

# Pensions Committee

2.00 p.m., Wednesday, 16 December 2015

## Service Plan Update

Item number	5.10
Report number	
Executive/routine	
Wards	All

### Executive summary

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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.

Most performance indicators are meeting targets. However, the payment of employer contributions and customer satisfaction are both marginally behind target. Whilst only halfway through the year, it is possible that these performance targets will not be achieved by the end of the year.

### Links

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Coalition pledges

Council outcomes [CO26](#)

Single Outcome Agreement

## Service Plan Update

### Recommendations

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- 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 change to the customer care service standard for paying retirement lump sums.

### Background

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- 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

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- 3.1 Progress is being made against the service plan. The following areas are covered elsewhere on the agenda:
  - Internal Audit Reports;
  - Benchmarking of investment and pension administration costs;
  - Investment strategy reviews; and
  - Investment Controls and Financial Conduct Authority (FCA).

Other progress of particular note is shown below.

- 3.2 **Pension Administration:** As previously advised, from 1 April 2015, the processing of the transfer of members' pension benefits to other Funds had been postponed pending suitable update by the supplier to provide automatic calculation within its pension administration system. Following quality assurance testing of the new software by officers from Lothian Pension Fund and Strathclyde Pension Fund, these changes were implemented on the live system

on 30 September 2015. The backlog of work is now up to date but volumes of transfer enquiries continue to be higher than normal.

- 3.3 **Unitisation:** Procurement has now concluded for a system to enable the unitisation of investments. This should not only facilitate enhanced asset-tracking through recognition of cash-flows by individual employer, but offers the potential for more tailored investment strategies.
- 3.4 **Customer Service Excellence:** The annual assessment of Customer Service Excellence focuses on customer insight and feedback. As part of this, the Fund has carried out customer journey mapping within the retirement process which was recently changed. Five recently retired members attended a focus group to assist with the mapping. A survey was also issued to other recently retired members who couldn't attend the event to gain further insight. During the process, a change in the service standard for paying lump sums at retirement was proposed, increasing from 5 to 7 working days. Members were content with this proposal. Although the majority of payments will continue to be made within 5 working days the extra time will allow for processing when the payroll is being run. The Customer Service Excellence assessment will take place in early 2016.
- 3.5 **Customer Surveys:** The Fund has recently completed the Retired Members annual survey with over 600 responses, and over 100 positive comments received. Overall results were very good, including overall satisfaction of 89.6%, 92% find the information provided by the fund easy to understand and 87% found the website easy to use. There were 27 negative comments, including the retirement process including 'I found the system slow 'Club Together mailings comments including 'I don't like advertising junk mail' and the online service including 'I found it complicated to register'. The Fund is working with our pension online service provider to improve member experience.
- 3.6 **Staffing:** Appointments have been made for the vacancies of a bond Portfolio Manager, and two trainee pensions administrators. The Fund has also made some changes within the Pensions Administration area with a new Data Quality team established to bring together efforts to enhance data quality and performance measurement. Staffing costs remain within the agreed budget.
- 3.7 **Awards:** At the LGC Investment Awards held on 4<sup>th</sup> November 2015 Lothian Pension Fund won Fund of the Year (Over £5billion) and Lothian Buses Pension Fund won Fund of the Year (Under £750million). It is the fifth year running that the Lothian Buses Pension Fund has won this award. The awards cover all aspects of the running of the funds, from investment, pension administration, communications and governance.

The Fund was also highly commended in the LGPS Fund of the Year category at the recent LAPF Investment awards.

## Performance Indicators

3.8 Performance Indicators for the first two quarters of the financial year are provided in the attached appendix.

3.9 Two indicators are highlighted as ‘amber’ and one as ‘red’:

- The payment of employer contributions for the quarter (97.27%) is behind target of 99%. This is due to a number of employers including Lothian Buses and Police Scotland who paid late and some smaller employers where there is only one member of staff dealing with payments who were off during July. For July contributions, Lothian Buses and Police Scotland both made their payments one day late which led to only 92.5% of payments being received within the 19 days. In August and September, 99% of contributions were paid in time.
- Customer satisfaction is also marginally behind target (85.6% compared to 87%). The annual Retired Members survey results showed 89.6% are satisfied. However, the overall satisfaction for the email survey (recently introduced into this performance indicator) was low at 50%. Work is being undertaken to improve responses to emails.
- The staff training indicator is currently red with 74.5% of staff having completed their pro-rata training target up to 30 September 2015. The Fund is comfortable that the target should be achieved by the end of the year.

