

Pensions Committee

2.00pm, Wednesday, 11 December 2019

Service Plan Update

Item number	5.7
Executive/routine	
Wards	All
Council Commitments	

1. Recommendations

The Pensions Committee is recommended to:

- 1.1 note progress made by the Lothian Pension Fund (LPF) on its 2018-2020 Service Plan, together with the regulatory update.

Stephen S. Moir

Executive Director of Resources

Contact: John Burns, Chief Finance Officer, Lothian Pension Fund

E-mail: john.burns@edinburgh.gov.uk | Tel: 0131 469 3711

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 LPF to meet its key objectives.
- 2.2 Overall progress is being made against the service plan objectives for 2019/20 and 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 LPF to meet its four key objectives:
 - Customer First;
 - Honest and Transparent;
 - Working Together; and
 - Forward Thinking.
- 3.2 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. The next review is due in March 2020 and will look to more directly align its key objectives with more recent developments in the business plan and organisational development.

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.
Pensions Regulator standards and compliance
- 4.2 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, LPF:

- a) provided the Scheme Return for the Lothian Pension Fund and Scottish Homes Pension Fund before the required deadline of 19 November 2019;
- b) participated in The Pensions Regulator's (TPR) annual survey of public service pension scheme in November; and
- c) provided an update for the TPR in relation to progress on LPF's data quality action plan, employer record keeping and website enhancement.

Performance Indicators

4.3 Performance Indicators for the second quarter of the 2019/20 financial year are provided in appendix 1. Committee will recall there are currently 27 performance indicators including a wider range of pensions administration indicators.

4.4 An overview of the key points includes:

- Eleven of the indicators are currently amber. A number of these are as a direct result of the Scheme Regulations updated in June 2019, which allowed deferred members over the age of 55 to access their benefits.
- The proportion of critical pensions administration work completed within standards dipped from 96.6% in Q1 to 84.1%. The main reason for the shortfall was late notification to early leavers with less than 2 years' service of their options at leaving and processing refund payments. This was due to high volumes of deferred members over age 55 accessing their benefits combined with long-term illness and holidays. A training programme has been delivered to new trainee pensions administrators and, as backlogs are cleared, it is anticipated this will bring performance within target. Performance is continuously monitored. Cumulative performance in Q2 was 89.57%.
- Estimates requested by employers of retirement benefits within 10 working days fell from 93.6% to 67.9% in Q2.
- The PI around notifying leavers of their deferred benefits options within 10 days dropped from 82.6% in Q1 to 40.0%.
- 86.9% of staff have completed their pro-rata training target up to 30 September 2019. As the period accounts for a relatively short time horizon, it is expected that the target should be achieved by the end of the year.

To clear backlogs and to try and reduce follow up telephone calls from members, a large volume of which related to the specific regulatory change for deferred members at age 55, incoming calls were restricted to certain times in the day, for the limited period of 3 to 30 September 2019. This allowed staff to work on the backlogs. An undertaking to call back members within 1 day was in place.

Employers survey

- 4.5 31 responses were received from employers this year and the key results were:
- 100% of the respondents this year said they were satisfied with the overall service provided by LPF. This is up from 86% satisfied in 2018, but comparable to the feedback in 2017.
 - the monthly employer bulletin continues to be well received with 85% (94% in 2018) satisfaction and the preferred method of communications for most;
 - 90% agreed the website was useful (89% in 2016/17);
 - the introduction of i-Connect and GoAnywhere in 2018 saw lower survey results than previous years. Work has continued with employers and results are more positive this year with 75% of those answering agreeing that submitting monthly contributions was straightforward (up from 55% in 2018) and 95% felt the process of advising LPF of new joiners was straightforward. 100% felt that the process for creating new starts was also straightforward.
 - GoAnywhere also received a more positive response with 100% now agreeing that submitting forms and documents was straightforward and 94% feeling receiving forms and documents from LPF was a simple user-friendly process.
 - Once again, our year end process came in for praise. The instructions provided, the Year End User Group, the method for submitting information and explanation given for any queries that only attracted 1 negative response.

Other comments included “Staff are always helpful and supportive”, “Staff are always prompt replying to any queries raised and provide informative good advice or detailed instructions as/when required”, “Monthly Returns are more time consuming and challenging than Pensionsweb” and “having two different portals makes submitting more time consuming.”

Website

- 4.6 LPF has now replaced its website with a responsive accessible website with more focused content that links to a bespoke member website provided by Hymans Robertson. A link to the new website is included in the background reading section of this report for ease of reference.

