Pensions Committee

2.00 p.m., Monday, 20 March 2017

2016-2018 Service Plan Update

Item number	5.10
Report number	
Executive/routine	
Wards	All

Executive summary

The purpose of this report is to provide an update on progress against the 2016-2018 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.

Links

Coalition pledges	
Council outcomes	CO26
Single Outcome Agreement	

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Report

2016-2018 Service Plan and Budget

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 Note the progress being made against the Service Plan 2016-2018.

Background

2.1 The Lothian Pension Fund's two-year Service Plan for 2016-2018 was approved by the Pensions Committee in March 2016. An update on progress is shown below.

Main report

3.1 Progress is being made against the service plan. The following areas are covered elsewhere on the agenda for Committee:

- Collaboration with other pension funds;
- Ensuring effective Governance;
- Investment Controls and Compliance;
- Consider potential for further transfer of pension fund staff.

Other progress of particular note is shown below.

Pension Administration Standards Association (PASA) accreditation

3.2 The Fund has applied for Pension Administration Standards Association (PASA) accreditation which promotes a standard for administration services for UK pension schemes. The accreditation covers service commitments, performance measurement and reporting, operational procedures and controls, data security and staffing, with the focus being on providing the optimal service to customers. The assessment involves an online application with documentary evidence and site visit by an Independent Assessor in March. An oral update on the progress will be provided to Committee.

Scottish Homes Pension Fund (SHPF)

3.3 Progress is being made in reviewing the SHPF funding agreement with Scottish Government. Analysis of potential investment portfolios to deliver cashflows which are projected to meet the liability requirements is being undertaken with the Actuary and the Investment Strategy Panel. Further engagement with the Scottish Government (and in consultation with the Convener of the Pensions Committee) is planned for the coming months in order to conclude the funding agreement for the 2017 actuarial valuation. Progress will be reported to Pensions Committee in due course.

Monthly Contribution Return (MCR) position

3.4 At present, 93 of the 96 Fund employers are submitting monthly contribution returns with 91.7% in target for the first 9 months of 2016/17. December 2016 saw further improvements with 93.7% being provided on time. Two employers, Enjoy East Lothian and Police Scotland, have temporarily had new submissions suspended as we found incorrect data previously submitted. Enjoy East Lothian has now provided revised data and Police Scotland expects to provide its revised data by no later than the end of the financial year. The Fund is carrying out an exercise with larger employers to tackle a backlog of outstanding information regarding early leavers. The City of Edinburgh Council in particular has done considerable work to reduce the backlog over the last 3 months.

Three employers have not yet started submitting monthly contribution returns. They have been informed that the Fund will levy an annual charge to recover administrative costs arising from this failure to meet the PAS requirements. These employers are:

a. Scottish Police Authority, in respect of the former Scottish Police Services Authority;
b. Scottish Fire and Rescue Service;
c. South East of Scotland Transport Partnership (SEStran).

Committee will also recall that the Fund introduced similar cost recovery charges to be applied if an employer failed to provide their year-end information within timescale with a revised Pension Administration Strategy (PAS) in March 2016. Committee decided to extend the timescale from 19th April to 30th April in the first year. In 2016, 69 employers provided their return by 19th April with a further 25 making a submission before 30th April. Two employers provided returns later than this date and charges were levied. For 2017, it is the intention to set the deadline as 19th April.

City of Edinburgh Council – pension record identifier

3.5 The Fund is also addressing data issues caused by the inherent but undesired variability in the City of Edinburgh Council's payroll "position identifier" also being the identifier for pension records. This has caused significant issues as the Council is currently undergoing a review of their services and staff are being given a new identifier as part of this process.

Guaranteed Minimum Pension (GMP) reconciliation

3.6 Details of the GMP reconciliation to HMRC records were provided to the Pensions Audit Sub-Committee on 27 September 2016. Work is ongoing to achieve full reconciliation of by the target date of December 2018, with the current position being that 55% of relevant records align. Nationally, given the volume of data queries, concerns have been expressed at HMRC's ability to respond within a reasonable timescale. In November 2016, Hymans Robertson LLP reported a backlog of eight months to process GMP data by HMRC. Lothian Pension Fund will monitor reconciliation progress closely over the coming months and ascertain any resource implications in order to achieve the target.

