

Pensions Committee

2.30 p.m., Wednesday, 17 December 2014

Service Plan Update 2014 - 2017

Item number	5.12
Report number	
Executive/routine	
Wards	All

Executive summary

The purpose of this report is to provide an update on the first quarter and second quarter of 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 and it is expected that performance targets will be achieved by the end of the year.

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

Service Plan Update 2014 - 2017

Recommendations

- 1.1 It is recommended that the Committee should 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. The following areas are of particular note:

Implementation of the new LGPS Scotland 2015

- 3.2 The Fund continues to assist in the development of the Scotland-wide communications for the new LGPS. New material has been added to the Scotland-wide website www.scotlgps2015.org.
- 3.3 The Fund organised for the Local Government Association to deliver a training session for employers on 21 November. The event was attended by over 70 employer representatives.
- 3.4 The governance impact of the new scheme is addressed elsewhere on the Committee's agenda.

2014 Actuarial Valuation & Funding

- 3.5 Progress is being made with the 2014 actuarial valuations. The results for Scottish Homes Pension Fund are covered elsewhere on the Committee's agenda. Consultation with Lothian Buses plc continues on the results for the Lothian Buses Pension Fund.

- 3.6 The draft results for the Lothian Pension Fund have been shared with employers at the annual seminar on 4 December 2014. Individual employer results are expected to be issued in December. The Funding Strategy Statement has been revisited and a draft has been issued to employers for consultation.

Investment

- 3.7 The Fund continues to implement the 2012-17 investment strategy of the pension funds, with oversight and advice from the Investment Strategy Panel.
- 3.8 Committee will recall that since August the internal team have been monitoring the Asia Pacific equity portfolio previously managed by Baillie Gifford. In September, the Investment Strategy Panel considered the longer-term future of this portfolio alongside the Fund's efforts to reduce the volatility of the overall equity allocation. At the time of writing, plans are being made to make changes to the portfolio and a verbal update will be provided to Committee.
- 3.9 During recent months, the Fund has been in discussion with an employer within the Lothian Pension Fund regarding its exit from the Fund and the potential requirement for a lower-risk investment strategy, compared to the overall Fund. Discussions are ongoing and an update will be provided to Committee in due course.
- 3.10 The Scottish Homes Pension Fund actuarial valuation and investment strategy is covered elsewhere on the agenda. While the review of the funding approach for the Fund was not taken forward, the review of liability cashflow highlighted significant differences between the term/duration of Fund's investments (particularly the index linked gilts) compared to the liabilities. This has been partly due to the fact that the investments have tracked a standard market index of gilts and issuance of new government bonds over recent years has tended to be of longer duration. During September, the duration of the Fund's investments were reduced accordingly and part of the Fund's holdings are now being managed internally. This change in duration should result in the investments providing a closer match to the liabilities in the future. It also took advantage of recent outperformance of long-dated, compared to medium-dated, bonds.

Staffing

- 3.11 Since the last meeting of the Committee, the City of Edinburgh Council approved the creation of one or, if appropriate following legal and tax advice, two special purpose vehicles wholly owned and controlled by City of Edinburgh Council for the purposes of (1) seeking Financial Conduct Authority (FCA) registration for the activities of this team and (2) to directly employ certain key internal investment staff. Implementation work is ongoing with the initial focus on the work on the legal structure.

Performance Indicators

3.12 Performance for the key performance indicators against targets are shown in the Appendix.

3.13 One indicator is highlighted as ‘amber’ and one as ‘red’.

- The proportion of pensions administration critical work completed on time increased in the second quarter but the overall performance for the year so far remains below the target of 90%. Efforts to address historic queries on members’ records and to improve the quality and timeliness of data provision from the employer to the Fund continue.
- Less than half of staff have completed less than one day of training (one half of the target for the year). The Fund is comfortable that these issues reflect the relatively short period over which performance has been measured and initiatives are in place to address weaknesses. It is anticipated that performance indicators are expected to improve to achieve respective targets over the rest of the year.

3.14 Customer satisfaction over the 12 months to 30 September has increased from the previous quarter and is now marginally ahead of target (86.2% compared to target of 86%). Over the quarter, the annual surveys of pensioners and employers were undertaken. Pensioner satisfaction is broadly unchanged at 89% and employer satisfaction reduced from 91% to 84% over the year. 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.

3.15 The 2014 staff survey has been undertaken and 37 members of staff responded to the survey. Overall satisfaction increased marginally to 65% meeting the target. The equivalent satisfaction figures for 2012 and 2013 were 53% and 63% respectively. The following table provides more detail:

	% who agree or strongly agree		
	2012	2013	2014
My manager listens to and is open to suggestions	56	79	70
My manager motivates me to achieve my full potential	53	61	59
My line manager delegates responsibility effectively	49	64	54
The reasons for change are well communicated	53	58	57
Have a say on changes that affect me before they are made	37	41	46
Feel that change affecting our service area is well managed	30	56	49
Have confidence in the decision made by the senior management team	53	69	62

	% who agree or strongly agree		
Feel involved in decision that affect your work	51	52	59
Feel that you have a sense of personal achievement	56	59	70
Feel that you have a say about the way you work	59	64	56
Believe their teams work together to find new ways to improve the service we provide	53	59	62
Learning & Development activities have helped to improve performance	49	59	62
Learning & Development activities will help to develop my career	42	57	57
Overall Satisfaction	53	63	65

3.16 Individual teams within the Fund have discussed the results and proposed actions for improvement and a plan has been agreed by the management team and the staff forum, a representative group of staff. The plan includes a review of the home-working pilot, greater discussion of staff suggestions within teams and an ongoing focus on communications. It includes specific actions for different teams reflecting the different types of work across the Fund.

