Pensions Committee

2.00pm, Tuesday, 12 December 2017

Service Plan Update

Item number	5.4
Report number	
Executive/routine	
Wards	All
Council Commitments	Delivering a Council that works for 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 and Transparent;
- Working Together; and
- Forward Thinking.

Overall progress is being made against the service plan objectives with all but one of performance indicators meeting the target so far for 2017/18. An underspend is projected for the financial year.

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Report

Service Plan Update

1. Recommendations

Committee is requested to:

1.1 Note the progress of the Fund against the 2016-2018 Service Plan;

1.2 Approve that consultation is undertaken with employers on the “Voluntary Scheme Pays” taxation charge in respect of the “Annual Allowance”, including the stipulation that the Fund would only consent to apply such discretion with the prior agreement of the respective employer to accept all cost risks arising, e.g. member longevity; and

1.3 Note that officers, in consultation with the Convener, will respond to the Scottish Government’s consultation on the scheme regulations.

2. Background

2.1 The purpose of this report is to provide an update on the 2016–2018 Service Plan, performance indicators and the key actions to enable the Fund to meet its four key objectives:

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

3. Main report

3.1 Progress is being made against the service plan. Progress of particular note since September 2017 is shown below. The following areas are covered elsewhere on the agenda:

- Stewardship and engagement
- Pension Administration data quality (for Audit Sub-Committee)
- Investment controls and compliance
- Collaboration.

LPFE staff transfer

3.2 Consultation with trades unions and the remaining Fund staff regarding transfer of employment to LPFE Limited has continued over recent months. The transfer was delayed and did not proceed on 31st October as planned. The delay was due to operational issues. At the time of writing, matters are being considered as a matter of urgency and the transfer will go ahead as soon as appropriate arrangements are in place. A verbal update will be provided to Committee on this matter.

Actuarial Valuation update

3.3 Progress in being made on the 2017 actuarial valuations. Following a briefing for the Pensions Committee and Pension Board, the draft results for Lothian Pension Fund were shared with employers on 2 November. Individual employer results were then shared with employers, together with the draft Funding Strategy Statement. Individual meetings are currently being held with any employers who have further questions.

3.4 At the time of writing, the draft results for Lothian Buses Pension Fund and Scottish Homes Pension Fund are being discussed with the Actuary. Consultation with stakeholders will commence shortly. Consultation with stakeholders of the Lothian Buses Pension Fund will include consideration of the potential merger of the fund into the Lothian Pension Fund, as previously discussed and agreed by Committee. For the Scottish Homes Pension Fund, consultation with the Scottish Government will include consideration of changes to the funding agreement as previously agreed by Committee.

3.5 The final actuarial valuation results for all three funds will be reported to Committee in March, ahead of the regulatory deadline of 31 March 2018.

Pensions Regulator standards and compliance

3.6 Performance indicators (shown later in this report) show compliance with the regulatory requirements for timely issuance of members' annual benefit statements and the receipt of employer contributions. In addition, the Fund:

a. Has submitted the annual returns for Scottish Homes Pension Fund and Lothian Pension Fund (including Lothian Buses Pension Fund) to the Pensions Regulator in advance of the deadline of 9 November;

b. Is working with its Additional Voluntary Contribution (AVC) providers to improve monitoring of the timeliness of employers paying contributions;

c. Has provided those members with their annual pension savings statements (used for taxation purposed) via the on-line portal in advance of the regulatory deadline of 6 October. Letters have also been issued to those who have exceeded the annual allowance threshold. As the taxation thresholds have reduced over recent years, there is an increasing number of members (163 in 2017) whose savings have exceeded the threshold.

Annual Allowance – Voluntary Scheme Pays: Employer consultation

3.7 Following the issuance of annual pension savings statements, the issue of tax payments has arisen. Should a member's pensions input Annual Allowance (currently £40,000) be exceeded, LGPS (Scotland) Regulations 2014 allows the Fund to pay the member's tax charge incurred in return for a debit to the member's annual pension in payment. This accords with the Finance Act 2004, which stipulates joint liability for the tax charge and is known as the “mandatory scheme pays option”.

3.8 Such mandatory scheme pays, however, do not apply in circumstances, where, from 6 April 2016, members earning more than £110,000 per annum, may be impacted by HMRC rules which taper (reduce) the Annual Allowance. In such instances, there may be discretion for administering authorities to make available a “voluntary scheme pays” option to members. There are currently approximately 35 members in the Fund affected.