HM Treasury "Consultation on indexation and equalisation of GMP in public service pension schemes"

3.7 In November 2016, HM Treasury issued a "Consultation on indexation and equalisation of GMP in public service pension schemes". This aimed to answer two issues within a single policy solution:

- "How best to avoid the introduction of unequal payments to men and women in the public service schemes that will result from the abolition of the additional state pension (AP)."
- "Whether, following the introduction of the new state pension, the public service pension schemes should pay full indexation on GMP earned while a member of a public service pension scheme, for someone who reaches state pension age after 5 December 2018."

The Scheme Advisory Board (SAB) for the LGPS in Scotland has submitted a response to the consultation. To minimise administrative workload and reduce complexity, the preferred option is that of "GMP conversion". Under this option, for those members attaining state pension age after 5 December 2018, "the GMP element of the pension would be converted into scheme benefit on a 1:1 basis. GMP records would no longer be required following conversion, with indexation being applied to the full pension. This approach prevents inequalities being introduced between men and women by the abolition of the additional state pension and ensures no individual is worse off.

This will require public services to meet the cost of indexing the GMP. The additional cost implications (0.5% of liabilities), on LGPS employers already facing a difficult and constrained financial environment should be recognised. We (SAB) would expect the government to provide additional funding or some level of compensation, given cuts to local authority budgets. " Importantly, SAB has also requested "clarification as to whether full GMP reconciliation would still be required".

Freedom of Information (FOI) requests

3.8 The Fund receives regular FOI requests and in 2016 responded to 22 that covered topics such as private market investments, shareholdings, climate change, travel and proxy voting. We also received one request for personal information held on our record under the Data Protection Act. These requests are resource intensive and where possible we refer queries to the website for publicly available information.

Cohabiting partners' pensions

3.9 A recent decision by the Supreme Court saw a survivor's pension granted to a Northern Ireland LGPS member's surviving partner where the member did not meet the Regulations and nominate the partner for a pension. The rules of the Local Government Pension Scheme (LGPS) in Scotland did not recognise widowers until April 1988 or unmarried partners, until April 2009**.** In the event of death before this date, a pension was payable only to a legal widow.

However, in Scotland, unmarried persons were able to obtain a "Declarator of Marriage" from a Sheriff Court. Where a member left prior to April 2009, the Fund considered evidence to establish that the deceased and surviving partner had a valid marriage as under Scots Law it is possible to constitute a valid marriage by 'habit and repute'.

Subsequent amendments to the LGPS in April 2009 now recognise surviving spouses, civil partners or co-habiting partners. Although a form nominating a co-habitating partner was required for members who were subject to the 2008 Scheme regulations, where no form has been submitted, Lothian Pension Fund's practice is to consider evidence under Scots Law. Since April 2015, no co-cohabiting partner form is required. However, the criteria stipulated in the Regulations must be met.

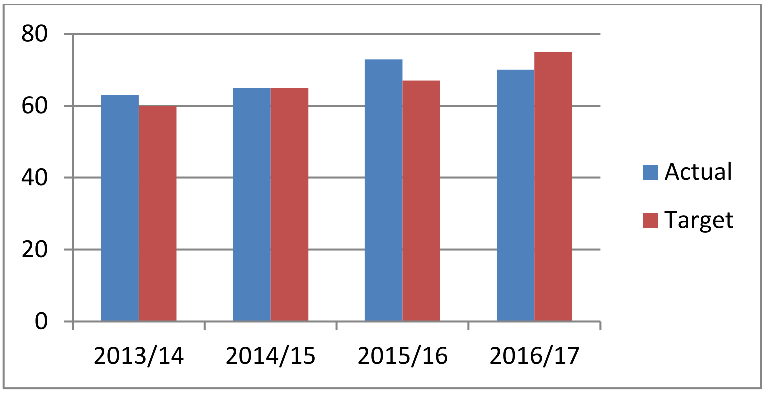
Performance Indicators

3.10 Performance Indicators for the first three quarters of the financial year are provided in the attached appendix.

Two indicators are highlighted as 'amber'':

The staff training indicator shows that 81% of staff had completed their pro-rata training target up to 31 December 2016. The Fund is comfortable that the target should be achieved by the end of the year.

The 2016 staff survey has been undertaken and 52 members of staff completed the survey (representing 96% of the Lothian Pension Fund team), although not all questions were answered by everyone who responded. Overall satisfaction decreased marginally to 70% which is lower than the target of 75%. The graph below shows these figures for previous years.



The following table provides the responses to a selection of other questions.

