Pensions Committee

2.00pm, Wednesday, 27 March 2019

Service Plan and Regulatory Update

Item number	**5.8**
Executive/routine	
Wards	**All**
Council Commitments	Delivering a Council that works for all

1. Recommendations

The Pensions Committee (**Committee**) is requested to:

1.1 **note** progress of the fund against the 2018-2020 Service Plan, together with the regulatory update and specifically;

- the merger of Lothian Buses Pension Fund with Lothian Pension Fund;
- the update provided in respect of Guaranteed Minimum Pensions (**GMPs**);
- the Local Government Pension Scheme (Scotland) cost management update from Scottish Public Pensions Agency (SPPA); and
- the approach used by LPFE Limited (**LPFE**) to funding the cost of variable pay within the existing loan facility upper limit and to approve its use on future occasions (January pay bills).

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Report

Service Plan and Regulatory Update

2. Executive Summary

2.1 The purpose of this report is to provide an update on progress against the 2018–2020 Service Plan, performance indicators and the actions to enable the fund to meet its key objectives.

2.2 Overall progress is being made against the service plan objectives with the majority of performance indicators meeting the target for 2018/19. An underspend is projected for the financial year.

3. Background

3.1 The 2018-2020 Service Plan outlines the 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.

3.2 The Lothian Pension Fund's Service Plan is reviewed every two years to ensure its key performance indicators and objectives are up-to-date, clear, challenging and achievable.

4. Main report

4.1 Progress is being made against the service plan. Progress of particular note since the last update to Committee is shown below. The following areas are covered elsewhere on the agenda:

- audit reports and plans;
- review of policies and strategies;
- cost benchmarking; and
- governance update.

Lothian Buses Pension Fund

4.2 At the Committee meeting of 26 March 2018, approval was given to merge the assets and liabilities of the Lothian Buses Pension Fund into the Lothian Pension Fund, subject to the satisfactory completion of a revised admission agreement and shareholder guarantee. A further update was provided on 12 December 2018, advising that the shareholders of the company, all four Lothian Councils, had agreed to the merger.

4.3 The necessary legal agreements have been concluded and the consolidation of the assets and liabilities of the Lothian Buses Pension Fund into the Lothian Pension Fund took place on 31 January 2019.

Guaranteed Minimum Pension (GMP)

4.4 GMP is the minimum pension which a United Kingdom occupational pension scheme must provide for those employees who were contracted out of the State Earnings-Related Pension Scheme (**SERPS**) between 6 April 1978 and 5 April 1997.

4.5 As Committee is aware, the UK Government has mandated a reconciliation of Guaranteed Minimum Pension details held on scheme pension administration records to those held by HMRC. This to be completed by a revised date of 31 March 2019.

4.6 An internal team has been working on this project for a couple of years and significant progress has been made on the identified mismatches. At the end of February, the reconciliation was 97% complete. Any underpayments of pensions arising are being prioritised, with the correct pension being put into payment, together with lump sum arrears. A further verbal update will be provided to Committee.

4.7 On 8 February 2018, SPPA published “Circular No.1/2018”, the purpose of which was to “Confirm how GMP related overpayments which arise from the current reconciliation exercise should be managed going forward…” This stated that “Scottish Ministers have decided that as in 2008/2009 any LGPS pension in payment affected by the exercise should not be reduced going forward. Instead the identified GMP related overpayment should be converted as before into an Increased Pension Entitlement (**IPE**) allowing the pension to continue at its existing level.” The Scottish Government issued “Draft Regulations – The Local Government Pension Scheme (Scotland) Pensions Amendment (Increased Entitlement) Regulations 2018” consultation to that effect. This closed on 11 October 2018.

4.8 The pensions administration software supplier to the administering authorities of the LGPS in Scotland has confirmed that, whilst it would amend its systems to reflect

regulatory change, it would not act upon the Circular.

4.9 On 1 February 2019, the fund contacted the SPPA as it was very concerned that action needed to be taken immediately so that systems could be updated and pension records adjusted before we reach the next pension increase date of 6 April 2019. Otherwise, indexation of 2.4% will be applied to such overpayments.

4.10 SPPA responded the same day to confirm that the IPE regulations were due to be laid in February 2019 and that due to pressures on the legislative system, caused by work resulting from BREXIT negotiations/ preparations, the SPPA had been advised that the regulations had been put on hold and were now expected come into force later in 2019.

