

# Pensions Committee

2.00pm, Wednesday, 26 September 2018

## 2018-2020 Service Plan Update

Item number	5.10
Report number	
Executive/routine	
Wards	All
Council Commitments	<a href="#">Delivering a Council that works for all</a>

### Executive Summary

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The purpose of this report is to provide an update on progress against the 2018–2020 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 the majority of performance indicators meeting the target so far for 2018/19. An underspend is projected for the financial year.

## 2018-2020 Service Plan Update

### 1. Recommendations

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Committee is requested to:

- 1.1 Note the progress of the Fund against the 2018-2020 Service Plan.

### 2. Background

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- 2.1 The purpose of this report is to provide an update on the 2018–2020 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

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- 3.1 Progress is being made against the service plan. Progress of note, since the last update to Committee, is shown below. The following areas are covered elsewhere on the agenda:
  - Appointment of providers including the Independent Professional Observer;
  - Staffing update;
  - Collaboration;
  - Employers participating in Lothian Pension Fund; and
  - Risk Management Summary.
- 3.2 **Regulations:** As previously reported to Committee, new Scheme Regulations (the Local Government Pension Scheme (Scotland) Regulations 2018) were introduced with effect from 1 June 2018. These introduced a number of changes, including the earliest age members can voluntarily retire (reduced from 60 to 55), as well as the introduction of exit credits, which mean that where an employer leaves the Fund with a funding surplus, then this can be refunded to the employer. As well as containing numerous errors, amendments to the Local Government Pension Scheme (Transitional Provisions and Savings) (Scotland) Regulations 2014, (which include Rule of 85 protections and other saving provisions) were not made. This meant that important regulatory references within the Transitional Regulations were incorrect and as a result, certain key regulations were not competent.

- 3.3 Fund officers, along with colleagues in other Scottish LGPS funds alerted the Scottish Public Pensions Agency to the issues. Legal advice confirmed that using these Regulations could leave the Fund open to challenge, hence the Fund chose to put a hold on paying retirement and death in service benefits for any members with membership prior to April 2015. Fund officers expended significant resources engaging with the Scottish Public Pensions Agency to resolve the position and worked with them and legal advisers to draft a letter of comfort which would allow the Fund to continue to administer benefits until amending regulations could be put in place. The letter of comfort was received on 30 July and is attached as appendix 2 to this report. On receipt of the letter, the Fund ensured resources were in place to deal with delayed cases and that benefits were paid out as quickly as possible. At the time of writing, no timescale for amending regulations has been provided by the Scottish Public Pensions Agency.
- 3.4 Once Regulations are issued, the Fund's Pensions Administration Strategy will be reviewed and presented to Committee, anticipated to be in December 2018.
- 3.5 Committee should be aware that the problems with the Regulations is likely to affect the Fund performance indicators for the quarter. These will be reported to Committee in December.
- 3.6 **Local Authority Pension Fund Forum (LAPFF) update:** Committee and Board will recall that the Fund has been working for amendments to the LAPFF constitution.
- 3.7 In March, at the first of LAPFF's 2018 AGMs, constitution amendments were made allowing English & Welsh LGPS investment pools to join LAPFF. Notably, the constitution removed the requirement for the Research and Engagement partner to undertake the secretarial function but it fell short of requiring the secretary to be independent. There were no amendments introducing a maximum tenure for members on the Executive or to remove the distinction between trustees and officers on the Executive (changes with the Fund has previously lobbied for). Prior to this meeting, the Fund attempted to put forward such amendments to the constitution. However, due to the short timescales allowed to gain sufficient support, we were unable to do so. Whilst the draft constitution proposed to allow a 'non-executive' representative from a pool to stand as LAPFF Chair, the membership did not approve this change. (Committee may recall that the draft constitution also introduced a requirement 'to wait for a period of three years before being permitted to re-present an amendment to the Constitution, if it has been defeated at any particular annual meeting.' This was withdrawn).
- 3.8 A further AGM was scheduled for July 2018, mainly to elect the Executive members, where the Fund would have more time to submit our proposed amendments to the constitution.
- 3.9 Following the March meeting, it was evident that there was going to be significant change in the membership of the LAPFF Executive. Ahead of the July AGM, Fund officers in consultation with the Convener of the Pensions Committee discussed the turnover and other issues with the interim chair and recognising the need for