3.9 Guidance from the Local Government Pensions Committee in February 2017 concludes that funds in England have the authority and competence, that is “vires”, to accept a voluntary scheme pays request. For Scottish or Welsh funds, however, the position appears very much less clear and relies on favourable interpretation of Local Government Acts 1972, 2000 and 2003 in relation to general ‘well- being’ powers. Should a “voluntary scheme pays” option be made available, then discretion may be exercised by the fund on an individual case basis, or it may decide to set criteria around which requests would be accepted.

3.10 A number of members impacted by the tapering of the Annual Allowance have recently contacted the Fund to request that it should make available the voluntary scheme pays option. In an attempt to attain clarity, the Fund has sought guidance from Scottish Public Pensions Agency (SPPA).

3.11 One major employer has raised the matter with both the Fund and at least one other Scottish administering authority (the employer is a member of more than one LGPS Fund). It has also contacted SPPA directly. In response, the employer has stated that SPPA “is minded to issue an enablement type notice (not an instruction) to funds”.

3.12 It should be noted that the time limit for paying the taxation charge under the voluntary scheme pays option is more pressing than that pertaining to the mandatory scheme pays, namely payment is due by 31 January of the following tax year. Accordingly, there is urgency is addressing this matter.

3.13 Importantly, exercise of the voluntary scheme pays option would entail financial risk exposure by the fund and the employer. This simply reflects the fact that the tax payable is remitted in full by the fund to HMRC on the due date, whilst the annual pension debit is impacted by longevity of the member. Further work is ongoing to identify any potential additional risks and a verbal update will be provided to Committee.

3.14 At the time of writing, subject to guidance from SPPA, the Fund intends to consult with its employers on the Annual Allowance voluntary scheme pays option with the proposal that it would consent to apply such discretion only with the prior agreement of the respective employer to accept all cost risks arising, e.g. member longevity. Details will be added to the Funding Strategy Statement.

Scheme Regulation changes

3.15 The Scottish Government is consulting on changes to the current Local Government Pension Scheme 2014 regulations and is taking the opportunity to consolidate all amendments made since April 2015. The main changes to the scheme rules include:

- members of LGPS2015 scheme will be able to elect to take early payment of their pension from age 55, with an actuarial reduction, and will no longer need their employer's consent;
- provide additional flexibility for administering authorities to manage liabilities when employers leave the Scheme and to provide for an 'exit credit' to exiting employers if appropriate;
- changes to Additional Voluntary Contributions following the introduction of the UK Government's 'Freedom and Choice in Pensions, to allow payment from age 55 as a lump sum.

Other changes include Regulations being brought into line with recent legislation including the Finance Act, redefining the pensionable pay used for ill health and returning officers, and removing the requirement for a member to take all their benefits if made redundant.

Officers, in consultation with the Convener, will respond to the consultation before the deadline of 1 January 2018. The response will be circulated to Committee and Board members.

Business Process Review - year end processes

3.16 The opportunity has been taken to review the lengthy and complex processes undertaken at year-end including the issuance of Annual Benefit Statements. A focus group was held with employers to consider potential ways of improving the provision of information. Other process changes will be considered once the tender for the pension administration software is complete.

Performance Indicators

3.17 Performance indicators for the second quarter of the 2017/18 financial year are provided in the attached appendix.

3.18 Two indicators are highlighted as 'amber'':

- 46% of staff have completed their pro-rata training target up to 30 September 2017. 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.
- The proportion of annual benefit statements issues was 99.9%, missing the 100% target. 26 statements were not issued due to missing information from employers and we are working with those employers to ensure the statements are issued as soon as possible.

3.19 Since 30 September, the Fund has completed the annual pensioner survey and the results will be included customer satisfaction performance indicators in the next report to Committee. Over 1,400 responded to the survey with some of the results shown below.

	2017	**2016**
How satisfied were you with how our staff dealt with your most recent query?	89% satisfied or very satisfied	91% satisfied or very satisfied
I find it easy to understand the information the Fund provides	87% agreed or strongly agreed	85% agreed or strongly agreed
Overall satisfaction with Penfriend newsletter	69% satisfied or very satisfied	59% satisfied or very satisfied
I found the website www.lpf.org.uk easy to use	90% agreed or strongly agreed	87% agreed or strongly agreed
Overall, I feel the service provided by the Fund is excellent	91% agreed or strongly agreed	85.2% agreed or strongly agreed

Penfriend newsletter continues to have lower satisfaction. Comments show that it continues to be associated with the Club Together magazine, previously issued with Penfriend, its associated offers and mailing which were perceived as junk mail.

