

Pensions Committee

2.30 p.m., Wednesday, 25 March 2015

2014–2017 Service Plan Update

Item number	5.13
Report number	
Executive/routine	
Wards	All

Executive summary

The purpose of this report is to provide an update on progress against the 2014 – 2017 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.

Overall progress is being made against the service plan objectives. It is expected that the majority of performance targets will be achieved by the end of the year.

Links

Coalition pledges

Council outcomes [CO26](#)

Single Outcome Agreement

2014–2017 Service Plan Update

Recommendations

- 1.1 It is recommended that the Committee note the progress of the Fund against the 2014 – 2017 Service Plan.

Background

- 2.1 The purpose of this report is to provide an update on the 2014 – 2017 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.

Main report

- 3.1 Progress against indicators and key actions agreed in the 2014-2017 Service Plan is set out in the appendix.
- 3.2 Progress in the following areas are covered elsewhere on the agenda:
- 2014 Actuarial Valuations;
 - Investment controls and Financial Conduct Authority;
 - Implementation of the new LGPS Scotland 2015 including new governance arrangements.

- 3.3 Other progress of particular note are shown below:

Investment Strategy – Lothian Pension Fund

- 3.4 The Fund continues to implement the 2012-17 investment strategy of the pension funds, with oversight and advice from the Investment Strategy Panel.
- 3.5 Committee will recall that in 2014 the Investment Strategy Panel considered the longer-term future of the Asia Pacific portfolios managed by Baillie Gifford and Invesco alongside the Fund's efforts to reduce the volatility of the overall equity allocation. Both managers were terminated in the second half of 2014 as a result of the decision to invest in global rather than regional mandates. Both managers had produced very good performance for the Fund since inception.

- 3.6 During February 2015, a new internal global equity portfolio has been created alongside the two existing internal global portfolios, which are currently focussed on high dividend yield and low volatility respectively. The new internal portfolio complements the existing portfolios with a focus on valuation and volatility.
- 3.7 The transition of assets was managed by the internal team. It involved the reallocation of Asia Pacific equities valued at £308million into the new global portfolio. Trading took place across several time zones and market exposure risk was mitigated by using futures contracts. Favourable market conditions resulted in a much better outcome than expected in terms of market impact. By undertaking the transition internally, it is estimated that approximately £200K of commission costs were saved by the Fund.

Investment Strategy – Scottish Homes Pension Fund

- 3.8 In accordance with the funding agreement with the Scottish Government, following an improvement in the funding level of the Scottish Homes Pension Fund, the Fund's equity allocation was reduced. The investment strategy's equity allocation was reduced from 30% to 27.5%. This was implemented by withdrawing cash from the Fund's equities which will be used to pay pensions in the coming months (as opposed to selling and buying assets). The actual funding level is currently close to the target funding level and monitoring continues.

Collaboration on Environmental, Social & Governance activity

- 3.9 The Fund has collaborated with other investors in an initiative to encourage investment managers to produce meaningful information on Environmental Social and Governance (ESG) activity in their regular client reporting. "The Guide to Responsible Investment Reporting in Public Equity" was launched on 26 January 2015. The Guide was backed by sixteen UK pension funds with assets over £200 billion. This collective group of pension funds believes that Responsible Investment reporting can help improve the transparency and accountability between asset owners and fund managers. The guide is divided into two parts of responsible investment reporting activity:
- ESG integration: the transparent processes for considering ESG factors in the manager's investment process including examples.
 - Stewardship: the policies and processes for identifying companies for engagement and for voting stocks; voting and engagement activities, and evidence of outcomes from those activities.

The recommendations in the guide are a useful basis for improving dialogue with fund managers and strengthening the investment monitoring processes. The Guide is available on the Fund's website:

http://www.lpf.org.uk/lpf1/info/68/responsible_investment/48/responsible_investment

Pensions Liberation

- 3.10 The Pensions Regulator (TPR) relaunched its anti-fraud campaign in July 2014 and in September 2014 HMRC updated its registration process to make it harder for pensions liberation schemes to register and operate. The Fund has a process in place to attempt to identify suspicious practices and a clear message is provided to members that transfers are not approved as a matter of course. Between 1 April 2014 and 31 January 2015 Lothian Pension Fund received 441 transfer applications and 17 of those were classed as suspicious. 3 of the suspicious cases were blocked and no further requests to transfer have been received for the remaining 14 cases.