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 YTD administrative 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	2,118	(135)	1,314	1,199	(115)
Transport & Premises	104	101	(3)	59	68	9
Supplies & Services	952	1,047	95	595	557	(38)
Investment	9,453	7,950	(1,503)	4,717	3,955	(762)
Managers Fees						
Other Third Party Payments	522	522	-	306	237	(69)
Depreciation	80	80	-	-	-	-
Direct Expenditure	13,364	11,818	(1,546)	6,991	6,016	(975)
Allocated Central Support Costs	281	281	-	-	-	-
Income	(772)	(1,937)	(1,165)	(429)	(1,375)	(946)
Total Cost to the Funds	12,873	10,162	(2,711)	6,562	4,641	(1,921)

5.2 The financial outturn includes year to date budget, actual expenditure and variance as at the end of October 2014. Year to date actual expenditure includes provision for services provided for which no invoice has been received.

5.3 The projection shows an underspend of approximately £2,711k. The key variances against budget are:

- Employees - £135k underspend. This is mainly due to unfilled posts across the division during the period from April to October 2014, partly offset by temporary agency costs, and transferring FCA authorisation projected costs (£50K) to Supplies & Services.
- Supplies & Services - £95k overspend. This is mainly due to FCA authorisation costs (£50K) which were budgeted under Employees. Other reasons for overspend are: system licence for the new scheme higher than expected (£25K), additional office move costs and higher than expected postage costs relating to pension payroll slips.
- Investment management fees - £1,503k underspend. This is due to termination of Rogge and Baillie Gifford mandates, with assets transferred in-house, and planned changes to portfolio structure, which will take place later in the year.
- Income: Securities lending income is significantly higher (projected to be over £1million) than for the previous year. Northern Trust commented on this: "This is due to increased levels of 'specials' activity in the US market, together with changes to the portfolio composition following recent transition activity and also there have been recent changes to UK relevant withholding tax. Prior to 1st January 2014, Northern Trust was required to either account for or collect UK tax on overseas manufactured dividend payments paid to

UK investors. It is anticipated that removal of relevant withholding tax is likely to significantly increase lending revenue for yield enhancement trading.”

- 5.4 Committee is reminded that the investment management fees included in the budget are for mandates managed on a segregated basis (i.e. where the Fund assets are not comingled with those of other investors).

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.

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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 Service Plan Update



17 December 2014

Service Plan Update 2014 - 2017

Lothian Pension Fund

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Service Plan Performance Indicators – Targets & Actual Performance

	Q1 April to June	Q2 July to Sept	Target	Status
Performance				
Performance and Risk of Lothian Pension Fund	Actual 9.5%pa, Benchmark 9.0%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%	Greater than 90%	
Percentage of employer contributions paid within 19 days of month end	96.97%	99.78%	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%	Yes	
Customer Indicators and targets				
Maintain Customer Service Excellence Standard	Annual assessment expected early 2015		Retain CSE Award	Not yet known
Overall satisfaction of employers, active members and pensions measured by surveys (rolling 12 month performance)	84.7%	86.2%	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%	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%	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. - An internal project team will aim to ensure effective co-ordination of all aspects of the implementation of the scheme changes, including system updates and staff training. 	<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"> - Briefing for the Pensions Committee and Consultative Panel include a meeting in October regarding the consultation of the LGPS Draft Regulations (Governance) changes and a Pensions Regulator presentation by Sarah Smart. - The Funds' response to the draft governance changes were issued to SPPA on 11 November. - In preparation for the Fund's new governance arrangements, draft constitution for the Pension Board and an updated training policy has been drafted for consideration by Committee in December. 	<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. - Progress is being made on the 2014 Actuarial valuation. Initial results for Lothian Buses Pension Fund and Scottish Homes Pension Fund have been received. - Draft results for Lothian Pension Fund will be shared with employers in December. Draft Funding Strategy Statement will also be issued for consultation in December. - Employer covenant work has progressed and is covered elsewhere on the Committee's agenda. - Cashflow continues to be monitored monthly. Unitisation options are under review. 	<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 is being 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 by 31 December 2014. Payroll continues to run smoothly each month and preparations to transfer Fire Pensioners to SPPA are well on the way. - New finance Manager is now in post. 	<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 is progressing to implementing joint infrastructure investments via relevant staff being seconded on a part-time basis to Falkirk Council. - Progress is being made in the transfer of the Fire Fighters to the Scottish Government. This is expected to be completed by March 2015. 	<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"> - Mystery shopping exercises are ongoing to check how customers who contact us by telephone and e-mail experience the service. - Recent annual pensioner and employer surveys are being analysed. 	<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 for 14/15 have been issued and meetings with employers are ongoing. - We have appointed Tracesmart to conduct a tracing exercise on members that we have lost touch with. - Pensions Administration workflow has been set up to distribute both urgent and non urgent cases. The volume of historic cases is reducing. - 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"> - As part of trainee pensions administrator project, the fund has begun to monitor customer satisfaction in regards to the service we provide via e-mail. - We are developing different ways of communicating to employers, staff and customer for example developing short training films for employers, staff and providing guidance for the 'Member online' process. - 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. Managers are assessing solutions for these issues. 	<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 for specific terms and conditions. - Career development coaching for certain staff. 	<ul style="list-style-type: none"> - Explore options and review plans for a sustainable team.