- stability as it evolves with the creation of the pools, the Fund decided to delay proposing an amendment to introduce a maximum tenure for Executive members.
- 3.10 At the AGM in July, the Fund proposed an amendment, consistent with the corporate governance code, as follows: *‘When more than 20 per cent of votes have been cast against a resolution, the LAPFF Executive should explain, when announcing voting results, what actions it intends to take to consult members in order to understand the reasons behind the result. An update should be published no later than six months after the vote including what impact the feedback has had on the decisions the Executive has taken and any actions or resolutions now proposed.’* The amendment was passed. This gives us assurance that the Executive will have to respond to resolutions in the future.
- 3.11 Unfortunately, there was not sufficient support for an amendment on the immediate separation of the secretarial role from the research and engagement partner. However, the Executive appear to acknowledge the issue and have indicated that the roles will be separated when the contract is re-tendered in 2020.
- 3.12 Committee had previously agreed for Councillor Rankin to be nominated to the LAPFF Executive and the Fund is pleased to confirm that his position was confirmed in July and ratified by the City of Edinburgh Council in August.
- 3.13 **Responsible Investment Seminar:** The Fund is organising an event to share details on its responsible investment approach with stakeholders. The event is provisionally scheduled for the morning of 29 October and will include information on fiduciary duty, company engagement and carbon foot-printing. It is hoped that representatives from the Principles for Responsible Investment (PRI) and Hermes Equity Ownership Services will speak at the seminar.
- 3.14 **Recruitment of Chief Executive Officer (CEO):** The Fund has commenced a search for a CEO following the resignation of the incumbent. The Fund is considering both internal and external candidates – on the basis that the calibre of potential recruit available externally is not known (and do not want to delay the process if the internal candidate process does not yield a suitable applicant).
- 3.15 A Sub-Committee of the LPFE Board, including the Convener of the Pensions Committee, will interview and recommend appointment. There will be a two-stage interview process. Stage two will consist of an assessment event – to include psychometric profiling and a presentation/case-study, as well as an interview.
- 3.16 The Fund has engaged a recruitment consultant but will also source candidates through LinkedIn.
- 3.17 The project plan has a contingency built in, and if the successful applicant is internal or on a three-month notice period, there will be a minimal gap between the incumbent CEO leaving and the new CEO starting. If there is a gap, the Fund will consider a contingency plan.
- 3.18 **Recruitment strategy:** The Fund has reviewed its recruitment strategy. It has three broad employee groups: investment, other professionals e.g. legal, finance and administration/customer service. This leads to a potential for a three-pronged

approach to recruitment. However, the Fund will strive for consistency and a single methodology wherever possible.

- 3.19 The Fund will be using LinkedIn, Indeed and Jobs Scotland primarily and will be aiming for increased social media presence, structured networking and in-house recruitment events for its future recruitment.
- 3.20 **Internal Policies update:** Work has been undertaken to update internal policies, including the Code of Conduct and in Q4 2018, employees will be required to refresh their understanding and agreed adherence to key people policies.
- 3.21 **Annual Benefit Statements:** Employers must provide membership data to allow the Fund to meet The Pension Regulator's statutory deadline of issuing annual benefit statements by the end of August. By the deadline of 19 April, 89 employers had provided the necessary information. 22 submissions were subsequently returned for correction due to errors with 9 of these being returned after the 19 April.
- 3.22 One employer missed the April deadline despite a number of reminders and did not submit their information until 7 June 2018. A fine will be imposed for this employer as set out in the Fund's Pensions Administration Strategy.
- 3.23 By the statutory deadline of 31 August 2018, 32,844 benefit statements for active members were made available online, representing 100% of active records. 18,312 for deferred members were produced and made available online. For 2,012 deferred members, the Fund has been unable to send newsletters to notify members that their statements are available because we do not hold a current address. These represent 11.5% of the deferred membership and attempts to trace the members are ongoing.
- 3.24 Although the year-end process continues to improve due to monthly contribution submissions, this year the Fund discovered 486 missing new members missing. 63% of these were in respect of the City of Edinburgh Council. Active members who have left service are also identified during the year-end processing and, at the time of writing, the Fund awaits information in relation to 996 members. A separate update on data quality is being provided to the Audit Sub-Committee on 25 September.
- 3.25 **Awards:** The Fund has been shortlisted for 6 categories in the LAPF Investment Awards. The awards will be announced on 20 September. The shortlisted categories are Fund of the Year (over £2.5billion), Fund of the Year (under £2.5billion), Investment Strategy, Private markets investment and a joint nomination with Falkirk Pension Fund for Collaboration. A verbal update will be provided at the Committee meeting.
- 3.26 **Performance indicators:** Performance Indicators for the first quarter of the 2018/19 financial year are provided in appendix 1. Committee will recall the performance indicators were expanded from 12 in the previous Service Plan to the current 27, mainly to include show a wider range of pensions administration indicators. and are noted below.

