

Pensions Committee

2.00pm, Wednesday, 25 September 2019

Service Plan Update

Item number	5.6
Executive/routine	
Wards	All
Council Commitments	

1. Recommendations

The Pensions Committee is recommended to:

- 1.1 note progress of the fund against the 2018-2020 Service Plan, together with the regulatory update and specifically;
 - an update on performance indicators: and
 - the Local Government Pension Scheme (Scotland) Regulations.

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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 for 2019/20. 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;
 - pensions data quality; and
 - fraud prevention.

Local Government Pension Scheme (Scotland) Regulations

- 4.2 As previously reported to Committee, new Scheme Regulations were introduced with effect from 1 June 2018. These changes including the earliest age members can voluntarily retire reducing it from age 60 to age 55. However, amendments to the Transitional Provisions, including Rule of 85 protections, were not made which resulted in further legislation being required to allow deferred members age 55 and over to retire.
- 4.3 The Scottish Public Pensions Agency (SPPA) issued an amendment to the Regulations on 28 June 2019 and this has resulted in the transitional provisions being updated.

Annual Benefits Statements

- 4.4 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. All employers provided data by the deadline of 19 April, this being the first time ever full compliance has been achieved.
- 4.5 At the time of writing 52,152 annual benefit statements were produced representing 99.96% of the requirement. It is fully expected that 100% of records will have a statement by the statutory deadline of 31 August 2019.
- 4.6 Included in this total are 18,299 deferred members where 100% of records have been issued with an annual benefit statement. 3,800 of these members who are age 55 or over on 28 June 2018 are now eligible to have their benefits paid following the recent Regulation change. Information on how to claim their benefits was included with their annual newsletter.
- 4.7 For 2,132 deferred members, the Fund does not hold a current address and has been unable to send newsletters to these. This represents 11.6% of the deferred membership. A specialist tracing company has been appointed and attempts to trace these members are ongoing.
- 4.8 A separate update on data quality is being provided to the Audit Sub-Committee on 24 September.

Awards

- 4.9 The Fund has been shortlisted for 4 categories in the LAPF Investment Awards. The awards will be announced on 19th September 2019. The shortlisted categories are Fund of the Year (over £2.5billion), Fund of the Year (under £2.5billion) for Scottish Homes Fund, Private markets and Scheme Administration. A verbal update will be provided at the Committee meeting.

Performance Indicators

- 4.10 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.
- 4.11 Nine of the indicators are currently amber.

4.12 These include:

- Overall customer satisfaction at 87.2% against a target of 91%.
- 83.3% of transfer-in quotes were provided within 10 working days of receiving the Cash Equivalent Transfer Value. The target is 96%. There is currently significant resource pressure in the Pension Administration section. However, ongoing recruitment should ensure this position should recover over the year.
- Level of sickness absence of 4.72% with a target of 4%.
- Proportion of staff engaged as measured in the Staff Engagement Survey 69% with a target of 70%.

Website

4.13 The Fund has wished to replace the current website for a number of years and has begun two projects that due to changes in supplier were not made live. Hymans Robertson provide a bespoke member website and the fund will move to this in Autumn 2019.

4.14 At the same time, the current site will be updated to provide a more user-friendly web experience for users including employers within the current publishing platform provided by the City of Edinburgh Council.

Membership and Cashflow monitoring

4.15 Tables detailing the cashflows as at the end of July 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).

4.16 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.

4.17 Funds' expenditure cashflows are anticipated to continue to exceed cashflow income

4.18 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. 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 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	5,106	(248)	1,785	1,517	(268)
Transport & Premises	255	255	-	85	79	(6)
Supplies & Services	2,128	2,128	-	709	625	(84)
Investment Managers Fees -Invoiced	5,200	4,500	(700)	1,733	1,560	(173)
-Uninvoiced	19,700	19,700	-	6,567	6,567	-
Other Third Party Payments	1,439	1,399	(40)	480	441	(39)
Central Support Costs	643	672	29	214	224	10
Depreciation	147	147	-	49	49	-
Gross Expenditure	34,866	33,907	(959)	11,622	11,062	(560)
Income	(1,915)	(1,915)	-	(638)	(658)	(20)
Total Cost to the Funds	32,951	31,992	(959)	10,984	10,404	(580)

6.2 The financial outturn includes year to date budget, actual expenditure and variance as at the end of July 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 £959k. The key variances against budget are:

