

# Pensions Committee

2.00pm, Wednesday, 12 December 2018

## 2018-2020 Service Plan Update

Item number	5.8
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:
  - Cost benchmarking;
  - Investment strategy;
  - Stewardship and engagement; and
  - Risk Management Summary.

#### **Pensions Regulator standards and compliance**

- 3.2 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. Provided the Scheme Return for the Lothian Pension Fund and Scottish Homes before the required deadline of 6 November 2018.

This year the Scheme return required the Fund to report on the quality of the common and conditional data. Common data is necessary and applicable to all members of all pension schemes while conditional data is scheme specific.

The LGPS Advisory Board for England and Wales held a consultation on its conditional data items. However, this has yet to be finalised and Funds were advised to adopt their own approach for their 2018 scoring. The Scheme Advisory Board for Scotland have yet to consult on this.

Historically, the Fund has prepared its assessment of common and conditional data in-house, calculated as an overall percentage of member records passed in each category tested. Due to the complexity of the Regulator's illustrative list of conditional data requirements, previous results were based on a small number of conditional data categories. The 2017/18 Annual Report cited a score of 99.9% for both the common and conditional data.

This year the Fund has utilised a new Data Quality Service provided by the software supplier. The Fund can now provide data score measurements required by the Regulator based on more comprehensive analysis and based on the percentage of clean member records without a single data failure.

The conditional data now interrogates five data categories; Member Benefits, Member Details, CARE Benefits, HMRC Data and Contracted Out Data.

The Fund's scores as at 31 March 2018 were 95.6% for common data and 90.9% for conditional data. As this is the first time using the new software, issues have been identified with the way some historic data has been recorded, rather than data being unavailable. The software supplier has stated that the general quality of the Fund's common data is of a high standard compared with other LGPS funds. The Fund is expecting a full analysis report shortly from which an improvement plan will be drafted. Further reports will be provided for the Committee in due course.

- b. Participated in the Regulator's annual survey of public service pension schemes in November.
- c. Participated in the Regulator's perception track survey which tracks how effectively the Regulator is delivering against stakeholder expectations also in November.

### **The Pensions Regulator visit**

- 3.3 The Pensions Regulator are visiting a number of LGPS funds to further scrutinise standards. The Fund has been selected for such a visit.

The Regulator hopes to develop their relationship and understanding of the LGPS and is holding five meetings with the Fund, one each month. The meetings will cover topics that are based on the Regulator Code of Practice for the LGPS:

- Record keeping, administrator risks and member communication
- Internal controls and the Internal Dispute Resolution Process
- Employer risks, maintaining contributions and affordability & funding

- Knowledge and Understanding of Pension Board, relationship between Scheme Manager and Pension Board, management of Conflicts of Interest
  - Cyber, scams and fraud/misappropriation of assets.
- 3.4 The first meeting is scheduled for 26 November. A verbal update on the meeting will be provided to the Committee.

### 3.5 **Responsible Investment Seminar**

The Fund held an event to share details of its responsible investment approach with stakeholders. The event included information on fiduciary duty, company engagement and carbon foot-printing. Representatives from the Principles for Responsible Investment and Hermes Equity Ownership Services spoke at the seminar. The event was recorded and is available on the Fund's website [www.lpf.org.uk](http://www.lpf.org.uk).

### **Lothian Buses Pension Fund**

- 3.6 Committee will recall that at the 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.
- 3.7 All four Councils have now agreed the merger and, at the time of writing, arrangements are being made for the agreement and guarantee to be signed. The merger of the assets and liabilities of the Lothian Buses Pension Fund into the Lothian Pension Fund will take place at the earliest practical date to be complete before 31 March 2019.
- 3.8 Briefing sessions for members of the Fund are being held at three locations within Lothian Buses to provide assurance around the merger.

### **Recruitment of Chief Executive Officer (CEO)**

- 3.9 The appointment process for the CEO has concluded and the new CEO is expected to start late January/early February. The current CEO leaves in December and Bruce Miller, current Chief Investment Officer, will take on the role as Acting CEO in the meantime.