3.27 5 of the 27 indicators are currently amber, and 4 of these indicators are new performance indicators. Limited resource means that the majority of the Pensions Administration team are working on key cases as well as year-end and GMP reconciliation. However, this does mean that a small number of indicators are highlighted as ‘amber’:

- The paying lump sum death grants within 7 working days of receipt of the necessary information was not met because the same procedure was being used to pay multiple beneficiaries. Separate procedures are now being created for multiple payments which will show a more accurate picture going forward.
- Provision of transfer-in quotes within 10 days is also behind target, this is due to the volume of work and urgent tasks taking priority.
- Pay lump sum retirement grant within 7 working days of receiving all the information needed from the member was behind target at 94.8%. This is due to deferred payments rather than recently retired members.

The final indicator that is shown as amber is staff training. 46.9% of staff have completed their pro-rata training target up to 30 June 2018. 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.

### Membership and Cashflow monitoring

3.28 The tables below details the cashflows as at the end of July 2018 and projections for the financial year. These have been prepared on a cashflow basis (compared to the accruals basis of the year-end financial statements and budget projections).

<b>Lothian Pension Fund</b>	<b>2018/19 YTD</b>	<b>2018/19 Projected</b>
<b><u>Income</u></b>	<b>£'000</b>	<b>£'000</b>
Contributions from Employers	46,760	151,000
Contributions from Employees	14,765	44,300
Transfers from Other Schemes	943	3,000
	<b>62,468</b>	<b>198,300</b>
<b><u>Expenditure</u></b>		
Pension Payments	(52,009)	(160,000)
Lump Sum Retirement Payments	(17,244)	(54,000)
Refunds to Members Leaving Service	(188)	(600)
Transfers to Other Schemes	(3,449)	(11,000)
Administrative expenses	(700)	(2,100)
	<b>(73,590)</b>	<b>(227,700)</b>
<b>Net Additions/(Deductions) From Dealings with Members</b>	<b>(11,122)</b>	<b>(29,400)</b>

<b>Lothian Buses Pension Fund</b>	<b>2018/19 YTD</b>	<b>2018/19 Projected</b>
<b><u>Income</u></b>	<b>£'000</b>	<b>£'000</b>
Contributions from Employers	2,501	7,500
Contributions from Employees	656	1,970
Transfers from Other Schemes	39	50
	<b>3,196</b>	<b>9,520</b>
<b><u>Expenditure</u></b>		
Pension Payments	(3,022)	(9,200)
Lump Sum Retirement Payments	(786)	(2,600)
Refunds to Members Leaving Service	-	(10)
Transfers to Other Schemes	(196)	(600)
Administrative expenses	(30)	(90)
	<b>(4,031)</b>	<b>(12,500)</b>
<b>Net Additions/(Deductions) From Dealings with Members</b>	<b>(838)</b>	<b>(2,980)</b>

<b>Scottish Homes Pension Fund</b>	<b>2018/19 YTD</b>	<b>2018/19 Projected</b>
<b><u>Income</u></b>	<b>£'000</b>	<b>£'000</b>
Contributions from Employers	-	70
<b><u>Expenditure</u></b>		
Pension Payments	(2,212)	(6,700)
Lump Sum Retirement Payments	(130)	(500)
Transfers to Other Schemes	-	(50)
Administrative expenses	(23)	(70)
	<b>(2,362)</b>	<b>(7,310)</b>
<b>Net Additions/(Deductions) From Dealings with Members</b>	<b>(2,362)</b>	<b>(7,240)</b>

- 3.29 It is expected that active members as a proportion of the total membership of both Lothian Pension Fund 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 due to being closed to new members.
- 3.30 All three Funds' expenditure cashflows are anticipated to continue to exceed cashflow income.
- 3.31 For the last two years Lothian Pension Fund has 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.