4.11 On 4 February 2019, the fund contacted the pensions administration software supplier further requesting that it make the requisite functionality available, to be utilised at its discretion. At the time of writing, the company's response is awaited and a verbal update will be provided to Committee.

4.12 A further update came from SPPA on 20 February 2019 confirming that the IPE regulations had been delayed due to legislative pressures, but were now expected to be laid on 23 May 2019.

Freedom of Information (FOI) requests

4.13 The fund receives regular FOI requests and in 2018 responded to 22 that covered topics such as private market investments, shareholdings, travel and shareholder voting. We also received one data subject access request from a member requesting a copy of the information the fund held on them. These requests are resource intensive and where possible we refer queries to the website for publicly available information.

Performance Indicators

4.14 Performance Indicators for the second 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 by including a wider range of pensions administration indicators.

4.15 Eight of the 27 indicators are amber in Q3. Performance within the Pension Administration team was affected in both Q2 and Q3 by a lack of staff resources. Priority was therefore given to retirement and deaths. CETVs and Divorce CETV calculations were also suspended from 29 October 2019. This was because the Government announced a change in the discount rate used to set employer contributions in public sector pension schemes. On this basis, the Government Actuary Department had to review and issue new transfer factors. The proportion of critical pensions administration work completed within standards met in Q3 was 91.7%. We will continue to monitor the workload closely. Four new trainee

pensions administrators were recruited in January 2019 and are receiving training and mentoring. However, it will take a few months before they are fully up to speed. The indicators highlighted as 'amber'' include:

- Providing a transfer-in quote within 10 working days of receiving the Cash Equivalent Transfer Value (CETV) from member's previous pension provider fell to 75% for the quarter.
- Paying a refund of contributions within 7 working days of receiving the completed declaration and bank detail form remains at 86%.
- Notify early leavers entitled to deferred benefits of their rights and options within 10 days of being informed of end of pensionable service increased to 78%, but was still be behind target.
- Level of sickness absence rose to 4.4%, 0.4% above the target. This is primarily due to a long-term sickness situation which significantly impacts on the figures for relatively small total staff base.
- 78.7% of staff have completed their pro-rata training target up to 31 December 2018. The fund is comfortable that the target should be achieved by the end of the year.

Customer Satisfaction

4.16 The rolling 12 months survey results for overall customer satisfaction (including active, new members, retired and email survey results) to the end of December was 92.1% ahead of target 90%. An error was found in the spreadsheet formula used to work out this figure resulting in a slight downward revision of the figures previously reported for Q1 and Q2 for 2018/19. However, the adjusted figures remain ahead of target.

4.17 The fund has recently conducted both its annual employer and retired members' surveys which provides helpful feedback on our performance.

Employers' survey

4.18 49 responses were received this year and the key results were as follows:

- 86% of the respondents this year said they were satisfied with the overall service provided by the fund. This is down from the exceptional 100% satisfied in 2017.
- the monthly employer bulletin continues to be well received with 94% (98% in 2017) satisfaction and the preferred method of communications for most;
- 90% agreed the website was useful (89% in 2016/17);
- Questions were also asked around the newly introduced document portals, i-Connect and GoAnywhere which were brought in following the end of the PensionsWeb contract. In response to the question around how straightforward submitting information using i-Connect was, 55% agreeing it was straightforward and 68% agreed that GoAnywhere was straightforward

to use. The results and comments made by employers reflect the impact this change has had as the new service was introduced in October and the survey carried out in December. The fund acknowledges there are still issues that are being addressed and we are continuing to work with our employers to resolve them.

Pensioner members' survey

4.19 The annual pensioner survey had over 280 responses and the key results are shown below.

	2018	2017
How satisfied were you with how our staff dealt with your most recent query?	86% satisfied or very satisfied	89% satisfied or very satisfied
I find it easy to understand the information the Fund provides	87% agreed or strongly agreed	87% agreed or strongly agreed
Overall satisfaction with Penfriend newsletter	77% satisfied or very satisfied	69% satisfied or very satisfied
I found the website www.lpf.org.uk easy to use	91% agreed or strongly agreed	90% agreed or strongly agreed
Overall, I feel the service provided by the Fund is excellent	88% agreed or strongly agreed	91% agreed or strongly agreed

4.20 The survey results are being analysed and an improvement plan developed using the comments and feedback from both surveys. This will enable actions to be taken to improve our services further.