- *Employees* - £248k underspend. A review of LPFE's staffing structure took place in the first quarter of the year with a number of new posts created and responsibilities clarified. Currently, the Fund is recruiting staff to fill these positions, with this timing difference creating the majority of the expected underspend. All new hires have been achieved through salary levels at or below the existing budget.
- *Investment Management Fees (Invoiced)* – £700k underspend. The Aberdeen Standard property portfolio will be managed by the newly created, in-house investment team at the end of September, this delivering a significant saving against budget. Similarly, the Fund 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 consolidation into the main Fund and also more favourable terms agreed with the Fund's custodian in the two year contract extension.
- *Central Support Costs* - £29k overspend. This overall sum remains provisional pending clarification of the Fund's ICT service arrangements. At present, no change has been

reflected in the overall budgetary provision of £500k for ICT, albeit that the Fund recognises that the charge levied by the Council for ICT and Telephony services provided through by the Administering Authority's Digital Services Team and its contract with CGI UK Ltd is anticipated to be higher than in previous years. Estimated charges of £166k (assuming full year) represent an 82% increase on the 2018/19 fee, although other elements of the overall recharge to the Fund for Administering Authority professional and technical support services are also being reviewed due to the Fund's increasingly independent service arrangements. The forecast overspend on this cost centre represents net higher than budgeted costs for the remaining support services provided by the Council through 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. The fund continues its efforts to enhance the monitoring of these fees and is working with managers to improve the transparency of these charges.
- 6.5 The Fund will provide an update on its investment shared service activities (cost allocation model) to Committee at its meeting in December 2019.

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 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 2019 (delayed by review of process by PASA)			Retain PASA accreditation	Not yet known
Overall satisfaction of employers, active members and pensions measured by surveys	Rolling 12-month performance to end June 2019 is 87.2%			91%	
Proportion of active members receiving a benefit statement and time of year statement is issued				100% issued by 31 August 2019	Not known yet
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%			Greater than 92%	
Provide new members with scheme information within 20 working days of getting details from employer	N/A			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%			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%			85%	
Pay a refund of contributions within 7 working days of receiving the completed declaration and bank detail form.	95.12%			91%	

	Q1 April to June	Q2 July to Sept	Q3 Oct to Dec	Target	Status
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%			91%	
Provide a maximum of one guaranteed Cash Equivalent Transfer Value (CETV) within 10 working days of receiving a request.	98.38%			91%	
Payment of CETV within 20 working days of receiving all completed transfer out forms.	95.24%			96%	
Pay lump sum retirement grant within 7 working days of receiving all the information we need from the member.	99.13%			96%	
Estimate requested by employer of retirement benefits within 10 working days.	93.64%			91%	
Pay any lump sum death grant within 7 working days of receipt of the appropriate documentation.	93.24%			96%	
Notification of dependant benefits within 5 working days of receiving all necessary paperwork.	97.98%			96%	
Acknowledge the death of a member to next of kin within 5 working days.	98.65%			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%	
Pension Admin Workflow - Non Key Procedures Performance.	81.39%			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%			99.00%	
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	100%			Yes	
Working Together					
Level of sickness absence	4.72%			4%	
Proportion of staff engaged as measured in the Staff Engagement Survey	69%			70%	

	Q1 April to June	Q2 July to Sept	Q3 Oct to Dec	Target	Status
Percentage of staff that have completed two days training per year.	66.3%			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	60,990	183,000
Contributions from Employees	17,198	50,500
Transfers from Other Schemes	1,898	4,500
	80,086	238,000
<u>Expenditure</u>		
Pension Payments	(58,634)	(178,200)
Lump Sum Retirement Payments	(21863)	(61,500)
Refunds to Members Leaving Service	(175)	(650)
Transfers to Other Schemes	(3,563)	(13,000)
Administrative expenses	(833)	(2,500)
	(85,068)	(255,850)
Net Additions/(Deductions) From Dealings with Members	(4,982)	(17,850)

Scottish Homes Pension Fund	2019/20 YTD	2019/20 Projected
<u>Income</u>	£'000	£'000
Administration charge	80	80
<u>Expenditure</u>		
Pension Payments	(2,177)	(6,450)
Lump Sum Retirement Payments	(112)	(550)
Transfers to Other Schemes	-	(100)
Administrative expenses	(27)	(80)
	(2,316)	(7,280)
Net Additions/(Deductions) From Dealings with Members	(2,236)	(7,200)