## 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 2018/19 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	3,514	3,185	(329)	1,171	1,020	(151)
Transport & Premises	250	244	(6)	83	75	(8)
Supplies & Services	1,725	1,725	-	575	400	(175)
Investment Managers Fees -Invoiced	5,200	5,200	-	1,733	1,580	(153)
-Uninvoiced	17,100	17,100	-	5,700	5,700	-
Other Third Party Payments	1,439	1,439	-	480	300	(180)
Central Support Costs	243	243	-	81	81	-
Depreciation	121	121	-	40	40	-
<b>Gross Expenditure</b>	<b>29,592</b>	<b>29,157</b>	<b>(335)</b>	<b>9,863</b>	<b>9,196</b>	<b>(667)</b>
Income	(1,310)	(1,310)	-	(432)	(437)	(5)
<b>Total Cost to the Funds</b>	<b>28,282</b>	<b>27,847</b>	<b>(335)</b>	<b>9,431</b>	<b>8,759</b>	<b>(672)</b>

- 5.2 The financial outturn includes year to date budget, actual expenditure and variance as at the end of July 2018. Year to date actual expenditure includes provision for services incurred but for which no invoice has yet been received.
- 5.3 The projection shows an underspend of approximately £335k. The key variances against budget are:
- **Employees - £329k underspend.** This is mainly due to unfilled posts across the division. These positions include a Business Development Manager and 3 Investment Analysts. It is assumed that all posts will be filled by December. The employee budget will also be covered in the B Agenda.
  - **Supplies and Services –** Although year to date underspend is £175k, expected outturn will be broadly in line with budget. The delayed Front Office system procurement has impacted the current year to date spend.
  - **Other Third Party Payments –** Forecast is in line with budget but year to date shows an underspend of £180k. The majority of the current underspend relates to investment research costs. Some research costs are billed on an irregular basis with potential for full budget to be spent during year.
- 5.4 Uninvoiced expenditure (i.e. investment management costs deducted from capital) is assumed to be in-line with budget. There has been no change to the investment

strategy for the period, on which the budgeted figures are based. The Fund continues its efforts to enhance the monitoring of these fees and is working with managers to improve the transparency of these charges.

## **6. 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.

## **7. Equalities impact**

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

## **8. Sustainability impact**

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

## **9. Consultation and engagement**

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- 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**

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- 10.1 [LPF Service Plan](#)

### **Stephen S. Moir**

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## **11. Appendices**

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Appendix 1 – Service Plan Performance Indicators

Appendix 2 – LGPS Letter of Comfort 30 July 2018

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

	Q1 April to June	Q2 July to Sept	Q3 Oct to Dec	Target	Status
<b>Customer First</b>					
Maintain Customer Service Excellence Standard	Annual assessment will be carried out in early 2019			Retain CSE Award	Not yet known
Maintain Pensions Administration Standards Association (PASA) accreditation (assessment March 2019).	Annual assessment will be carried out in early 2019			Retain PASA accreditation	Not yet known
Overall satisfaction of employers, active members and pensions measured by surveys	Rolling 12-month performance to end June 2018 is 94.7%			90%	
Proportion of active members receiving a benefit statement and time of year statement is issued	100% issued by 31 August 2018			100%	
<b>Forward Thinking</b>					
Performance and Risk of Lothian Pension Fund	Actual 11.3%pa, Benchmark 10.5%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	95.6%			Greater than 91%	
Provide new members with scheme information within 20 working days of getting details from employer	100%			100%	
Provide transfer-in quote within 10 working days of receiving the Cash Equivalent Transfer Value (CETV) from member's previous pension provider.	75.0%			95%	
Notify members holding more than 3 months, but less than 2 years' service, of their options at leaving. As there is a one month and a day lying period, the target is within 10 days of the end of the lying period or after the employer providing full leaving information if later.	92.7%			80%	
Pay a refund of contributions within 7 working days of receiving the completed declaration and bank detail form.	92.1%			90%	
Notify early leavers entitled to deferred benefits of their rights and options within 10 days of being informed of end of pensionable service.	96.3%			90%	