4.21 The results from the surveys will be included in the overall customer satisfaction in quarter three.

Customer Service Excellence (CSE)

4.22 The fund's annual Customer Service Excellence assessment will take place on Wednesday,13 March 2019. The assessment will cover key customer service provisions such as complaints, listening to customers and responding to feedback. A verbal update will be given to Committee.

Pension Administration Standards Association (PASA)

4.23 The fund holds the PASA accreditation after a three-day assessment held in 2017. The Board of the Association has made the decision to extend its accreditation cycle from two years to three years, with an annual self-certification being held in between. The fund's re-accreditation was due to be held in Spring 2019 and therefore self-certification will be carried out this year, with the full inspection being held in 2020.

Draft LGPS (Miscellaneous Amendments) (Scotland) Regulations 2019

4.24 As reported to Committee in December 2018, amendments to the Local Government Pension Scheme (Scotland) Regulations 2018 were required to correct drafting errors. The Scottish Public Pensions Agency (SPPA) issued draft amendment regulations on 18 December 2018 and allowed a 12 week technical consultation. The amendment Regulations are expected to come into force on 30 May 2019.

4.25 Fund officers and counterparts in other Scottish Funds met to review the amendment Regulations in February 2019 and a joint response to the consultation will be submitted by the deadline of 11 March 2019.

Local Government Pension Scheme (Scotland) cost management update from Scottish Public Pensions Agency (SPPA)

4.26 In February 2019, the SPPA provided the Local Government Association (LGA) Secretariat with the following update for Scottish administering authorities:

As you are aware, the Public Service Pensions Act 2013 requires all public service pension schemes to undergo regular valuations, in addition to the regular fund valuations undertaken by LGPS fund actuaries. At the October meeting of the LGPSAB (Scheme Advisory Board) (Scotland), Government Actuary's Department (GAD) presented demographic assumptions which have been agreed. The UK Government and Scottish Ministers chose to allow certain exceptions which were designed to protect those closest to retirement from the impact of those reforms. As you will be aware, the Court of Appeal handed down judgment in the cases of McCloud and Sargeant on 20 December 2018: these age-related transitional arrangements were held to be discriminatory. It is anticipated that other public service pension schemes across the UK may be affected by this decision, including LGPS Scotland, notwithstanding that the nature of the comparable transitional arrangements implemented for local government pension schemes [statutory underpin] was slightly different from those adopted for the unfunded schemes. The judgment therefore has implications for post-reform members' benefits, and the UK Government is seeking permission to appeal to the Supreme Court. Meantime, the substantial impact of the judgment is such that it is impossible to assess with certainty the value of current public service pension arrangements.

4.27 On 30 January 2019 HM Treasury therefore announced in a Written Ministerial Statement that the UK Government intends to pause the 'cost cap' mechanism under the current round of scheme valuations, pending the final outcome of the appeal. As noted in the Ministerial Statement, if the UK Government is successful in its appeal, the cost cap process will resume. If unsuccessful, steps will need to be taken to compensate members who have been unfairly disadvantaged in the post reform schemes. Accordingly, the nature, and the timescale for implementation, of changes to the provisions of LGPS Scotland flowing from the actuarial valuation of the scheme for cost cap purposes being undertaken by the Government Actuary's

Department (GAD) is not currently clear. We understand that changes which were scheduled to come into force this April in the England & Wales LGPS have been put on hold. We are liaising closely with HM Treasury and MHCLG on this matter. Meanwhile, GAD is progressing its valuation calculations only to the extent necessary at this stage, pending greater clarity on the legal position and the UK Government's consequent policy intent".

Membership and Cashflow monitoring

4.28 Tables detailing the cashflows as at the end of January 2019 and projections for the financial year are shown in Appendix 2. These have been prepared on a cashflow basis (compared to the accruals basis of the year-end financial statements and budget projections).

4.29 It is expected that active members as a proportion of the total membership of both Lothian Pension Fund and also the former Lothian Buses Pension Fund (shown separately for convenience) 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.

4.30 Funds' expenditure cashflows are anticipated to continue to exceed cashflow income.

4.31 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.

