

## **Pensions Committee**

**2.00pm, Wednesday, 9 December 2020**

### **Operating Plan Update**

#### **1. Recommendations**

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The Pensions Committee (Committee) is requested to:

- 1.1 note progress of the Fund against the 2020-2021 Operating Plan, together with specific updates on:
- performance indicators;
  - Pension Regulator standards and compliance; and
  - membership and cashflow monitoring.

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# Operating Plan Update

## 2. Executive Summary

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- 2.1 The purpose of this report is to provide an update on progress against the 2020–2021 Operating Plan, performance indicators and the actions to enable the Fund to meet its key objectives.
- 2.2 A bold and ambitious operating plan was set late in 2019 and achievement of the outcomes may take longer than first expected due to the disruption of the pandemic and prioritisation of member critical service delivery in the first half of the year. An underspend is projected for the financial year and overall progress is being made against the objectives for 2020/21.

## 3. Background

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- 3.1 The 2020-2021 Operating Plan centres around six broadly defined strategic goals, each with more detailed objectives and accompanying targets and measures to allow us to monitor our progress and identify where interventions may be required. They are:
- Provide secure and affordable benefits for our members
  - Reduce complexity
  - Manage our risks
  - Create a place where people do great work
  - Influence the LGPS of the future
  - Be responsible
- 3.2 The Plan forms the basis of the work ahead of the Fund in 2020/21 and will be reviewed each year.

## 4. Main Report

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- 4.1 Progress of particular note made against the Operating Plan since the last update to Committee is shown below. Stewardship and engagement is covered elsewhere on the agenda.

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

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. Owing to the Covid-19 pandemic, the Pension Regulator is sending out Scheme returns later than usual. Once we received

the notification, the Fund will have six weeks from the date of notice to complete the return. Committee will be kept informed of progress in relation to this.

### **Performance Indicators**

4.2 Committee will recall there is a new range of performance set out in the Operating Plan 2020/21. These including a wider range of new measures as well as those key indicators from previous years. The Appendix shows the quarterly key indicators. Seven of these indicators are currently amber reflecting the increase in work for our Pensions Administration team during the Covid-19 pandemic and the changes to workload and practises this has brought about.

4.3 Items of note include:

- A small number of pensions administration indicators are amber, this includes notification of dependant benefits, acknowledgment of the death of a member to next of kin, providing transfer-in quotes and guaranteed Cash Equivalent Transfer Value (CETV) and sending new members with scheme information.
- The Fund has introduced a new online learning management portal and colleagues are now undertaking structured e-learning training on a regular basis. 59% of training has been undertaken via the new portal with topics in the first six months included IT security, information governance and compliance, customer service training and personal account dealing training. Mandatory training will exceed 15 hours for the year and is being spread over the coming months.
- Following the cancellation of the re-assessment of the Customer Service Excellence Standard Award in March 2020, the assessment will now take place in January 2021.
- The Fund's accreditation by Pensions Administration Standards Association (PASA) is underway with the reaccreditation being carried out online and through video conferencing in November. A verbal update will be given to Committee on the progress of the assessment.
- The annual staff survey has taken place and the proportion of staff engaged, as measured by the engagement index, is 73%.
- 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 2020/21 is shown, with 2019/20 shown for comparison purposes.

Employer performance		Quarter 2 2020/21			2019/20		
Case type	Target (working days)	Number received	Number within target	% within target	Number received	Number within target	% within target
New Starts	20	1,548	1,153	<b>74%</b>	4,167	2,206	<b>53%</b>
Leavers	20	1,640	645	<b>39%</b>	1,757	805	<b>46%</b>
Retirements	20	506	194	<b>38%</b>	703	266	<b>38%</b>
Deaths in Service	10	6	3	<b>50%</b>	6	5	<b>83%</b>

- We have identified a number of missing leavers from our year end process however and this is reflected in the statistics as employers provide these out of target.
- Annual reports were issued to each employer in June 2020 outlining their own performance and comparing this to other employers of a similar size. Quarterly reports are 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.
- PAS performance was also included as part of the Data Quality report provided to yesterday's Pensions Audit Sub Committee.

#### **Actuarial Valuation 2020 – progress update**

- 4.4 Progress continues on the 2020 Actuarial Valuations. Discussions on indicative results for both the Scottish Homes Pension Fund and the Lothian Pension Fund have taken place with the Actuary. Following a briefing for Pensions Committee and the Pension Board, draft results were shared with employers at the end of November 2020. Consultation meetings with employers will be held during December 2020.
- 4.5 As previously reported to Pensions Committee, a new risk-based approach to setting employer contribution rates has been used for the Lothian Pension Fund. This risk-based approach uses a three-step process to calculate an employer's contribution rate:
- 1) Calculate the funding target for the employer - the estimated amount of assets it should hold in order to be able to pay all its members benefits;
  - 2) Determine the time horizon over which the employer should aim to achieve the funding target;
  - 3) Calculate the employer contribution rate so that it has at least a given likelihood of achieving that funding target over that time horizon. The likelihood of achieving the funding target over the employer's time horizon will be dependent

on the Fund's view of the strength of employer covenant and its funding profile. Where an employer's financial strength is considered to be weaker, then the required likelihood will be set higher, which in turn will increase the required contributions (and vice versa).