	Q1 April to June	Q2 July to Sept	Q3 Oct to Dec	Target	Status
Provide a maximum of one guaranteed Cash Equivalent Transfer Value (CETV) within 10 working days of receiving a request.	100%			90%	
Payment of CETV within 20 working days of receiving all completed transfer out forms.	100%			95%	
Pay lump sum retirement grant within 7 working days of receiving all the information we need from the member.	93.5%			95%	
Estimate requested by employer of retirement benefits within 10 working days.	95.7%			90%	
Pay any lump sum death grant within 7 working days of receipt of the appropriate documentation.	89.4%			95%	
Notification of dependant benefits within 5 working days of receiving all necessary paperwork.	95.5%			95%	
Acknowledge the death of a member to next of kin within 5 working days.	97.1%			95%	
Respond in writing within 20 working days to formal complaints that have escalated from frontline resolution, or recorded directly as an investigation.	100%			100%	
Pension Admin Workflow - Non Key Procedures Performance.	79.7%			75%	
<b>Honest &amp; Transparent</b>					
Audit of annual report	Achieved			Unqualified opinion	
Percentage of employer contributions paid within 19 days of month end	99.3%			99.00%	
Data quality – compliance with best practice as defined by the Pensions Regulator	Assessment made at 2019 year-end			Fully compliant	Not yet known
Monthly Pension Payroll paid on time	Yes			Yes	
<b>Working Together</b>					
Level of sickness absence	1.68%			4%	
Proportion of staff engaged	As measured in the Staff Engagement Survey			70%	Not yet known
Percentage of staff that have completed two days training per year.	52.3%			100%	

Minister for Public Finance and Digital Economy  
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To whom it may concern,

The Scottish Public Pensions Agency (SPPA) is aware that there are a number of inconsistencies and omissions in the Local Government Pension Scheme (Scotland) Regulations 2018 (SSI 2018/141) (**2018 Regulations**) that need to be rectified. Draft Local Government Pension Scheme (Scotland) Amendment Regulations 2018 (**Amendment Regulations**) are therefore being prepared in order to address these issues and to ensure that they do not adversely impact on the administration of the pension scheme.

Separately, it is acknowledged that the 2018 Regulations revoke the Local Government Pension Scheme (Scotland) Regulations 2014 (SSI 2014/162) (**2014 Regulations**) in their entirety, but that certain provisions of the Local Government Pension Scheme (Transitional Provisions and Savings) (Scotland) Regulations 2014 (SSI 2014/233) (**Transitional Regulations**) still cross-refer to the 2014 Regulations. The purpose of the Transitional Regulations is to protect and preserve benefits accrued by members of pension schemes constituted by earlier sets of LGPS regulations. Certain protections contained within the Transitional Regulations are not currently effective for any retirements processed under 2018 Regulations. The SPPA confirms that the policy behind the 2018 Regulations did not intend to make the Transitional Regulations ineffective in respect of any previous provisions. Accordingly, whilst the Transitional Regulations do cross-refer to legislation that has been revoked, such references to the 2014 Regulations should be read as references to the corresponding provisions of the 2018 Regulations; and the Amendment Regulations will expressly save the relevant provisions.

SPPA will consult on the terms of the Amendment Regulations in the usual way. Thereafter the Amendment Regulations (which will be subject to the negative resolution procedure pursuant to section 12(6) of the Superannuation Act 1972 and section 23(2) of the Public Services Pensions Act 2013) (the **2013 Act**) will be laid before the Scottish Parliament and brought into force as soon as reasonably practicable (given the Parliament is currently in recess). The Amendment Regulations will have retrospective effect (as authorised by section 12(1) of the Superannuation Act 1972 and section 3(3)(b) of the 2013 Act).

In order to ensure the efficient administration of member's pension benefits in the period prior to the enactment of the Amendment Regulations, the SPPA hereby confirms that:

1. administering authorities responsible for the payment of pensions and other benefits are advised to proceed on the basis that the Transitional Regulations are still effective, with references therein to the 2014 Regulations to be read as references to the corresponding provisions of the 2018 Regulations; and
2. any inconsistencies and omissions in the 2018 Regulations will be addressed in the Amendment Regulations with retrospective effect.

Where administering authorities, members or employer bodies require clarity on a particular point of administration of the 2018 scheme, they should contact the SPPA for confirmation and assurance.

This letter of comfort covers the period from 1 June 2018 (i.e. the date on which the 2018 Regulations came into force) and the coming into force of the Amendment Regulations.

*Signed*



A Member of the Scottish Government

*30 July 2018*