Performance indicators also worth noting are:

3.10 **Staff survey:** The 2015 staff survey has been undertaken and 49 members out of 54 staff responded to the survey a higher response rate than seen in previous years. Overall satisfaction increased marginally to 73%, exceeding the target of 67%. The equivalent satisfaction figures for 2013 and 2014 were 63% and 65% respectively. The following table provides more detail. An action plan is being developed.

<b>Staff Survey - % who agree or strongly agree</b>	<b>2013 %</b>	<b>2014 %</b>	<b>2015 %</b>
My manager listens to and is open to suggestions	79	70	77
My manager motivates me to achieve my full potential	61	59	69
My line manager delegates responsibility effectively	64	54	75
The reasons for change are well communicated	58	57	73
Have a say on changes that affect me before they are made	41	46	51
Feel that change affecting our service area is well managed	56	49	65
Have confidence in the decision made by the senior management team	69	62	77

## 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:

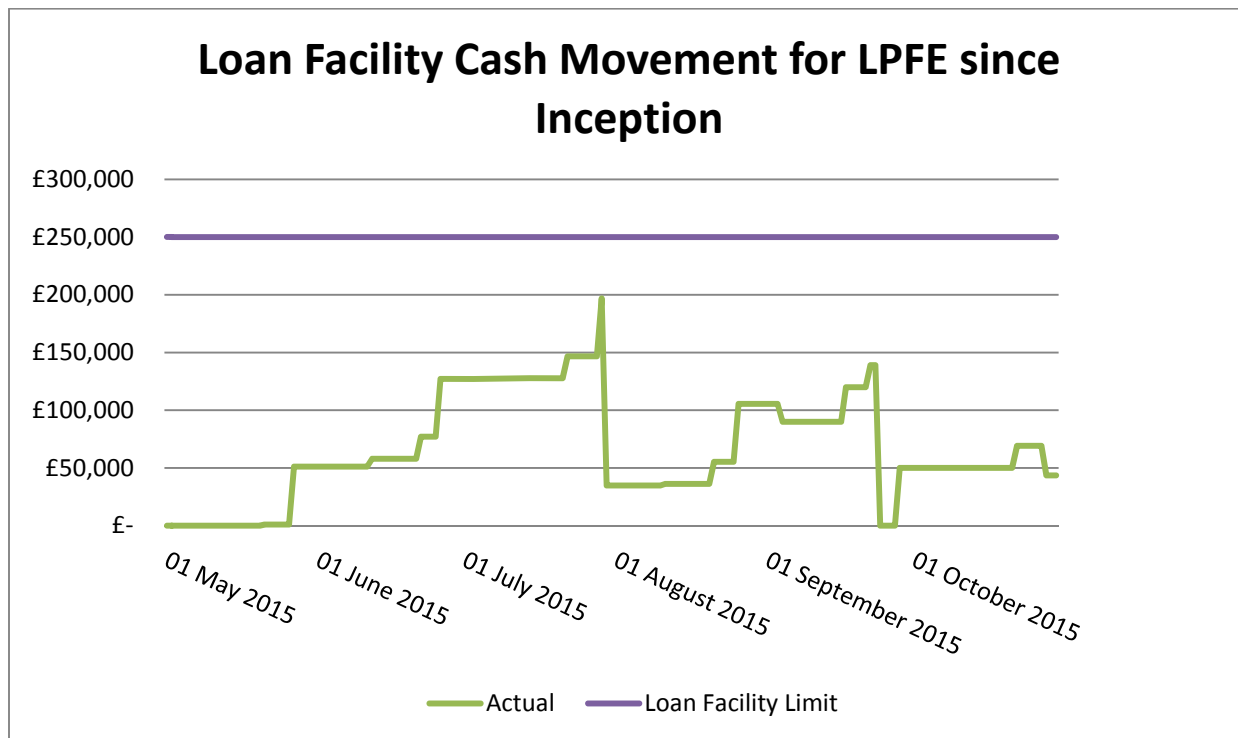
Category	Approved Budget £'000	Projected Outturn £'000	Projected Variance £'000	Budget to date £'000	Actual to date £'000	Variance to date £'000
Employees	2,489	2,252	(237)	1,452	1,229	(223)
Transport & Premises	225	261	36	131	134	3
Supplies & Services	1,095	1,090	(5)	639	537	(102)
Investment Managers Fees	8,100	7,700	(400)	4,725	4,612	(113)
Other Third Party Payments	1,286	1,000	(286)	750	328	(422)
Central Support Costs	276	315	39	161	184	23
Depreciation	80	91	11	47	54	7
<b>Direct Expenditure (Invoiced)</b>	<b>13,551</b>	<b>12,709</b>	<b>(842)</b>	<b>7,905</b>	<b>7,078</b>	<b>(827)</b>
Income	(1,657)	(1,065)	592	(967)	(757)	(210)
<b>Net Expenditure (Invoiced)</b>	<b>11,894</b>	<b>11,644</b>	<b>(250)</b>	<b>6,938</b>	<b>6,321</b>	<b>(617)</b>
<b>Indicative Expenditure (Un-invoiced Manager Fees)</b>	<b>18,924</b>	<b>19,174</b>	<b>250</b>	<b>11,039</b>	<b>11,185</b>	<b>146</b>
<b>Total Cost to the Funds</b>	<b>30,818</b>	<b>30,818</b>	<b>-</b>	<b>17,977</b>	<b>17,506</b>	<b>(471)</b>

