

Pensions Committee

2.00 p.m., Wednesday, 30 September 2015

Service Plan Update

Item number	5.9
Report number	
Executive/routine	
Wards	All

Executive summary

The purpose of this report is to provide an update on progress against the 2015 – 2018 Service Plan, performance indicators and the key actions to enable the Fund to meet its four key objectives:

- Customer First;
- Honest & Transparent;
- Working Together; and
- Forward Thinking

Overall progress is being made against the service plan objectives.

With the exception of the payment of employer contributions which is behind target, there are currently no reasons why performance targets will not be achieved by the end of the year.

Links

Coalition pledges

Council outcomes

[CO26](#)

Single Outcome Agreement

Service Plan Update

Recommendations

- 1.1 That Committee invites the Pension Board to raise any relevant matters or concerns which the Committee should consider.
- 1.2 That the Committee note the progress of the Fund against the 2015 – 2018 Service Plan.
- 1.3 That the Committee note the Fund's involvement in a working group to develop a business plan for a pool of internally managed Local Government Pension Scheme investments.

Background

- 2.1 The purpose of this report is to provide an update on the 2015 – 2018 Service Plan, performance indicators and the key actions to enable the Fund to meet its four key objectives:
 - Customer First;
 - Honest & Transparent;
 - Working Together; and
 - Forward Thinking

Main report

- 3.1 Progress is being made against the service plan. The following areas are covered elsewhere on the agenda:
 - Funding Strategy and Employer Appeals;
 - 2014-2015 Accounts & Annual Report;
 - Pension Fund Governance;
 - In addition, at their meeting on 29 September the Pensions Audit Sub-Committee will consider progress on fraud prevention and audit of foreign exchange transactions.

- 3.2 Other progress of particular note are shown below:
- 3.3 **LGPS2015:** Communication of the changes to scheme benefits has continued. During April and May, briefings were held for active members across the Lothians. The Fund's largest employers organised events and the Fund organised open sessions for members from any employers. The pension administration system has not yet been updated to automate calculations of transfers after 1 April 2015. Such transfers have been processed, pending a system update and communication has been sent to affected members. This issue affects all LGPS funds in Scotland and has been escalated to the software provider by the Scheme Advisory Board. At the time of writing an update to the system is expected to be ready for testing by the end of September. It is also worth noting that the Scottish Government have issued consultation on amendments to both the Local Government Pension Scheme (Scotland) Regulations 2014 and the Local Government Pension Scheme (Transitional Provisions and Savings) (Scotland) Regulations 2014. With the exception of those relating to cessation valuations and historic pension liabilities (covered in item 5.6 of the agenda), most of the amendments are of a technical nature. However, they will require further communication to employers and certain groups of members.
- 3.4 **Data Quality:** Progress is being made by employers to submit details of contributions for each member on a monthly basis. 73 of 100 employers are currently submitting monthly contribution returns, an increase of 11 on the same period last year. As a percentage of the Fund's employee members, this equates to 59%. Whilst this is positive, there remains much to be done to achieve full compliance by the target date of 1 April 2016. City of Edinburgh Council is submitting details and Midlothian are expected to implement shortly. Work is currently focussed on the assisting the other large employers to implement the new arrangement.
- 3.5 **Governance:** The new Pension Board is established, with its first meetings and induction training held. A number of Board members have also completed the e-TPR learning. Various training events, both internal and external, have also been organised for Committee and Board.
- 3.6 **The Pension Regulator (TPR) Code:** Work is underway to document compliance with the new TPR code for public sector pension funds and where necessary, improve controls.
- 3.7 **Investment Strategy:** Following the completion of the 2014 Actuarial Valuations, investment strategy reviews have commenced. An update will be provided to the Committee in December.
- 3.8 **Investment Controls and Financial Conduct Authority (FCA):** The new corporate structure is now in place and key investment staff have been transferred to LPFE Limited. HR support is being provided to LPFE by an external firm. A review of terms and conditions is underway and is expected to

conclude in Q4 2015. The application for authorisation to the Financial Conduct Authority is being concluded and is expected to be sent to the FCA in October.

- 3.9 **Review of Structure in the LGPS:** Committee will be aware of the series of consultations in England & Wales review of structure of the LGPS funds. In the Summer 2015 Budget, the Chancellor announced that the Government “will work with Local Government Pension Scheme administering authorities to ensure that they pool investments to significantly reduce costs, while maintaining overall investment performance”. A consultation on the pool criteria (including scale, governance and costs), investment regulations and regulations to enforce investment pools (if required) is expected in November. Due to its in-house investment expertise, the Fund has been approached to be involved in a working group to develop a business plan for a pool of internally managed investments. While the review does not directly affect Scotland, the Scheme Advisory Board workplan for 2015/16 does include a review of structure and investment pooling and any developments south of the border will inevitably influence potential solutions. Therefore, it is felt that the Fund should be involved in, and has the expertise to enhance, a business plan for a creation of a pool of internally managed LGPS investments. Updates on the project will be provided to Committee as it progresses. Committee is asked to note the Fund’s involvement in the project.