- 4.6 This three-step process will be used to calculate the Primary rate of contributions. The Secondary rate is an adjustment to arrive at the rate each employer is required to pay. In broad terms, payment of the Secondary rate is in respect of benefits already accrued at the valuation date. Depending on the employer's funding position and the time horizon over which they are expected to target full funding, the Secondary rate may be a positive or negative adjustment.
- 4.7 The Fund has carried out covenant analysis for some years now and the results from the most recent survey have been used to determine the appropriate rate for employers. The contribution stability mechanism (approved by Pensions Committee in December 2019), applies to long-term, secure employers. As required by section 7.7 of the Funding Strategy Statement, all employers will be required to confirm their commitment to meet the certified minimum contributions.
- 4.8 A draft revised Funding Strategy Statement was presented to Pensions Committee in June 2020, and a consultation exercise was carried out in August of that year. Very few responses were received from employers, however these were broadly supportive of the change in approach to setting contributions. Following discussions with the Actuary, the Fund also intends to introduce a salary strain mechanism. This will allow salary increases to be monitored on an annual basis, and if increases awarded are higher than anticipated, then the employer will be charged at that time. Introducing this mechanism means that the cost of salary strain can be recognised at the point pay awards are granted, rather than waiting until the next triennial which would mean setting higher contribution rates that may be unaffordable.
- 4.9 The final valuation report for both the Lothian Pension Fund and the Scottish and Funding Strategy Statement will be presented to Committee for approval in March 2021.

#### **Membership and Cashflow monitoring**

- 4.10 Tables detailing the cashflows as at the end of September 2020 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).
- 4.11 For the last three 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. Financial impact

5.1 A summary of the projected and year-to-date financial outturn compared to the approved budget for 2020/21 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	5,986	5,902	(84)	2,993	2,668	(325)
Transport & Premises	499	240	(259)	250	113	(137)
Supplies & Services	2,115	2,115	-	1,058	990	(68)
Investment Managers Fees -Invoiced	4,700	4,100	(600)	2,350	1,776	(574)
-Uninvoiced	18,700	18,700	-	9,350	9,350	-
Other Third-Party Payments	1,495	1,406	(89)	748	612	(136)
Central Support Costs	519	519	-	260	260	-
Depreciation	249	173	(76)	125	79	(46)
<b>Gross Expenditure</b>	<b>34,263</b>	<b>33,155</b>	<b>(1,108)</b>	<b>17,134</b>	<b>15,848</b>	<b>(1,286)</b>
Income	(2,342)	(1,980)	362	(1,171)	(877)	294
<b>Total Cost to the Funds</b>	<b>31,921</b>	<b>31,175</b>	<b>(746)</b>	<b>15,963</b>	<b>14,971</b>	<b>(992)</b>

- The financial outturn includes year to date budget, actual expenditure and variance as at the end of September 2020. Year to date actual expenditure includes provision for services incurred but for which no invoice has yet been received.
- The projection shows an underspend of approximately £746k. The key variances against budget are:

- *Employees* – £84k underspend. A small number of posts have been held vacant. This, together with the timing of recruitment, including replacements, has resulted in a projected underspending.
- *Transport and Premises* – £259k underspend. The Fund has postponed its move into new premises and plans to reassess the position next year. In the meantime, the current office will be refurbished to comply with social distancing requirements, which will also improve any future marketing potential for the unit.
- *Investment Management Fees (Invoiced)* - £600k underspend. Charges on external managed portfolios are based on market values. At present market values are below the assumptions used for budget (8% increase in value from December 2019 valuation).
- *Depreciation* – With the office move postponed for the time being a £76k underspend is expected. The capitalisation of the refurbishment of the current office is also included in this figure.
- *Income* – £362k below budget. Income in relation to collaborative partners is based on a cost sharing mechanism. Due to underspend against budget, in particular against property costs, as well as the lower than expected deal flow in relation to collaborative investments, income is expected to be below original forecast. There is currently a significant uptick in deal-flow which will feed into the figures by the close of the financial year.
- 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.
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## **6. Stakeholder/Regulatory Impact**

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- 6.1 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. Background reading/external references**

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- 7.1 [LPF Operating Plan 2020/21](#)

## **8. Appendices**

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Appendix 1 – Operating Plan Performance Indicators

