



Committee and date
Pensions Committee

15 March 2019

10.00am

Item

Public

PENSIONS ADMINISTRATION MONITORING REPORT

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1. Summary

- 1.1 The report provides Members with monitoring information on the performance of and issues affecting the Pensions Administration Team.

2. Recommendations

- 2.1 Members are asked to accept the position as set out in the report.
- 2.2 To approve, with or without comment, the revised Governance Compliance Statement at Appendix C
- 2.3 To approve, with or without comment, the revised Employer Events Policy at Appendix D.

REPORT

3. Risk Assessment and Opportunities Appraisal

3.1 Risk Management

Performance is considered and monitored to ensure regulatory timescales and key performance indicators are adhered to. Administration risks are identified and managed and are reported to committee on an annual basis.

3.2 Human Rights Act Appraisal

The recommendations contained in this report are compatible with the Human Rights Act 1998.

3.3 Environmental Appraisal

There is no direct environmental, equalities or climate change consequence of this report.

3.4 Financial Implications

Managing team performance and working with other Administering Authorities ensures costs to scheme employers for Scheme Administration are reduced. Reconciling the Funds Guaranteed Minimum Pension Liabilities with HMRC will have a direct cost for the Fund but if this is not undertaken the Fund risks taking on financial liabilities it didn't need to and having its data called into question by the Fund Actuary. LGPS having to fully index GMP's will increase costs for the Fund going forward. Further compliance with TPR code has highlighted areas where further costs could be incurred.

4. Performance and Team Update

- 4.1 The team's output and performance level to the end of January 2019 is attached at **Appendix A**. The chart shows that tasks outstanding fell towards the end of the quarter, some of these will not yet be due for processing. These are either single standalone tasks or tasks that are part of a case. Cases are a complete process that hold steps (tasks) for a procedure to be completed. It is encouraging to see that the number being completed on time and within target is continuing to show improvement.
- 4.2 The team are working on a project to ensure that outdated workflow cases are replaced with simplified processes and correct target dates for effective measuring. Monthly project meetings take place between staff from both the operations team and systems team to progress this work.
- 4.3 It was last reported that 3 vacancies had arisen on the team and these have now been recruited to. Two of these posts are permanent and one is a maternity cover. Training plans are in place for the new staff.
- 4.4 Communication is going to employers shortly reminding them of their data requirements and reconciliations needed for the year end 31 March 2019. Revised deficit schedule will also be issued for the uprated lump sum amounts due from some employers in 2019/20.
- 4.5 A work project plan is being finalised to ensure all year end data is posted to individual records and data cleansing is undertaken in readiness for the 2019 Valuation.
- 4.6 The systems team undertook a disaster recovery exercise with the Council's IT department in January 2019. The purpose of this exercise is to ensure the Pensions Administration system can be moved to a back up server in the event of the main server being unavailable. A test plan is followed and the team were able to work as normal from the back up server.
- 4.7 The team's risk log has been updated and the risks identified are listed at **Appendix B**.

5. Help Desk Statistics

5.1 The following chart shows the number of queries received through the helpline number.

	November 2019	December 2018	January 2019
Telephone calls received	859	568	936
Queries dealt with by helpdesk at first point of contact %*	89.98%	90.14%	83.44%
Users visiting the Website	2,004	1,551	2,049
Member drop ins	56	36	62

* Where queries have not been dealt with by helpdesk, this will usually mean that the calls have been picked up by the rest of the team.

5.2 The Helpdesk also responds to a number of emails on a daily basis the following table shows these numbers:

	November 2018	December 2018	January 2019
Emails Received	547	352	570
% of emails responded to within 3 working days	100%	100%	100%
Average number per day	25	24	26

6 Communications and Governance

6.1 The Fund monitors member take up of its online area Member Self Service (MSS), known by members as 'My Pension Online'. The Annual Benefit Statements for both active and deferred members are now available to view on 'My Pension Online' unless a member has requested a paper copy. As at January 2019 a total of 39% active members and 32% of deferred members were registered to view their records on 'My Pension Online'. The project to upgrade the current 'My Pension Online' system is still ongoing. Further delays to the project have occurred throughout user acceptance testing which have been addressed and resolved with the system supplier. As previously reported internal penetration test has been

completed and external penetration testing is currently being organised upon recommendation from the IT. Following this it is a go live date will be organised.