Social Media Trial

- 3.11 Preparations have been made for the Fund for a trial of social media using Twitter and Facebook accounts. The target audience will be the members of the Fund. Other pension funds have had mixed success of using social media, with some funds having very few 'followers'. The trial will be assessed before the end of 2015.

Firefighters Pensions

- 3.12 The pensions administration for the Firefighters who were previously part of the Lothian and Borders Fire and Rescue service has been transferred to the Scottish Public Pensions Agency (SPPA) who are taking over the administration of all Scottish Firefighters' pensions. This follows the merger of all the regional Fire services across Scotland.

Performance Indicators

- 3.13 Performance for the key performance indicators against targets are shown in the Appendix.
- 3.14 Two indicators are highlighted as 'amber' and one as 'red':
- The proportion of pensions administration critical work completed on time in the quarter and for the financial year to date is marginally below the target of 90%. With the volume of historic work reducing, efforts are being made to aim to achieve the target for the year.
 - 61% of staff had completed their training target up to 31 December 2014. With the focus on training on the new scheme in the current quarter, it is anticipated that the target will be achieved by the end of the year.
 - Lothian Pension Fund performance over the calendar year 2014 has been strong in absolute terms and relative to its benchmark. A significant driver of excess return has been the significant outperformance achieved by the Alternatives assets, which are measured against their inflation-based benchmark. The annual report on investment returns and risk will be presented to Committee in June.
- 3.15 Customer satisfaction over the 12 months to 31 December has increased again over recent quarter and is now marginally ahead of target (86.2% compared to target of 86%). The satisfaction of new members has continued to increase

(79% from 67%). This is reassuring given the Fund's efforts to improve service to these members who have been significantly less satisfied compared to other customer groups.

- 3.16 Following a visit by an external assessor from Customer Service Excellence (CSE) in January 2015, the Fund has successfully retained the award. Of the 57 criteria, the Fund had previously been compliant in all but one. This one 'partial compliance' related to partnership working, in particular with the Fund employers. The assessor recognised the significant efforts to improve performance in this area which has resulted in significant improvements in new member satisfaction and the Fund is now fully compliant in all the award criteria. The Fund's work had previously been assessed as having two criteria of high standard ('compliance plus'). Two further criteria have been added as 'compliance plus'. The first relates to the Fund's work with employers to engage them in providing timely data, particularly employer events and meetings, along with the bespoke assistance to an employer during their recent reorganisation. The second relates to complaint handling.

Measures of success

- 4.1 Measures of success include meeting targets for performance indicators and progressing the actions set out in the Service Plan.

Financial impact

- 5.1 A summary of the projected and year-to-date financial outturn compared to the approved budget for 2014/15 is shown in the table below:

	Approved Budget	Projected Outturn	Projected Variance	Budget to date	Actual to date	Variance to date
Category	£'000	£'000	£'000	£'000	£'000	£'000
Employees	2,253	2,051	(202)	1,878	1,693	(185)
Transport & Premises	104	208	104	87	171	84
Supplies & Services	952	916	(36)	793	792	(1)
Investment Managers Fees	9,453	7,815	(1,638)	7,878	6,502	(1,376)
Other Third Party Payments	522	595	73	435	503	68
Depreciation	80	80	-	67	67	-
Direct Expenditure	13,364	11,665	(1,699)	11,138	9,728	(1,410)
Central Support Costs	281	273	(8)	234	227	(7)
Income	(772)	(1,837)	(1,065)	(643)	(1,363)	(720)
Total Cost to the Funds	12,873	10,101	(2,772)	10,729	8,592	(2,137)