### **Scheme Regulation changes**

- 3.10 As previously reported to Committee, new Scheme Regulations (the Local Government Pension Scheme (Scotland) Regulations 2018) were introduced with effect from 1 June 2018. Regrettably, errors within the Regulations caused significant issues in processing benefits. Although a letter of comfort was received, amendments to the Local Government Pension Scheme (Scotland) Regulations 2018, are still required.
- 3.11 At the time of writing this report, the amendment regulations have not been issued. A verbal update will be provided to Committee.

3.12 As a result of the delay in receiving amendment regulations, the Fund’s Pensions Administration Strategy has not been reviewed and will instead be presented to a future Committee.

### Performance indicators

3.13 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.

3.14 Nine of the 27 indicators are amber in Q2. A number of these are as a direct result of Scheme Regulations 2018 issues where retirements and retirement estimates were put on hold for over a month until the letter of comfort was issued.

3.15 Performance was also affected by limited resource within the Pensions Administration team this quarter with the majority of the team working on key cases, specifically retirements and deaths, year-end tasks and GMP reconciliation. The reason for the shortfall in other measures is because recovery action commenced to clear backlogs. It is expected that performance will improve during the next quarterly reporting period. The indicators highlighted as ‘amber’ include:

- Proportion of critical pensions administration work completed within standards dipped from 95.6% in Q1 to 86.6% as a result of the issues with the Regulations.
- Estimates requested by employer of retirement benefits within 10 working days fell from 95.7% to 71.1% in Q2.
- Notifying leavers of their deferred benefits options within 10 days dropped from 96.3% in Q1 to 60.0%.
- 72.4% of staff have completed their pro-rata training target up to 30 September 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.

3.16 The timeliness of receipt of membership information is measured against standards set in the Fund’s Pension Administration Strategy (PAS). Overall employer performance for the first half of 2018/19 is shown below, with 2017/18 shown for comparison purposes.

Employer performance		Quarter 2 2018/19			2017/18		
Case type	Target (working days)	Number received	Number within target	% within target	Number received	Number within target	% within target
New Starts	20	2,276	1,588	<b>70%</b>	2,201	1,974	<b>90%</b>
Leavers	20	2,086	1,035	<b>50%</b>	889	433	<b>49%</b>
Retirements	20	616	237	<b>38%</b>	541	218	<b>40%</b>

Deaths in Service	10	6	4	67%	15	7	47%
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- 3.17 Overall, the results show a continuation of poor employer performance in the first half of this financial year, particularly for retirements and leavers.
- 3.18 Annual reports are issued to each employer outlining their own performance and comparing this to other employers of a similar size. Quarterly reports are also issued to the four councils and also on an exception basis to any employer whose performance merits specific intervention. Meetings are also held with any employer to attempt to address any issues.
- 3.19 This underperformance continues to impact on the Fund's ability to service members and comply with regulatory standards. In the review of the Pensions Administration Strategy, the Fund will consider criteria which should trigger reporting to the Pensions Regulator. This is due to be considered by Committee in March 2018.

### **Membership and Cashflow monitoring**

- 3.20 Tables detailing the cashflows as at the end of September 2018 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).
- 3.21 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.
- 3.22 All three Funds' expenditure cashflows are anticipated to continue to exceed cashflow income.
- 3.23 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**

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

## **5. Financial impact**

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- 5.1 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:



## 5.2

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	4,000	(379)	2,183	1,537	(646)
Transport & Premises	250	244	(6)	125	115	(10)
Supplies & Services	1,934	1,489	(445)	961	700	(261)
Investment Managers Fees -Invoiced	5,200	5,200	-	2,600	2,297	(303)
-Uninvoiced	17,100	17,100	-	8,550	8,550	-
Other Third Party Payments	1,439	1,385	(54)	719	406	(313)
Central Support Costs	286	243	(43)	122	81	(41)
Depreciation	132	87	(45)	68	35	(33)
<b>Gross Expenditure</b>	<b>30,720</b>	<b>29,748</b>	<b>(972)</b>	<b>15,328</b>	<b>13,721</b>	<b>(1,607)</b>
Income	(1,310)	(1,310)	-	(655)	(655)	-
<b>Total Cost to the Funds</b>	<b>29,410</b>	<b>28,438</b>	<b>(972)</b>	<b>14,673</b>	<b>13,066</b>	<b>(1,607)</b>

5.3 The financial outturn includes year to date budget, actual expenditure and variance as at the end of September 2018. Year to date actual expenditure includes provision for services incurred but for which no invoice has yet been received.

