

Pensions Committee

2.00 p.m., Monday, 20 March 2017

Lothian Pension Fund Staffing

Item number	5.6
Report number	
Executive/routine	
Wards	All

Executive summary

In 2015, key investment staff were transferred to LPFE Limited, a new vehicle owned by the Lothian Pension Fund. Additional consideration was to be given to the transfer of other pension fund staff in due course.

While morale in the pension fund team is generally good, there is evidence of an element of dissatisfaction as a result of the different employment arrangements between the two groups of staff, particularly for those with aspirations to develop into role(s) within LPFE Limited. Inevitably, an increasing number of issues are expected to arise over time as the employment practices of LPFE Limited and the City of Edinburgh Council diverge.

Further, with increasing collaboration with other pension funds, the legal structuring of such arrangements and accounting procedures would be more straightforward if all pension fund staff were employed by the same legal entity.

Committee is asked to agree that the remaining pension fund staff are transferred to LPFE Limited subject to the appropriate consultation with staff and trades unions and any legal and risk analysis being concluded to the Executive Director of Resources' satisfaction.

Links

Coalition pledges

Council outcomes [CO26](#)

Single Outcome Agreement

Lothian Pension Fund Staffing

Recommendations

Committee is requested to:

- 1.1 Invite the Pension Board to raise any relevant matters or concerns which the Committee should consider; and
- 1.2 Agree that the remaining pension fund staff should be transferred to LPFE Limited subject to the appropriate consultation with staff and trades unions and any legal and risk analysis being concluded to the Executive Director of Resources' satisfaction.

Background

- 2.1 Lothian Pension Fund has, for many years, in-sourced investment management for part of the Fund. Aside from lower cost, the advantages of internal investment management include the fact that investment staff are more clearly aligned to the Fund and they are not distracted by non-investment issues (such as marketing, advertising, client service and business development). Independent analysis of local government pension schemes shows that funds which have in-house management capability outperform in the long term.
- 2.2 Over recent years, the internal team has been expanded, which has facilitated further in-sourcing of investment functions, as well as the development of innovative and low cost investment strategies to meet the significant funding challenges faced by the Fund.
- 2.3 A review of investment governance arrangements of the Fund in December 2013, by an external consultant, highlighted a key risk associated with staff remuneration and retention, which had also been identified as a risk internally. The review identified that the Fund does not externally benchmark salaries and that the notice period provisions in staff contracts were very short compared with market practice for the equivalent roles. The consultant also noted that the Fund adheres to wider Council Human Resource (HR) policies and procedures but ideally special arrangements should be made for key staff to mitigate risk.
- 2.4 The Pensions Committee recognised that the stability of investment employees is key to the success of the Fund's investments and that significant staff losses would prompt the implementation of an expensive contingency plan.

- 2.5 In September 2014, the Committee agreed that staff directly involved in the internal investment management function should be transferred to a special purpose vehicle, subject to approval by Council for the establishment of the vehicle and the necessary consultation with staff and trades unions. The Committee also agreed that additional consideration should be given to the transfer of other pension fund staff in due course, cognisant of the issues which may arise as a result of operating a dual employer structure within the pension fund team.
- 2.6 In May 2015, 6 posts (at the time, 11 staff members) were transferred to LPFE Limited, a new vehicle wholly owned and controlled by the City of Edinburgh Council (acting in its capacity as administering authority of the Lothian Pension Funds). The board of LPFE Limited is made up of the Executive Director of Resources (chair), the Convener of the Pensions Committee, the City of Edinburgh Council's Head of Finance (not currently a director due to the ongoing HR/recruitment position), Head of Human Resources and the Chief Executive of LPFE Limited / Lothian Pension Fund.
- 2.7 As previously reported to Committee, LPFE Limited, in reviewing remuneration, has externally benchmarked salaries against comparable positions in the investment industry and put in place new terms and conditions including longer notice periods to mitigate the risks associated with an internal investment team.
- 2.8 It is felt that the employment of key investment staff via LPFE Limited has reduced the risks facing the pension fund group. Staff turnover in the investment team has been low over recent years, albeit the situation is still in its infancy.
- 2.9 The Fund has been developing its efforts to collaborate with other funds in order to deliver greater efficiencies and improved services. Currently some members of the Fund's team (both LPFE Limited and City of Edinburgh Council) are seconded to Falkirk Council to provide advice in relation to investments including infrastructure investment.