- 5.2 The financial outturn includes year to date budget, actual expenditure and variance as at the end of January 2015. Year to date actual expenditure includes provision for services incurred but for which no invoice has yet been received.
- 5.3 The projection shows an underspend of approximately £2,772k. The key variances against budget are:
- Investment management fees - **£1,638k underspend**. This is due to termination of Rogge, Baillie Gifford and Invesco mandates, with assets transferred in-house.
 - Income - Securities lending income is expected to be **over £1million more** than expected. This is due to changes in the stock lending activity in investment markets as well as changes to the Fund's holdings.
 - Employees - **£202k underspend**. This is mainly due to unfilled posts across the division during the period from April to December 2014.
 - Transport & Premises - **£104k overspend**. This is due to a misalignment between the feasibility report and the budgeted figures for property rental at Atria One. This has been corrected in the 2015/16 budget covered elsewhere on the agenda.
 - Other Third Party Payments - **£73k overspend**. This mainly relates to custody fees which have increased due to the volume of transactions and higher market valuations.
 - Supplies & Services - **£36k underspend**. This reflects the delay in the investment unitisation project until 2015/16.
- 5.4 Committee is reminded that the investment management fees included in the budget are those directly invoiced to the Fund and do not include fees that have been netted against investment asset values.

Risk, policy, compliance and governance impact

- 6.1 The pension funds' service plan aims to manage risk, improve compliance and governance. There are no direct implications on these issues as a result of this report.

Equalities impact

- 7.1 None

Sustainability impact

- 8.1 None

Consultation and engagement

- 9.1 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

Alastair Maclean

Director of Corporate Governance

Contact: Clare Scott, Investment and Pensions Service Manager

E-mail: clare.scott@edinburgh.gov.uk | Tel: 0131 469 3865

Links

Coalition pledges

Council outcomes CO26 - The Council engages with stakeholders and works in partnerships to improve services and deliver agreed

Single Outcome Agreement

Appendices Appendix 1 - Service Plan Update

Lothian Pension Fund












25 March 2015

Service Plan Update 2014 - 2017




Lothian Pension Fund

The City of Edinburgh Council
Atria One, 144 Morrison Street
Edinburgh, EH3 8EX
pensions@lpf.org.uk
0131 529 4638




Service Plan Performance Indicators – Targets & Actual Performance

	Q1 April to June	Q2 July to Sept	Q3 Oct to Dec	Target	Status
Performance					
Performance and Risk of Lothian Pension Fund	Actual 9.8%pa. Benchmark 8.8%pa. Exceeding benchmark. Risk/return measures will take some time to demonstrate the success or otherwise of the investment strategy.			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	Complete			Unqualified opinion	
Proportion of critical pensions administration work completed within standards	87.23%	90.74%	89.1%	Greater than 90%	
Percentage of employer contributions paid within 19 days of month end	96.97%	99.78%	99.47%	98%	
Data quality – compliance with best practice as defined by the Pensions Regulator	Assessment will be made at year-end			Fully compliant	Not yet known
Pension Payroll complete on due dates	100%	99.97%	100%	Yes	
Customer Indicators and targets					
Maintain Customer Service Excellence Standard	Successful annual assessment in January 2015			Maintain standard	
Overall satisfaction of employers, active members and pensions measured by surveys (rolling 12 month performance)	84.7%	86.2%	88%	86%	
Proportion of active members receiving a benefit statement and time of year when statement is issued	96% By August			Over 95% by August	
Staff					
Level of sickness absence	2.98%	2.3%	2.3%	4%	
Annual staff survey question to determine satisfaction with present job	65%			65%	
Percentage of staff that have completed two days training per year.	38%	47%	62%	100%	



Our Performance - To be a top performing pension fund

Project	Status	Overall Progress	Project Summary
Successful implementation of the Scheme changes		<ul style="list-style-type: none"> - The Fund's Communications Officer continues to work with the other funds to develop clear communications for employers and scheme members. A new website, http://scotlgps2015.org/ has been created to provide guidance to those affected by the LGPS changes. A newsletter which included details of the changes was issued to all active scheme members. - LGE training session held in November 2014 for employers and User Group arranged for February 2015. - The LGPS 2015 project team continues to ensure effective co-ordination of all aspects of the implementation of the scheme changes, including system updates and staff training. For example the team are currently ensuring that the Pension Regulator Code is currently being implemented throughout the division to ensure compliance. 	<ul style="list-style-type: none"> - Communicate changes to scheme benefits to employers and members - Review internal processes and procedures <p>Provide training for staff on new arrangements</p>
Ensure effective Governance of the Fund		<ul style="list-style-type: none"> - The nomination process for both the Pension Board and Pension Committee has been completed. Full membership with a good representation of employers and Unions. - TPR Code is being reviewed and TPR e-learning is being undertaken by all members of the Legal and Risk team. - Key policies for training, attendance and code of conduct are in place as is the monitoring processes for to ensure compliance is also in place. Training monitoring is reported to Committee in March 2015. - Induction training is scheduled for all members of the Pension Board and a training schedule for the year ahead has been drafted. 	<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"> - Implementation of investment strategies is ongoing and is a regular agenda item at Investment Strategy Panel meetings. - 2014 Actuarial valuations are complete. - Funding Strategy Statement has been reviewed. - Employer covenant work has progressed and utilised during the actuarial valuation. - Cashflow continues to be monitored monthly. - Procurement of a unitisation system is progressing. 	<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






