style="list-style-type: none"> - Implement the transfer of the pensions payroll service from the Council payroll system to the pensions administration system
Risk is managed effectively		<ul style="list-style-type: none"> - The compliance checklists and procedures have been updated and continue to refined. - 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. - A review of investment operations has been undertaken by an external consultant. - We have separately carried out a Risk Assurance exercise (covering all the operations of our division within the wider Council). 	<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.
Shared services /governance			<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 survey of employers was conducted in November 2013. The fund received a total of 67 responses and the survey showed that overall satisfaction remained high with 90% of employers who responded agreeing that they were very/quite satisfied with the overall service. The fund also scored highly in regards to quality of information 94% and staff attitude 98% of employers who responded rated these aspects of our service very/quite satisfied. 85% of employers who responded were aware of Pensions Web and 57% of employers were very/quite satisfied with the Pensions Web system. - A number of 'pension clinics' have taken place 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 'pension clinics' are resource intensive and only reach a small number of scheme members. It has been agreed that to ensure we maximise the use of 'pension clinics' we should only use this type of contact when a major change affecting a number of people for example, bulk early retirement exercises. 	<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"> - Pensions Administration Strategy has been reviewed and updated. Pension administration task management system service standards continue to be reviewed. - During 2013, the pensionsWEB employer on-line system was rolled out to all employers, with all data transferred from employers electronically via the secure portal. The portal has also been used to send data to employers, in particular as part of data cleansing exercises. The online monthly contribution return element of the employer on-line has been introduced, and so far around a quarter of employers of varying sizes are using this facility. This allows any missing records or other discrepancies to be identified and resolved at an early stage rather than at year-end. This will mean a less onerous year-end process for these employers. Further training and employer visits in March 2014 will be used to introduce the monthly contribution return process to more employers. 	<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"> - The annual customer service excellence (CSE) assessment took place on 3rd February. The fund was successful in retaining the award. The fund will retain the 'Partial Compliance' for our work with our partners, reflecting the issues we have with data transfer from our employers. However, the assessor recognised the good work the Fund is doing to address this but it will take time to produce real results for our members. The fund retained a 'Compliance Plus' for the approach to consulting with customers and achieved a new Compliance Plus for 'commitment to putting the customer at the heart of service delivery'. 	<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. - Service plan sessions have taken place throughout January to encourage staff to discuss our progress and achievements and to look to the future and plan key actions for next year. 	<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. - 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 is going well. 	<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.