Staff Survey - % who agree or strongly agree	2014 %	2015 %	2016 %
My manager listens to and is open to suggestions	70	77	78
My manager motivates me to achieve my full potential	59	69	76
My line manager delegates responsibility effectively	54	75	76
The reasons for change are well communicated	57	73	68
Have a say on changes that affect me before they are made	46	51	56
Feel that change affecting our service area is well managed	49	65	62
Have confidence in the decision made by the senior management team	62	77	72

This year's survey also included questions regarding views on 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 comments in this section, 21 were positive and 4 negative.
An action plan is being developed with a focus on improving the way change is managed, staff development and celebrating success.

Pension Administration Strategy (PAS) performance 2016/17 to date

3.11 Overall employer performance for the first three quarters of 2016/17 is shown below, with 2015/16 shown for comparison purposes.

Employer performance		April to Dec 2016			2015/16		
Case type	Target (working days)	Number received	Number within target	% within target	Number received	Number within target	% within target
New Starts	20	3666	3098	**85%**	4653	4074	**88%**
Leavers	20	2518	1112	**44%**	2377	1207	**51%**
Retirements	20	965	340	**35%**	1156	398	**34%**
Death in Service	10	20	14	**70%**	40	11	**28%**

Overall, this shows a continuation of poor employer performance for the first three quarters of this year particularly for retirements and leavers.

The receipt of new start information through the secure data transmission portal is generally good, although the small drop in performance is disappointing. This can be attributed to poor performance by a single employer. Missing records were identified via the monthly contribution return process and details requested. Performance for all other employers, excluding this specific employer, was 88% over the same period.

The deterioration in the performance for leavers in the first three quarters of 2016/17 is primarily due to the significant voluntary staff release programme of the City of Edinburgh Council (CEC). In 2016/17, excluding CEC there have been:

- 1624 leavers, 58% of which were received within target;
- 443 retirements, of which 57% were received within target.

Customer Service Excellence

3.12 This Fund's annual Customer Service Excellence (CSE) assessment was held in January and covered key customer service provisions such as complaints, listening to customers and taking action on feedback provided. The assessor provided excellent feedback and confirmed that the award had been retained for another year along with a sixth Compliance Plus for excellence.

Customer Satisfaction

3.13 The Fund recently conducted the annual employer survey and received helpful feedback on our performance. Key Results were as follows:

- 96% of respondents were satisfied with the overall service provided by the fund (up from 85% in 2015);
- the monthly employer bulletin continues to be well received with 97% satisfaction;
- 89% agreed the website was easy to use;
- satisfaction of pensionsWEB went up from 79% to 87%.

The positive results from the employer survey, together with improving customer satisfaction from email services, overall satisfaction is 90% ahead of target 88%.

Membership and cashflow monitoring

3.14 Officers of the Fund continue to monitor movements in membership numbers in order to assess potential implications upon cashflow. Early retirement initiatives could trigger significant and immediate outflows due to the payment of tax free lump sums and pensions and reductions in contributions received. However, payment of strain costs by the employer helps to mitigate current cashflow pressures.

3.15 The summary below details the cash flows as at the end of December 2016 and projections for the financial year. This has been prepared on a cashflow basis (compared to the accruals basis of the year end financial statements and budget projections).

Lothian Pension Fund	**2016/17 YTD**	**2016/17 Projected**
Income	**£'000**	**£'000**
Contributions from Employers	105,830	146,250
Contributions from Employees	30,705	41,200
Transfers from Other Schemes	4,170	5,200
	140,705	**192,650**
Expenditure		
Pension Payments	(105,705)	(141,800)
Lump Sum Retirement Payments	(47,535)	(59,500)
Refunds to Members Leaving Service	(665)	(850)
Transfers to Other Schemes	(7,080)	(10,300)
Administrative expense	(1,395)	(1,865)
	(162,380)	**(214,315)**
Net Additions/(Deductions) From Dealings with Members	**(21,675)**	**(21,665)**

Lothian Buses Pension Fund	**2016/17 YTD**	**2016/17 Projected**
Income	**£'000**	**£'000**
Contributions from Employers	5,625	7,475
Contributions from Employees	1,555	2,080
Transfers from Other Schemes	10	10
	7,190	**9,565**
Expenditure		
Pension Payments	(6,300)	(8,420)
Lump Sum Retirement Payments	(2,790)	(3,835)
Refunds to Members Leaving Service	(10)	(10)
Transfers to Other Schemes	(120)	(180)
Administrative expense	(84)	(112)
	(9,304)	**(12,557)**
Net Additions/(Deductions) From Dealings with Members	**(2,114)**	**(2,992)**