Appendix 2 – Forecast Cashflow



# **Operating Plan**

**Pensions Committee**

**9 December 2020**

**Appendix 1 and 2, Item 6.4**

## Operating Plan Performance Indicators – Targets & Actual Performance 2020/21

	Q1 April to June	Q2 July to Sept	Q3 Oct to Dec	Target	Status
Maintain Customer Service Excellence Standard	Annual assessment in January 2021			Retain CSE Award	Not yet known
Maintain Pensions Administration Standards Association (PASA) accreditation.	Re-accreditation in November			Retain PASA accreditation	Not yet known
Overall satisfaction of employers, active members and pensions measured by surveys	Rolling 12-month performance to end September 2020 is 96.4%			>90%	✓
Proportion of active members receiving a benefit statement and time of year statement is issued	Met			100% issued by 31 August 2020	✓
Proportion of critical pensions administration work completed within standards (PA1)	96.74%	95.48%		>92%	✓
Acknowledge the death of a member to next of kin within 5 working days. (PA2)	97.16%	92.63%		96%	⚠
Estimate requested by employer of retirement benefits within 10 working days. (PA3)	100%	100%		91%	✓
Notification of dependant benefits within 5 working days of receiving all necessary paperwork.(PA4)	91.19%	92.6%		96%	⚠
Notify early leavers entitled to deferred benefits of their rights and options within 10 days of being informed of end of pensionable service. (PA5)	99.16%	99.51%		91%	✓
Notify members holding more than 3 months, but less than 2 year service, of their options at leaving. Target is within 10 days of the end of the one month and a day lying period or after the employer providing full leaving information if later.(PA6)	89.03%	88.86%		85%	✓
Pay a refund of contributions within 7 working days of receiving the completed declaration and bank detail form. (PA7)	97.37%	98.32%		91%	✓
Pay any lump sum death grant within 7 working days of receipt of the appropriate documentation. (PA8)	99.04%	99.55%		96%	✓
Pay lump sum retirement grant within 7 working days of receiving all the	98.17%	98.63%		96%	✓

	Q1 April to June	Q2 July to Sept	Q3 Oct to Dec	Target	Status
information we need from the member. (PA9)					
Payment of CETV within 20 working days of receiving all completed transfer out forms. (PA10)	98.00%	97.61%		96%	✓
Pension Admin Workflow - Non Key Procedures Performance. (PA11)	82.18%	72.90%		75%	⚠
Provide a maximum of one guaranteed Cash Equivalent Transfer Value (CETV) within 10 working days of receiving a request. (PA12)	90.37%	90.67%		91%	⚠
Provide new members with scheme information within 20 working days of getting details from employer (PA13)	99.87%	95.19%		100%	⚠
Provide transfer-in quote within 10 working days of receiving the Cash Equivalent Transfer Value (CETV) from member's previous pension provider. (PA14)	70.00%	85.56%		96%	⚠
Investigate and respond to a complaint - within 20 working days (PA15)	100.00%	100%		96%	✓
Audit of annual report	Met			Unqualified opinion	✓
Percentage of employer contributions paid within 19 days of month end	99.63%	99.6%		99.00%	✓
Data quality – compliance with best practice as defined by the Pensions Regulator	Met			Fully compliant	✓
Monthly Pension Payroll paid on time (Service1)	100%	100%		Yes	✓
Level of sickness absence (Service4)	1.18%	1.4%		4%	✓
Proportion of staff engaged as measured in the Staff Engagement Survey	73%			70%	✓
Percentage of staff that have completed two days training per year.	on track	59%		100%	⚠

## Service Plan Membership and Cashflow Monitoring 2020/21

Lothian Pension Fund	2020/21 YTD	2020/21 Projected
<b>Income</b>	<b>£'000</b>	<b>£'000</b>
Contributions from Employers	84,083	185,000
Contributions from Employees	24,710	50,000
Transfers from Other Schemes	2,562	5,500
	<b>111,355</b>	<b>240,500</b>
<b>Expenditure</b>		
Pension Payments	(93,121)	(186,500)
Lump Sum Retirement Payments	(24,451)	(60,000)
Refunds to Members Leaving Service	(290)	(500)
Transfers to Other Schemes	(4,699)	(10,000)
Administrative expenses	(1,300)	(2,600)
	<b>(123,861)</b>	<b>(259,600)</b>
<b>Net Additions/(Deductions) From Dealings with Members</b>	<b>(12,506)</b>	<b>(19,100)</b>

Scottish Homes Pension Fund	2020/21 YTD	2020/21 Projected
<b>Income</b>	<b>£'000</b>	<b>£'000</b>
Administration charge	70	70
<b>Expenditure</b>		
Pension Payments	(3,341)	(6,720)
Lump Sum Retirement Payments	(364)	(750)
Transfers to Other Schemes	-	(100)
Administrative expenses	(35)	(70)
	<b>(3,740)</b>	<b>(7,640)</b>
<b>Net Additions/(Deductions) From Dealings with Members</b>	<b>(3,673)</b>	<b>(7,570)</b>