5.4 The projection shows an underspend of approximately £972k. The key variances against budget are:

- **Employees - £379k 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 January so further underspend is likely. Variance to date is higher due to the variable pay element not being reviewed until January.
- **Supplies and Services – An underspend of £445k** is expected against budget. A majority of this is from delays in the implementation of the Front Office system which is expected to begin in Q4.
- **Other Third Party Payments – Forecast is in broadly in line with budget but year to date shows an underspend of £313k.** 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. There have been no broken deal costs during the year.

5.5 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



- 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**

Executive Director of Resources

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

E-mail: [clare.scott@edinburgh.gov.uk](mailto:clare.scott@edinburgh.gov.uk) | Tel: 0131 469 3865

## **11. Appendices**










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







Appendix 1 – Service Plan Performance Indicators

Appendix 2 – Service Plan Membership and Cashflow Monitoring 2018/19

## 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
<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 September 2018 is 94.1%			90%	
Proportion of active members receiving a benefit statement and time of year statement is issued	100% issued by end September 2018			100%	
<b>Forward Thinking</b>					
Performance and Risk of Lothian Pension Fund	Actual 11.8%pa, Benchmark 11.1%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%		Greater than 91%	
Provide new members with scheme information within 20 working days of getting details from employer	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%		95%	
Notify members holding more than 3 months, but less than 2 yearsp 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%		80%	
Pay a refund of contributions within 7 working days of receiving the completed declaration and bank detail form.	92.1%	88.7%		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%		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%	89.6%		90%	
Payment of CETV within 20 working days of receiving all completed transfer out forms.	100%	93.8%		95%	
Pay lump sum retirement grant within 7 working days of receiving all the information we need from the member.	93.5%	96.7%		95%	
Estimate requested by employer of retirement benefits within 10 working days.	95.7%	71.1%		90%	
Pay any lump sum death grant within 7 working days of receipt of the appropriate documentation.	89.4%	98.1%		95%	
Notification of dependant benefits within 5 working days of receiving all necessary paperwork.	95.5%	100%		95%	
Acknowledge the death of a member to next of kin within 5 working days.	97.1%	97.8%		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%	
Pension Admin Workflow - Non Key Procedures Performance.	79.7%	63.0%		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%	100%		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	
<b>Working Together</b>					
Level of sickness absence	1.71%	3.95%		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%		100%	

## Service Plan Membership and Cashflow Monitoring 2018/19

<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	71,226	154,000
Contributions from Employees	22,070	44,300
Transfers from Other Schemes	1,118	3,000
	<b>94,414</b>	<b>201,300</b>
<b><u>Expenditure</u></b>		
Pension Payments	(78,401)	(160,000)
Lump Sum Retirement Payments	(27,381)	(56,000)
Refunds to Members Leaving Service	(293)	(600)
Transfers to Other Schemes	(4,537)	(11,000)
Administrative expenses	(1,050)	(2,100)
	<b>(116,808)</b>	<b>(229,700)</b>
<b>Net Additions/(Deductions) From Dealings with Members</b>	<b>(22,394)</b>	<b>(28,400)</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	3,617	7,500
Contributions from Employees	950	1,970
Transfers from Other Schemes	9	50
	<b>4,576</b>	<b>9,520</b>
<b><u>Expenditure</u></b>		
Pension Payments	(4,578)	(9,200)
Lump Sum Retirement Payments	(1,965)	(4,000)
Refunds to Members Leaving Service	-	(10)
Transfers to Other Schemes	(409)	(800)
Administrative expenses	(45)	(90)
	<b>(6,997)</b>	<b>(14,100)</b>
<b>Net Additions/(Deductions) From Dealings with Members</b>	<b>(2,421)</b>	<b>(4,580)</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>
Administration charge	-	70
<b><u>Expenditure</u></b>		
Pension Payments	(3,311)	(6,700)
Lump Sum Retirement Payments	(217)	(500)
Transfers to Other Schemes	-	(50)
Administrative expenses	(35)	(70)
	<b>(3,563)</b>	<b>(7,310)</b>
<b>Net Additions/(Deductions) From Dealings with Members</b>	<b>(3,563)</b>	<b>(7,240)</b>