- 5.2 The financial outturn includes year to date budget, actual expenditure and variance as at the end of October 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 generally assumed to be in-line with the budget. With delays in splitting out research costs from brokers fees (see below) a £250k overspend in un-invoiced fees has been forecast.
- 5.3 The Fund is projected to be broadly on budget. The key variances for each category in the budget are:

- Investment Managers Fees - **£400k underspend**. Manager fees are based on market values. An 8% increase in market values was projected however year to date market prices have fallen.
- Other Third Party Payments - **£286k underspend**. Underspend due to delays in the splitting out research costs from broker's fees. As mentioned above these costs have been offset in the Un-invoiced expenditure.
- Employees - **£237k underspend**. This is mainly due to unfilled posts across the division during the period from April to October 2015. Recruitment processes have been progressed.
- 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 - **£36k overspend**. Property costs paid in advance and a rebate paid if costs for the quarter are less, it is assumed that no rebate will be given. The Fund will continue to monitor property expenditure closely.
- Income - **£592k below budget**. This relates to stock lending commission. The budget was modelled on Northern Trust projections based on last year's income. 50% of last years revenue was derived from one stock. The income from this stock was less reliable in the first quarter of the year and was sold (unrelated to stock lending revenue) during the second quarter.

5.4 Contained within the table of 5.1 are the expenses in relation to LPFE Limited. LPFE is the company that employs the key investment personnel of the Fund. To date the total expenditure of LPFE is £394k with projected outlays for the year expected to be below £1m.

5.5 The 2015/16 budget also contained a £250k provision for a loan facility within LPFE. This financing arrangement provides the company with sufficient operational flexibility within the overall financial controls and framework of the Council. Cash is drawn-down from the loan facilities (not beyond the £250k provision) when required and interest is charged on the net amount drawn down, with the rate linked to the Royal Bank of Scotland base rate. The Fund does not expect to use this full provision as after the initial setup of the company, loan balances will be kept to a minimum. The graph below shows the cash flows of LPFE's loan facility since inception.



## Risk, policy, compliance and governance impact

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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

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7.1 None

## Sustainability impact

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8.1 None

## Consultation and engagement

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

## Background reading/external references

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[LPF Service Plan 2015-2018](#)

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## Links

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### **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



## Service Plan Performance Indicators – Targets &amp; Actual Performance

	Q1 April to June	Q2 July to Sept	Target	Status
<b>Customer First</b>				
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 85.6%		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 end August	
<b>Forward Thinking</b>				
Performance and Risk of Lothian Pension Fund	Actual 8.6%pa, Benchmark 7.2%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%	91.8%	Greater than 90%	
<b>Honest &amp; Transparent</b>				
Audit of annual report	Achieved		Unqualified opinion	
Percentage of employer contributions paid within 19 days of month end	98.96%	97.27%	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	
<b>Working Together</b>				
Level of sickness absence	1.45%	0.28%	4%	
Annual staff survey question to determine satisfaction with present job	73%		67%	
Percentage of staff that have completed two days training per year.	61%	74%	100%	