Main report

- 3.1 The Lothian Pension Fund staff currently comprises 56 individuals that are managed as one team. The 12 key investment staff are employed by LPFE Limited and the remaining staff are employed by the City of Edinburgh Council.
- 3.2 Pensions Committee were concerned about the potential impact on staff morale, both for those directly affected and others in the Fund not transferring to the special purpose vehicle. Results of the recent staff survey (provided in the report on service plan progress elsewhere on the agenda) show that staff satisfaction and morale generally continue to be positive.
- 3.3 However, there is evidence of some dissatisfaction within the investment and accounting teams employed by the City of Edinburgh Council, and particularly for those with ambitions to develop into role(s) within LPFE Limited.

- 3.4 Further difficulties will inevitably arise as changes of management practice within the Council occur and LPFE Limited elects not to follow suite. Hence management practice will diverge with a risk of increasing dissatisfaction over time.
- 3.5 The Fund is continuing to develop its efforts to collaborate with other funds in order to deliver greater efficiencies and improved services. This is reported on elsewhere on the agenda. The new collaborative efforts are expected to cover all aspects of the Fund's services impacting on all staff, both in LPFE Limited and the Council.
- 3.6 The transfer of the remaining pension fund staff to LPFE Limited would facilitate the collaborative efforts with other local government pension funds, in that it would mean the arrangements would be more streamlined as an organisation and so better placed to provide shared services across the board, rather than simply on the investment side. Having all staff on consistent terms, with the potential to increase notice periods, would place it on a better footing to lead on these collaborative initiatives, both from the Fund's perspective and likely that of any collaborative partners. Also, having all staff employed within LPFE Limited allows for a cleaner legal structuring, and likely more operational efficiencies, in providing shared services to other LGPS funds in the manner contemplated.
- 3.7 The streamlining of staff within LPFE Limited would also assist in the Fund's external communications and recruitment, in that it could manage this directly and without thought to the dual employer situation and potentially complex issues, or constraints, surrounding long term career development of staff in terms of any transition from the City of Edinburgh Council's employment to that of LPFE Limited – which is clearly not practical on an *ad hoc* basis.
- 3.8 The recent staff survey included questions regarding collaboration with other pension funds. 86% said they understood the reasons for collaboration and 66% felt that Lothian Pension Fund should look to collaborate with other funds. Of the staff comments in this section, 21 were positive and 4 negative.
- 3.9 Detailed external legal advice and analysis on the risks associated with the transfer of staff to LPFE Limited from the City of Edinburgh Council was sought at the time of the original transfer and a re-fresh of that advice in relation to the remaining pension fund staff at this time has been instructed. A verbal update will be provided to Committee.
- 3.10 Committee is asked to agree that the remaining pension fund staff should be transferred to LPFE Limited subject to the legal and risk analysis being concluded to the Executive Director of Resources' satisfaction and the appropriate consultation with staff and trades unions.

Measures of success

- 4.1 The success of the staffing arrangements is reflected in the general performance of the pension funds. Staff satisfaction is a key performance indicator for the Funds.

Financial impact

- 5.1 Due diligence costs relating to external legal advice and analysis on the risks associated with the transfer of staff to LPFE Limited from the City of Edinburgh Council are being incurred but are contained within the 2016/17 budget.
- 5.2 With a larger number of staff, additional human resource support will be required for LPFE Limited including extended remuneration benchmarking. This is included in the business case for collaboration to be considered by Committee elsewhere on the agenda.

Risk, policy, compliance and governance impact

- 6.1 Governance arrangements are in place for LPFE Limited. See 2.6 above.
- 6.2 Detailed external legal advice and analysis on the risks associated with the transfer of staff to LPFE Limited from the City of Edinburgh Council is being sought and a verbal update will be provided to Committee.
- 6.3 The decision whether to transfer the remaining pension fund staff to LPFE Limited could impact on staff morale, whether the transfer goes ahead or not. This risk will need to be managed accordingly. Communication will be particularly important.

Equalities impact

- 7.1 See 6.2 above.

Sustainability impact

- 8.1 The transfer of the remaining pension fund staff to LPFE Limited is expected to enhance the sustainability of the current pension fund team. Further it would facilitate collaboration with other funds to further enhance sustainability.

Consultation and engagement

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

9.2 Consultation and engagement with associated staff will be important as the options for change are developed.

Background reading/external references

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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 None