Over 200 positive comments were received including: “The service I received was first class.” and “Extremely happy the fund contacted me as I was unaware that I was due a pension”. Not all comments were positive including: “I chose the option to participate in the survey afterwards. Unfortunately, each time I was unable to do so as I just received a continuous dialling tone after hanging on the line” and “I found getting information and even basic call backs extremely difficult at an already distressing time when approaching medical retirement.”

The survey results are being analysed and an improvement plan developed which will include a refresh of the Penfriend newsletter.

Membership and Cashflow monitoring

3.20 The Fund continues to monitor movements in membership numbers 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 help to mitigate current cashflow pressures.

3.21 The table below details the cashflows as at the end of September 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	**2017/18 YTD**	**2017/18 Projected**
Income	**£'000**	**£'000**
Contributions from Employers	68,460	140,000
Contributions from Employees	21,231	42,100
Transfers from Other Schemes	2,018	4,700
	91,709	**186,800**
Expenditure		
Pension Payments	(74,100)	(150,000)
Lump Sum Retirement Payments	(26,610)	(54,000)
Refunds to Members Leaving Service	(303)	(630)
Transfers to Other Schemes	(5,533)	(11,000)
Administrative expenses	(1,100)	(2,221)
	(107,646)	**(217,851)**
Net Additions/(Deductions) From Dealings with Members	**(15,937)**	**(31,051)**

Lothian Buses Pension Fund	**2017/18 YTD**	**2017/18 Projected**
Income	**£'000**	**£'000**
Contributions from Employers	3,800	7,320
Contributions from Employees	1,000	1,860
Transfers from Other Schemes	-	-
	4,800	**9,180**
Expenditure		
Pension Payments	(4,346)	(8,740)
Lump Sum Retirement Payments	(1,470)	(3,000)
Refunds to Members Leaving Service	(3)	(18)
Transfers to Other Schemes	(265)	(500)
Administrative expenses	(45)	(85)
	(6,129)	**(12,343)**
Net Additions/(Deductions) From Dealings with Members	**(1,329)**	**(3,163)**

Scottish Homes Pension Fund	2017/18 YTD	2017/18 Projected
Income	**£'000**	**£'000**
Contributions from Employers	**675**	**675**
Expenditure		
Pension Payments	(3,354)	(7,000)
Lump Sum Retirement Payments	(430)	(910)
Transfers to Other Schemes	(47)	(75)
Administrative expenses	(30)	(60)
	(3,861)	**(8,045)**
Net Additions/(Deductions) From Dealings with Members	**(3,186)**	**(7,370)**

3.22 It is expected that the number of active members for Lothian and Lothian Buses Pension Funds will continue to decrease during the year, causing a fall in contributions and increase in pension and lump sum payments. Lothian Buses fall in active membership is likely to be at a higher rate than Lothian due to being closed to new members.

3.23 All three Funds' expenditure cashflows are anticipated to continue to exceed cashflow income.

3.24 In 2016/17 Lothian Pension Fund had a negative cash flow position, whereby pension payments exceed total contributions received. This is a trend that is likely to continue for the foreseeable future. Increased investment income has been targeted in recent years for this scenario, which is expected to exceed net cashflow for the long term. The Fund has revised its forecasted negative cashflow figure (increased by £3m), reflecting higher than expected outflows due to retirements.

4. Measures of success

4.1 Measures of success include meeting targets for performance indicators and progressing the actions set out in the Service Plan.

5. Financial impact

5.1 A summary of the projected and year-to-date financial outturn compared to the approved budget for 2017/18 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	3,009	2,700	(309)	1,505	1,216	(289)
Transport & Premises	242	240	(2)	121	109	(12)
Supplies & Services	1,232	1,160	(72)	616	510	(106)
Investment Managers Fees	5,200	5,200	-	2,600	2,480	(120)
Other Third Party Payments	1,392	1,267	(125)	696	382	(314)
Central Support Costs	286	286	-	143	143	-
Depreciation	82	82	-	41	41	-
Direct Expenditure (Invoiced)	**11,443**	**10,935**	**(508)**	**3,814**	**3,280**	**(534)**
Income	(727)	(827)	(100)	(364)	(501)	(137)
Net Expenditure (Invoiced)	**10,716**	**10,108**	**(608)**	**3,450**	**2,779**	**(671)**
Indicative Expenditure (Uninvoiced)	**17,100**	**17,100**	**-**	**8,550**	**8,550**	**-**
Total Cost to the Funds	**27,816**	**27,208**	**(608)**	**9,272**	**8,479**	**(671)**

5.2 The financial outturn includes year to date budget, actual expenditure and variance as at the end of September 2017. 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.