5. Next Steps

5.1 The fund will continue to progress matters in accordance with the Service Plan 2018-20 and respond to regulatory consultations as appropriate.

6. Financial impact

6.1 A summary of the projected and year-to-date financial outturn compared to the revised approved budget for 2018/19 is shown in the table below:

Category	Revised Approved Budget £'000	Projected Outturn £'000	Projected Variance £'000	Budget to date £'000	Actual to date £'000	Variance to date £'000
Employees	4,379	3,394	(985)	3,639	2,696	(943)
Transport & Premises	250	250	-	208	199	(9)

Supplies & Services	1,934	1,643	(291)	1,601	1,154	(447)
Investment Managers Fees -Invoiced	5,200	5,200	-	4,333	3,829	(504)
-Uninvoiced	17,100	17,100	-	14,250	14,250	-
Other Third Party Payments	1,439	1,176	(263)	1,199	868	(331)
Central Support Costs	286	286	-	203	203	-
Depreciation	132	121	(11)	111	101	(10)
Gross Expenditure	**30,720**	**29,170**	**(1,550)**	**25,544**	**23,300**	**(2,244)**
Income	(1,310)	(1,310)	-	(1,092)	(1,092)	-
Total Cost to the Funds	**29,410**	**27,860**	**(1,550)**	**24,452**	**22,208**	**(2,244)**

6.2 The financial outturn includes year to date budget, actual expenditure and variance as at the end of January 2019. Year to date actual expenditure includes provision for services incurred but for which no invoice has yet been received.

6.3 The projection shows an underspend of approximately £1,550k. The key variances against budget are:

- *Employees* - £985k underspend. This reflects recruitment delays in the filling of vacant posts. Also, the budget included accrual of the full vested elements of variable pay. This specialist accounting advice has since been revised to the extent that only accruals on vested elements to the financial statement date are now included in forecast expenditure.
- *Supplies and Services* – An underspend of £291k is expected against budget. This is largely the result of the Investment Front Office System contract starting in Q4, while a full year of service is reflected in the budget.
- *Investment Management Fees (Invoiced)* – The forecast is broadly in line with budget, but year to date shows an underspend of £504k. The budget has allowance for one-off invoiced infrastructure costs of which there has been none year to date but are still anticipated in the forecast.
- *Other Third Party Payments* - £263k underspend; miscellaneous underspends during the year including broker research, broken deal costs and custody fees.

6.4 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.

Arrangements to Facilitate the Funding of Variable Pay

6.5 All the fund's staff are employed by LPFE and so there is a regular monthly LPFE staff payroll exercise at the month end. A sales invoice is then sent by the company to the fund for its share of the month's costs (i.e. for staff resource provision made

by LPFE to the fund), with that invoice being paid via the CEC finance system within a few weeks of the date of the invoice. As LPFE has a share capital of £1, it relies upon a loan facility from the fund to provide working capital to allow the company to pay its costs in the interim. This facility currently has an upper limit of £385k.

6.6 The introduction of the variable pay arrangement meant that LPFE faced increased expenditure in January 2019. As that situation is likely to recur, it did not seem appropriate to require revisiting the working capital facility for this purpose. So, to live within the existing limit, it was arranged for the fund to prepay an appropriate amount of its invoice for January costs to ensure that LPFE had sufficient cash to meet required salary payments.

6.7 Committee is asked to note this approach to LPFE funding the cost of variable pay and to approve its use on future occasions.

7. Stakeholder/Community Impact

7.1 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.

7.2 There are no adverse health and safety, governance, compliance or regulatory implications as a result of this report.

7.3 There are no adverse sustainability impacts arising from this report. Background reading/external references

8. Background reading/external references

8.1 LPF Service Plan 2018-2020

9. Appendices

Appendix 1 – Service Plan Performance Indicators

Appendix 2 – Forecasted Cashflow

Appendix 1

Service Plan Performance Indicators

Targets & Actual Performance 2018/19

	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 March 2019			Retain CSE Award	Not yet known
Maintain Pensions Administration Standards Association (PASA) accreditation (assessment March 2019).	Self certification assessment is being carried out in Spring 2019			Retain PASA accreditation	Not yet known
Overall satisfaction of employers, active members and pensions measured by surveys. Rolling 12-month performance to end of quarter.	90.8%	91.6%	93.1%	90%	
Proportion of active members receiving a benefit statement and time of year statement is issued	100% issued by end September 2018			100%	
Forward Thinking					
Performance and Risk of Lothian Pension Fund	Actual 10.8%pa, Benchmark 9.7%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%	86.6%	91.7%	Greater than 91%	
Provide new members with scheme information within 20 working days of getting details from employer	100%	100%	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%	100%	75.6%	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%	71.3%	86.2%	80%	