- 6.2 Regulation 55 of the Local Government Pension Scheme Regulations 2013 sets out that the Administering Authority must prepare a written statement setting out:

- (a) whether the authority delegates its functions, or part of its functions under these Regulations to a committee, a sub-committee or an officer of the authority;*
 - (b) if the authority does so-*
 - (i) the terms, structure and operational procedures of the delegation*
 - (ii) the frequency of any committee or sub-committee meetings*
 - (iii) whether such a committee or sub-committee includes representatives of Scheme employers or members, and if so, whether those representatives have voting rights;*
 - (c) the extent to which a delegation, or the absence of a delegation, complies with guidance given by the Secretary of State and, to the extent that it does not so comply, the reasons for not complying; and*
 - (d) details of the terms, structure and operational procedures relating to the local pension board established under regulation 106 (local pension boards: establishment).*
- (2) An administering authority must keep a statement prepared under paragraph (1) under review, and make such revisions as are appropriate, following a material change to any of the matters mentioned in that paragraph.*
- (3) Before preparing or revising a statement under this regulation, an administering authority must consult such persons as it considers appropriate.*
- (4) An administering authority must publish its statement under this regulation, and any revised statement.*

- 6.3 The Governance Compliance Statement has been reviewed to ensure its content still meets the current regulations. No significant changes were required to the content covering the governance structure of the Fund except for a section which has been added covering LGPS Central Limited.

- 6.4 The Governance Compliance Statement also lists the discretionary policies that the Fund must formulate, publish, and keep under review. There are many discretionary policies, some that must(mandatory) some that may(non-mandatory) be maintained by Administering Authorities. The Governance Compliance Statement has always published all the mandatory discretions required under

the regulations, but only some of the non-mandatory discretions. To facilitate stronger governance most of the other non-mandatory discretionary policies have been added. The revised statement is attached in **Appendix C**.

- 6.5 The Local Government Pension Scheme (LGPS) regulations were updated on 19th April 2018 through an amending Statutory Instrument; Local Government Pension Scheme (Amendment) Regulations 2018 which brought changes to how the Fund deals with exit payments when an employer leaves the Fund. Historically, the Regulations did not allow a surplus of assets over liabilities to be paid out of the Fund when an employer terminates (for example when the last active member leaves the Fund or the admission agreement comes to an end) whereas a payment would be required to cover any residual deficit or this deficit would be subsumed by another body in the Fund. The Regulation change means that if an employer exits the Fund and the resultant actuarial assessment shows a surplus, the cash amount can now be returned to the exiting employer. To make it clearer what would happen in the event of a Scheme employer exiting, in particular what would happen when an employer, who is a contractor, because of a ceding employer outsourcing a service, the Employer Events Policy has been updated and a tracked changes version can be found in **Appendix D**.
- 6.6 The LGA is aware that the payment of exit credits is causing some issues, particularly where there is a side contractual agreement in place with the employer and also where contractors are no longer extending contracts/admission agreements but are looking to terminate the contract and re-bid in order to receive payment of an exit credit.
- 6.7 LGA have met with MHCLG on this issue. MHCLG have agreed that whilst the general thrust of the regulation requiring an exit credit is right, they will consider making a regulatory change or issuing statutory guidance to provide that where the employer bears no risk, this can be taken account in the calculation of an exit credit payment.

7. Pensioner Payroll Implementation

- 7.1 Pensioner payroll merge of the payroll database to the main Altair admin database, as reported in November 2018, was successfully completed in December 2018.
- 7.2 The team will now look at how the immediate payments facility can be used for making some payments through the Payroll system instead of through the Council's finance system.