Membership and Cashflow monitoring

- 4.7 Tables detailing the cashflows as at the end of October 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).
- 4.8 It is expected that Lothian Pension Funds’ active members as a proportion of total membership will continue to decrease during the year, causing a fall in contributions and increase in pension and lump sum payments.
- 4.9 For the last three years LPF has had a negative cash flow position, whereby pension payments exceed total contributions received. Increased investment income has been targeted in recent years to address this scenario.

4.10 The following areas are covered elsewhere on the agenda:

- cost benchmarking;
- contribution stability mechanism; and
- risk management.

5. Next Steps

5.1 LPF 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 approved budget for 2019/20 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	5,354	5,063	(291)	3,123	2,605	(518)
Transport & Premises	255	255	-	149	141	(8)
Supplies & Services	2,128	1,848	(280)	1,241	1,119	(122)
Investment Managers Fees -Invoiced	5,200	4,600	(600)	3,033	2,860	(173)
-Uninvoiced	19,700	19,700	-	11,492	11,492	-
Other Third Party Payments	1,439	1,399	(40)	839	667	(172)
Central Support Costs	643	672	29	375	392	17
Depreciation	147	147	-	86	86	-
Gross Expenditure	34,866	33,684	(1,182)	20,339	11,062	(560)
Income	(1,915)	(1,978)	(63)	(1,117)	(1,133)	(16)
Total Cost to the Funds	32,951	31,706	(1,245)	19,221	18,229	(993)

6.2 The financial outturn includes year to date budget, actual expenditure and variance as at the end of October 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 £1,245k. The key variances against budget are:

- *Employees* - £291k underspend. A detailed review of the LPF group's staffing structure took place in the first quarter of the year with a number of new posts created and prior recruitment targets realigned. Currently, LPF is recruiting staff to fill these positions, with this timing difference creating the majority of the expected underspend.

- *Supplies & Services* - £280k underspend expected against budget. A majority of this underspend relates to lower than expected investment front office system costs.
- *Investment Management Fees (Invoiced)* – £600k underspend. The Aberdeen Standard property portfolio was taken over by the in-house investment team at the end of September, this will deliver a significant saving against budget. Similarly, LPF has also secured savings through realisation of £50m in externally managed equity, this being used to fund purchases of investment grade credit (fees to be reflected in uninvoiced expenditure).
- *Other Third-Party Payments* - £40k underspend; savings forecast on global custody given the Lothian Buses Pension Fund's consolidation into the main fund and also more favourable terms agreed with the LPF's custodian in the two year contract extension.
- *Central Support Costs* - £29k overspend. The approved budget includes a £500k total provision for the LPF's ICT service arrangements. At present, no change has been reflected in the projected outturn for this ICT provision, although there is likelihood of slippage. LPF has agreed a £166k (assuming full year) charge to be levied by the Council for ICT and Telephony services provided through the Administering Authority's Digital Services Team and its contract with CGI UK Ltd. This increased charge (original budget £90K) reflects greater precision in the service cost apportionment by the Council. The forecast overspend on this cost centre represents net higher than budgeted costs for the remaining (non ICT) support services provided by the Council through the existing Annual Service Level Agreement.

- 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. LPF has initiated discussions with its external managers with regards to the Pensions and Lifetime Saving Associations, Cost Transparency Initiative. The expectation would be for fund managers to complete a standardised template disclosing the full cost of LPF's investments on a quarterly basis.
- 6.5 The financials above do not include any provision in respect of the proposed office move. At the September meeting a paper was approved to commit to the move on the basis of the high side financials of £115,000 for the move (inclusive of cost of exit existing building and entry to new building) and low side financials of -£50,000. This included key assumptions set before professional surveys on market and building condition including testing market appetite to assign our existing lease and the expected cost of fit-out and repair works for the new office. Since the previous meeting we have completed the necessary surveys and identified material risk to these financials. The key moves include (in brackets the extra cost to high side): a) expectation of longer void / incentive period for existing office (+£75,000); b) potential redundant rental period in new office attributable to delivery of communication infrastructure (+£75,000); c) the need for remedial works to ensure new office fit for occupancy (+£50,000); d) costs to install circuits (+£17,000); e) offsetting improved landlord contribution (£40,000); providing a net potential adverse movement of £177,000 resulting in a combined cost of

move of £292,000. Additional landlord improvement works have also been secured but these are not reflected in the financials. There remains a degree of risk that the position could improve or deteriorate based on completion of works, CGI estimates being only provisional and market for assignment of our existing lease. Accounting for each category of spend will reflect underlying accounting policies. This spend is necessary and work continues to secure the move. A report will be submitted to the March committee with the final costs.