Performance Indicators

- 3.10 Performance Indicators for the first quarter are provided in the attached appendix.
- 3.11 Three indicators are highlighted as ‘amber’:
- The payment of employer contributions for the quarter (98.9%) is marginally behind target of 99%, primarily due to Scottish Police Services paying contributions 1 day late. In addition, a number of small employers continue to pay later than the regulatory target including some who are appealing under the Funding Strategy have chosen to pay contributions at the 2014/15 rate pending the outcome of the appeals.
 - Customer satisfaction is also marginally behind target (86.1% compared to 87%). Following an improvement in the satisfaction of new members in 2014/15, the late receipt of details of some new members has adversely affected satisfaction again. The data quality improvements (noted earlier) are critical to improve satisfaction for this group of members.
 - 69% of staff had completed their pro-rata training target up to 30 June 2015. The Fund is comfortable that this is a relatively short period over which training has been measured and the target should be achieved by the end of the year.

3.12 Performance indicators also worth noting are:

- The issuance of annual newsletters to active members and the release of benefit statements via MyPensionOnline, ahead of the 31 August target (now a new regulatory deadline).
- Investment markets have recently seen increased volatility as a result of concerns over the Chinese economy. Chinese competitiveness has suffered as a result of the renmimbi's quasi peg to the US dollar. On 11 August, China allowed a small but significant devaluation of that exchange rate, exacerbating existing consternation about the effects of declining commodity prices on producing countries. With stock markets falling sharply from their peaks of earlier in 2015, the MSCI All Country World Index of global equities had fallen by 9% in sterling terms between 31 March and 31 August 2015. Over that period, the Fund's equity holdings fell by approximately 6.6%. This is the first period of significant market volatility since the Fund focussed on risk reduction and capital preservation in the equity portfolio in 2013. While this is a relatively short period, it has been reassuring that the portfolio has provided some protection and the performance is consistent with the Fund's objective to meet the benchmark over rolling 5 year periods with lower risk than the benchmark.

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 2015/16 is shown in the table below:

5.2

Category	Approved Budget £'000	Projected Outturn £'000	Projected Variance £'000	Budget to date £'000	Actual to date £'000	Variance to date £'000
Employees	2,489	2,282	(207)	830	692	(138)
Transport & Premises	225	257	32	75	86	11
Supplies & Services	1,095	1,061	(34)	365	241	(124)
Investment Managers Fees	8,100	8,000	(100)	2,700	2,664	(36)
Other Third Party Payments	1,286	1,065	(221)	429	186	(243)
Central Support Costs	276	315	39	92	105	13
Depreciation	80	81	1	27	27	-
Direct Expenditure (Invoiced)	13,551	13,061	(490)	4,517	4,001	(516)
Income	(1,657)	(1,657)	-	(552)	(676)	(124)
Net Expenditure (Invoiced)	11,894	11,404	(490)	3,965	3,325	(640)
Indicative Expenditure (Uninvoiced)	18,924	18,924	-	6,308	6,308	-
Total Cost to the Funds	30,818	30,328	(490)	10,273	9,633	(640)

5.3 The financial outturn includes year to date budget, actual expenditure and variance as at the end of July 2015. Year to date actual expenditure includes provision for services incurred but for which no invoice has yet been received. Uninvoiced expenditure (i.e. investment management costs deducted from capital) is assumed to be in-line with the budget.

5.4 The projection shows an underspend of approximately £490k. The key variances against budget are:

- **Employees - £207k underspend.** This is mainly due to unfilled posts across the division during the period from April to July 2015. Various recruitment processes are underway.
- **Other Third Party Payments - £221k underspend.** Underspend due to delays in the splitting out research costs from broker's fees.
- **Central Support Costs (CSC) - £39k overspend.** Budgeted figures produced from forecasted 2014/15 figures. Final 2014/15 CSC was actually £50k higher. Work commencing to have service level agreements in place instead of CSC allocation to provide more certainty of actual costs.
- **Transport & Premises - £32k overspend.** Property costs paid in advance and a rebate paid if costs for the quarter are less. Continue to monitor property expenditure.

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 Pension Board, comprising employer and member representatives, is integral to the governance of the Funds.

Background reading/external references

[LPF Service Plan 2015-2018](#)

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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

Single Outcome Agreement

Appendices Appendix 1 – Performance Indicators

	Apr-15	May-15	June-15	Target	Status
Customer First					
Maintain Customer Service Excellence Standard	Annual assessment expected early 2016			Retain CSE Award	Not yet known
Overall satisfaction of employers, active members and pensions measured by surveys	Rolling 12 month performance is 86.1%			87%	
Proportion of active members receiving a benefit statement and time of year when statement is issued	98% issued on 28 August			Over 96% by August	
Forward Thinking					
Performance and Risk of Lothian Pension Fund	Actual 10.1%pa, Benchmark 9.6%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.	
Proportion of critical pensions administration work completed within standards	91.5%	89.0%	94.1%	Greater than 90%	
Honest & Transparent					
Audit of annual report	Achieved			Unqualified opinion	
Percentage of employer contributions paid within 19 days of month end	99.6%	99.8%	97.5%	99%	
Data quality – compliance with best practice as defined by the Pensions Regulator	Assessment will be made at year-end			Fully compliant	Not yet known
Monthly Pension Payroll paid on time	Yes	Yes	Yes	Yes	
Working Together					
Level of sickness absence	1.9%	1.4%	1.1%	4%	

	Apr-15	May-15	June-15	Target	Status
Annual staff survey question to determine satisfaction with present job	Awaiting results of staff survey 2015			67%	Not yet known
Percentage of staff that have completed two days training per year	43%	52%	69%	100%	