5.3 The projection shows an underspend of approximately £608k. The key variances against budget are:

- Employees **- £309k underspend**. This is mainly due to unfilled posts across the division during the period from April to September 2017. Within the Investment team there is a vacant Portfolio Manager post, following a resignation earlier in 2017, and two new Investment Analysts posts. It has been assumed that these posts will not be filled until January 2018.
- Other Third Party Payments **- £125k underspend**. This is primarily due to delays in splitting out research costs from brokers' fees. Progress has been made in splitting out these fees prior to MiFID regulations come into force which makes this a requirement.
- Income - **£100k above budget.** Stock lending commission income has been higher than originally projected. The Fund's custodian had highlighted that securities lending could become less profitable with tighter regulations coming into fruition but this has yet to impact income.

5.4 An outline business case on the Fund's ongoing collaboration work with other LGPS administering authorities was approved by Committee in March 2017, an update on which will be provided elsewhere in the agenda. The requisite adjustments to the service plan budget are shown below:

Category	Approved Budget £'000	Business Case adjustments £'000	Description
Employees	3,009	201	Increased staffing resources including a Service Development Manager and an additional Investment Analyst and Administrator
Supplies & Services	1,232	222	Includes costs associated with the procurement of an Investment Front Office System and the transfer of remaining staff into LPFE Ltd.
Other Third Party Payments	1,392	152	Includes £110k of one off revenue costs for services/advisers for due diligence on the legal collaboration structure.
Income	(727)	(583)	Increased revenue from the expansion of services to other Funds.

5.5 The above changes have not yet been integrated into the budget. The following progress has been made during the year with actual year to date spending being below £20k –

- **Employees** – An Investment Administrator has been hired on a 6 months contract to assist with additional workloads. Recruitment of permanent staff will commence once LPF current staff are transferred to LPFE Ltd.
- **Supplies and Services** – with the transfer of remaining staff to LPFE Ltd a payroll and time recording system will be implemented. Procurement for an Investment Front Office System is underway.

5.6 **Income** – Northern Ireland and Scottish Borders Pension Fund are working with the Fund on collaborative infrastructure investments. Further a shared Investment Panel has been established with Falkirk Pension Fund. A more detailed update on collaboration is provided elsewhere on the agenda.

6. 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.

7. Equalities impact

7.1 There are no equalities implications as a result of this report.

8. Sustainability impact

8.1 There are no sustainability implications as a result of this report.

9. Consultation and engagement

9.1 The Pension Board, comprising employer and member representatives, is integral to the governance of the Fund and they are invited to comment on the relevant matters at Committee meetings.

10. Background reading/external references

10.1 LPF Service Plan 2016-2018

Stephen S. Moir

Executive Director of Resources

Contact: Clare Scott, Chief Executive Officer, Lothian Pension Fund

E-mail: clare.scott@edinburgh.gov.uk | Tel: 0131 469 3865

11. Appendices

Appendix 1 – Service Plan 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	Annual assessment will be carried out in February 2018			Retain CSE Award	Not yet known
Overall satisfaction of employers, active members and pensions measured by surveys	Rolling 12-month performance is 91.7% to end September 2017			89%	
Proportion of active members receiving a benefit statement and time of year statement is issued	99.9% issued by 31 August 2017			100%	
Forward Thinking					
Performance and Risk of Lothian Pension Fund	Actual 10.4%pa, Benchmark 8.4%pa. Exceeding benchmark with lower risk.			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	95.1%	94.8%		Greater than 90%	
Honest & Transparent					
Audit of annual report	Achieved			Unqualified opinion	
Percentage of employer contributions paid within 19 days of month end	99.74%	99.60%		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	
Working Together					
Level of sickness absence	0.45%	1.24%		4%	
Annual staff survey question to determine satisfaction with present job	Staff survey will be undertaken later in the year			77%	Not yet known
Percentage of staff that have completed two days training per year.	35.63%	46.26%		100%	