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](#)
- 8.2 Please follow this link to familiarise yourself with the new website design once launched in mid December - www.lpf.org.uk









9. Appendices















Appendix 1 – Service Plan Performance Indicators

Appendix 2 – Forecasted Cashflow

Appendix 1

Service Plan Performance Indicators – Targets & Actual Performance 2019/20

	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 early 2020			Retain CSE Award	Not yet known
Maintain Pensions Administration Standards Association (PASA) accreditation (assessment March 2019).	Annual accreditation to be carried out in Autumn/Winter 2019 (Review process underway – Nov 19)			Retain PASA accreditation	Not yet known
Overall satisfaction of employers, active members and pensions measured by surveys	Rolling 12-month performance to end September 2019 is 92.8%			91%	
Proportion of active members receiving a benefit statement and time of year statement is issued	100% issued			100% issued by 31 August 2019	
Forward Thinking					
Performance and Risk of Lothian Pension Fund	Actual 11.3%pa, Benchmark 10.9%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	96.6%	84.1%		Greater than 92%	
Provide new members with scheme information within 20 working days of getting details from employer	N/A	100%		100%	
Provide transfer-in quote within 10 working days of receiving the Cash Equivalent Transfer Value (CETV) from member's previous pension provider.	83.33%	82.6%		96%	
Notify members holding more than 3 months, but less than 2 year 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.	82.61%	40.29%		85%	
Pay a refund of contributions within 7 working days of receiving the completed declaration and bank detail form.	95.12%	80.43%		91%	
Notify early leavers entitled to deferred benefits of their rights and options within 10 days of being informed of end of pensionable service.	98.83%	92.39%		91%	

	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.	98.38%	97.55%		91%	
Payment of CETV within 20 working days of receiving all completed transfer out forms.	95.24%	86.67%		96%	
Pay lump sum retirement grant within 7 working days of receiving all the information we need from the member.	99.13%	98.93%		96%	
Estimate requested by employer of retirement benefits within 10 working days.	93.64%	67.96%		91%	
Pay any lump sum death grant within 7 working days of receipt of the appropriate documentation.	93.24%	93.44%		96%	
Notification of dependant benefits within 5 working days of receiving all necessary paperwork.	97.98%	95.06%		96%	
Acknowledge the death of a member to next of kin within 5 working days.	98.65%	99.32%		96%	
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.	81.39%	74.34%		76%	
Honest & Transparent					
Audit of annual report				Unqualified opinion	Not yet known
Percentage of employer contributions paid within 19 days of month end	99.5%	99.9%		99.00%	
Data quality – compliance with best practice as defined by the Pensions Regulator	Assessment made at 2020 year-end			Fully compliant	Not yet known
Monthly Pension Payroll paid on time	100%	100%		Yes	
Working Together					
Level of sickness absence	4.72%	2.54%		4%	
Proportion of staff engaged as measured in the Staff Engagement Survey	69%			70%	
Percentage of staff that have completed two days training per year.	66.3%	86.9%		100%	

Service Plan Membership and Cashflow Monitoring 2019/20

Lothian Pension Fund	2019/20 YTD	2019/20 Projected
<u>Income</u>	£'000	£'000
Contributions from Employers	99,221	183,000
Contributions from Employees	32,275	53,000
Transfers from Other Schemes	2,583	5,000
	134,079	241,000
<u>Expenditure</u>		
Pension Payments	(103,314)	(179,000)
Lump Sum Retirement Payments	(41,949)	(70,000)
Refunds to Members Leaving Service	(349)	(650)
Transfers to Other Schemes	(5,968)	(11,000)
Administrative expenses	(1,458)	(2,500)
	(153,038)	(263,150)
Net Additions/(Deductions) From Dealings with Members	(18,959)	(22,150)

Scottish Homes Pension Fund	2019/20 YTD	2019/20 Projected
<u>Income</u>	£'000	£'000
Administration charge	80	80
<u>Expenditure</u>		
Pension Payments	(3,820)	(6,450)
Lump Sum Retirement Payments	(355)	(650)
Transfers to Other Schemes	-	(100)
Administrative expenses	(47)	(80)
	(4,222)	(7,280)
Net Additions/(Deductions) From Dealings with Members	(4,142)	(7,200)