Scottish Homes Pension Fund	2016/17 YTD	2016/17 Projected
Income	**£'000**	**£'000**
Contributions from Employers	**675**	**675**
Expenditure		
Pension Payments	(5,115)	(6,810)
Lump Sum Retirement Payments	(448)	(600)
Transfers to Other Schemes	(120)	(170)
Administrative expense	(41)	(55)
	(5,724)	**(7,635)**
Net Additions/(Deductions) From Dealings with Members	**(5,049)**	**(6,960)**

3.16 Owing to the City of Edinburgh Council's ongoing transformation project, there has been a significant number of leavers. As a result, it is expected that Lothian Pension Fund will have a negative cash flow position at the end of the year, whereby pension payments exceed total contributions received. The Fund has targeted increased investment income in recent years which is expected to exceed net cashflow for the foreseeable future. It is therefore not anticipated that the sale of assets will be required to meet this funding requirement.

3.17 In Lothian Buses and Scottish Homes Pension Funds, expenditure is anticipated to continue to exceed income. A combination of investment income and asset sales are used to fund this shortfall.

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 2016/17 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	2,906	2,500	(406)	2,180	1,802	(378)
Transport & Premises	236	251	15	177	169	(8)
Supplies & Services	1,195	1,137	(58)	896	796	(100)
Investment Managers Fees	7,120	5,100	(2,020)	5,340	3,745	(1,595)
Other Third Party Payments	1,375	875	(500)	1,031	500	(531)
Central Support Costs	300	300	-	225	225	-
Depreciation	87	88	1	65	65	-
Direct Expenditure (Invoiced)	**13,219**	**10,251**	**(2,968)**	**9,914**	**7,302**	**(2,612)**
Income	(977)	(825)	152	(733)	(620)	113
Net Expenditure (Invoiced)	**12,242**	**9,426**	**(2,816)**	**9,181**	**6,682**	**(2,499)**
Indicative Expenditure (Uninvoiced)	**18,800**	**19,300**	**500**	**9,400**	**9,775**	**375**
Total Cost to the Funds	**31,042**	**28,726**	**(2,316)**	**18,581**	**16,457**	**(2,124)**

5.2 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 experienced in separating research costs from brokers fees (see below) a £500k overspend in uninvoiced fees has been forecast.

5.3 The key variances for each category in the budget are:

- Investment Managers Fees - **£2,020k underspend**. The budget for external fund management costs was set prior to the in-sourcing of a global equity portfolio in March 2016.
- Employees **- £406k underspend**. This is mainly due to unfilled posts across the division during the period from April to December 2016. Recruitment processes are progressing with many of the posts expected to be filled by the financial year end.
- Other Third Party Payments - **£500k underspend**. Underspend due to delays in the separating research costs from brokers' fees. As mentioned above these costs have been offset in the Uninvoiced expenditure.
- Transport & Premises **- £15k overspend**. A historical business rates charge relating to 2013/14 was recently invoiced resulting in the overspend.
- Income **- £189k below budget.** This relates to stock lending commission. The budget was modelled on the original projections by the global custodian. The custodian has highlighted that potentially securities lending will become less profitable with tighter regulation.

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 2016-2018

HM Treasury consultation: https://www.gov.uk/government/consultations/indexation-and-equalisation-of-gmp-in-public-service-pension-schemes/consultation-on-indexation-and-equalisation-of-gmp-in-public-service-pension-schemes

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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	Appendix 1 – Performance Indicators

Appendix 1

Service Plan Performance Indicators – Targets & Actual Performance

	Q1 April to June	Q2 July to Sept	Q3 Oct to Dec	Target	Status
Customer First					
Maintain Customer Service Excellence Standard	Retained			Retain CSE Award	
Overall satisfaction of employers, active members and pensions measured by surveys	Rolling 12-month performance is 90.3%			88%	
Proportion of active members receiving a benefit statement and time of year statement is issued	99.9% issued by 31 August 2016			100%	
Forward Thinking					
Performance and Risk of Lothian Pension Fund	Actual 10.4%pa, Benchmark 8.4%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	92.4%	90.3%	93.5%	Greater than 90%	
Honest & Transparent					
Audit of annual report	Achieved			Unqualified opinion	
Percentage of employer contributions paid within 19 days of month end	98.8%	99.2%	99.6%	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	0.72%	1.27%	0.55%	4%	
Annual staff survey question to determine satisfaction with present job	70%			75%	
Percentage of staff that have completed two days training per year.	62.5%	75.3%	81.2%	100%	