	Q1 April to June	Q2 July to Sept	Q3 Oct to Dec	Target	Status
Pay a refund of contributions within 7 working days of receiving the completed declaration and bank detail form.	92.1%	88.7%	86.2%	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%	60.0%	78.8%	90%	⚠
Provide a maximum of one guaranteed Cash Equivalent Transfer Value (CETV) within 10 working days of receiving a request.	100%	89.6%	95.7%	90%	✓
Payment of CETV within 20 working days of receiving all completed transfer out forms.	100%	93.8%	95.7%	95%	✓
Pay lump sum retirement grant within 7 working days of receiving all the information we need from the member.	93.5%	96.7%	96.7%	95%	✓
Estimate requested by employer of retirement benefits within 10 working days.	95.7%	71.1%	82.3%	90%	⚠
Pay any lump sum death grant within 7 working days of receipt of the appropriate documentation.	89.4%	98.1%	91.4%	95%	⚠
Notification of dependant benefits within 5 working days of receiving all necessary paperwork.	95.5%	100%	97.4%	95%	✓
Acknowledge the death of a member to next of kin within 5 working days.	97.1%	97.8%	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%	100%	100%	✓
Pension Admin Workflow - Non Key Procedures Performance.	79.7%	63.0%	69.9%	75%	⚠
Honest & Transparent					
Audit of annual report	Achieved			Unqualified opinion	✓
Percentage of employer contributions paid within 19 days of month end	99.3%	100%	99.7%	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	Yes	Yes	✓

	Q1 April to June	Q2 July to Sept	Q3 Oct to Dec	Target	Status
Working Together					
Level of sickness absence	1.71%	3.95%	4.39	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.	46.9%	72.4%	78.7%	100%	

Appendix 2

Service Plan Membership and Cashflow Monitoring 2018/19

Lothian Pension Fund	**2018/19 YTD**	**2018/19 Projected**
Income	**£'000**	**£'000**
Contributions from Employers	121,405	158,000
Contributions from Employees	36,387	44,300
Transfers from Other Schemes	3,075	4,000
	160,867	**206,300**
Expenditure		
Pension Payments	(131,787)	(160,000)
Lump Sum Retirement Payments	(40,759)	(54,000)
Refunds to Members Leaving Service	(530)	(650)
Transfers to Other Schemes	(9,725)	(12,000)
Administrative expenses	(1,750)	(2,100)
	(184,551)	**(228,750)**
Net Additions/(Deductions) From Dealings with Members	**(23,684)**	**(22,450)**

Lothian Buses Pension Fund*	**2018/19 YTD**	**2018/19 Projected**
Income	**£'000**	**£'000**
Contributions from Employers	6,088	7,500
Contributions from Employees	1,586	1,970
Transfers from Other Schemes	19	50
	7,693	**9,520**
Expenditure		
Pension Payments	(7,726)	(9,300)
Lump Sum Retirement Payments	(3,915)	(4,700)
Refunds to Members Leaving Service	(2)	(10)
Transfers to Other Schemes	(964)	(1,500)
Administrative expenses	(75)	(90)
	(12,682)	**(15,600)**
Net Additions/(Deductions) From Dealings with Members	**(4,989)**	**(6,080)**

*Consolidation into Lothian Pension Fund took place 31st January 2018 but for simplicity shown separately.

Scottish Homes Pension Fund	**2018/19 YTD**	**2018/19 Projected**
Income	**£'000**	**£'000**
Administration charge	70	70
Expenditure		
Pension Payments	(5,495)	(6,600)
Lump Sum Retirement Payments	(388)	(500)
Transfers to Other Schemes	-	(50)
Administrative expenses	(58)	(70)
	(5,941)	**(7,210)**
Net Additions/(Deductions) From Dealings with Members	**(5,871)**	**(7,140)**