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"> - Underlying investment costs have been included in the 2013/14 accounts. Information on benchmarking of investment costs and pensions administration were presented to Committee in December. - The last part of the Payroll is the 'Immediate Payments Payroll'. This is progressing well and at final stages of testing before creating the procedures manual. Once this has been completed the Fund can make one off payments and Lump Sums from Vendors. This should be implemented in the coming months. Payroll continues to run smoothly each month. 	<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"> - Progress is being made in FCA authorisation and progress is being made in implementing the recommendations for improvements in the internal investment controls. - Risk register continues to be updated regularly. 	<ul style="list-style-type: none"> - Investigate gaining of authorisation from Financial Conduct Authority to improve investment controls. - Ensure up-to-date and streamlined procedure manuals for all key responsibilities are maintained
Shared services /governance		<ul style="list-style-type: none"> - Joint working with Falkirk has now been implemented and a joint infrastructure investments via relevant staff being seconded on a part-time basis to Falkirk Council is now in place. - Fire Pension Administration has been transferred to SPPA. 	<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 - To provide excellent customer care

Project	Status	Overall Progress	Project Summary
Develop and improve customer insight.		<ul style="list-style-type: none"> - In January the fund retained the CSE award and received no partial compliances and 4 elements of the award were given best practice grading. The best practice areas were in relation to our approach to consultation, effective leadership and complaints handling. - The fund continues to consult regularly with all key stakeholders and is meeting its overall customer satisfaction targets. - There has been a huge improvement in satisfaction from new scheme members which has increased dramatically. Quarter 3 2013/14 overall satisfaction was 60%. Quarter 3 overall satisfaction in 2014/15 was 92%. In addition response rate to the new scheme member survey increased from 8 people in Quarter 3 2013/14 to 200 people responding in 2014/15. - Monitoring processes have been reviewed and tightened over the last year to provide a very clear audit trail from individual responses to performance indicators. In addition comments are being effectively captured and fed back to the administration team to act upon. New scheme member survey was reviewed and updated over the last year to ensure it was user friendly for customers. 	<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.
Improve timeliness and quality of customer service.		<ul style="list-style-type: none"> - Efforts continue to assist employers to submit member contribution details to the Fund on a monthly basis to improve data quality and member service. - Employer performance reports are being issued on an ongoing basis. - Tracesmart have identified 128 scheme members and the registrars have confirmed this. Next of kin now being contacted. - Pensions Administration workflow has been set up to distribute both urgent and non urgent cases. The volume of historic cases has reduced significantly. - Customers' first point of contact with the Fund continues to be reviewed. Improvements have been implemented but effectiveness continues to be monitored. 	<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"> - Strategy for social media program is currently being developed. It is hoped that this channel will be very helpful for specific messaging regarding the LGPS 2015 changes. 	<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 - 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. - Efforts to improve engagement in team meetings are ongoing. 	<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"> - Senior management team continues to communicate in a regular monthly e-update, face to face and via e-mail. In addition to this senior managers meet with small groups of staff. - The results of the staff survey have been reviewed and an action plan has been put in place. 	<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"> - 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. - Compulsory data protection training was held during the first quarter and thereafter new members of staff are trained on key policies as part of their induction. - Project management tools are promoted internally. 	<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"> - Staff forum continues to provide feedback from staff as do the regular 1-1s. - Flexible working trial is progressing well. Feedback from some pension administration staff about the flexible working arrangements have highlighted issues with printing and telephone cover. Home working has been limited to one day per week until longer term solutions for printing can be found. 	<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"> - For the internal investment team, a special purpose vehicle is being put in place. - Career development coaching for certain staff. 	<ul style="list-style-type: none"> - Explore options and review plans for a sustainable team.