7.4 The project was delivered within budget.

8. Cost Management Update

- 8.1 In the 2018 Budget, 29 October, the Chancellor of the Exchequer confirmed the reduction in the SCAPE discount rate from CPI + 2.8% to CPI + 2.4% in the 2018 Budget.
- 8.2 The SCAPE discount rate is used to set the employer contribution rates in the unfunded public service pension schemes and determine the actuarial factors used across all public service pension schemes. The reduced rate is effective from 29 October for most of the actuarial factors in the LGPS – factors affected by this change for LGPS calculations have now been updated.
- 8.3 MHCLG had also confirmed that the remainder of the scheme's actuarial factors would be amended to take account of the reduction in the SCAPE discount rate in due course. These were issued in February 2019 and were effective from 1 st February 2019.
- 8.4 All factor changes have been added to the pensions administration system.
- 8.5 On 21 December 2018 The Court of Appeal held that transitional protections that protected older judges and firefighters from the public sector pension scheme changes in 2015, were unlawfully discriminatory. This case is known as the 'McCloud case'.
- 8.6 Following the judgment, on 30 January 2019 the Government published a written statement that paused the HMT cost management process for public service pension schemes, pending the outcome of the application to appeal the McCloud case to the Supreme Court. This was supplemented by the publication of the Public Service Pensions (Valuations and Employer Cost Cap) (Amendment and Savings) Directions 2019, on 15 February 2019.
- 8.7 On 8 February 2019, SAB confirmed it had no option but to pause its own cost management process pending the outcome of McCloud. As a result there are currently no changes to benefits planned in respect of the cost management process (either the LGPS process or HMT process) from 1 April 2019. This situation will be reviewed once McCloud is resolved which is not expected for some months.
- 8.8 More information on this can be found at;
<http://www.lgpsboard.org/index.php/structure-reform/cost-management/ccmcloud>
- 8.9 SAB asked Administering Authorities, by 1 March 2019, with regards to the 2019 valuations would they would prefer):-

A) To receive guidance from the SAB designed to promote a consistency of approach on how McCloud and/or cost management should be taken account of as part of the 2019 triennial valuation exercise. Such guidance would take the form that;

- i. If there is no finalised outcome on McCloud/Cost cap (including a commitment by government to detailed benefit changes) by 31st August 2019 then the scheme benefit design used in the valuation should be as set out in current regulations.
- ii. Each administering authority would then, with their Actuary, consider how they approach (and reflect in their FSS) the risk around this matter in the same way as they would for other financial, employer and demographic risks.
- iii. Once the outcome of McCloud is known and appropriate benefit changes are made administering authorities would, if they deem appropriate, re-visit employer contributions under such guidance or provision in regulation as may be available at that time.
- iv. A consistent approach to delaying or method of estimating exit credits and payments

Or

B) To have no central guidance and instead leave it to each administering authority to determine their own approach to their valuation (including any potential cost from McCloud or cost cap) taking advice from their actuarial adviser.

8.10 Officers on behalf of the committee, after liaising with the Fund Actuary have informed SAB that our preference is A. As B will lead to too many inconsistencies across the 89 Administering Authorities.

9. LGPS (Miscellaneous Amendment) 2018 Regulations – laid before Parliament 18 December 2018

9.1 New regulations have been introduced following a consultation that closed on 29 November. The regulations amend the LGPS 2013 Regulations by;

- addressing the Walker v Innospec judgment by providing that survivors of registered civil partners or same sex marriages are provided with benefits that replicate those provided to widows.
- Introducing a general power for the Secretary of State to issue statutory guidance.
- Making a technical amendment to allow early access to benefits between the age of 55 and NRD (as defined by the LGPS Regulations 19953), for deferred members who left before 1 April 1998.

- 9.2 The changes will need to be communicated to scheme members, as required under regulation 8 and Part 1 of Schedule 2 of the Occupational and Personal Pension Schemes (Disclosure of information) Regulations 2013. Communication of the changes should take place within three months of the date of change (i.e. by 10 April 2019). Shropshire is part of the national Communications Working Group who met on 15 January 2019 and have agreed to provide template wording to be used to communicate the changes.

10. Scheme Advisory Board separation project – renamed ‘Good Governance in the LGPS’

- 10.1 The LGPS Scheme Advisory Board (SAB) commissioned Hymans to undertake a project to examine the issues and challenges of separating the pension’s functions of LGPS administering authorities from the host authority.
- 10.2 This project has now been renamed “Good Governance in the LGPS”. Hymans Robertson are to make recommendations to enhance the LGPS function within local authority structures. This work will begin immediately and Hymans Robertson will be in touch with administering authorities with details of the project, including information on how to complete a questionnaire and further engagement plans.
- 10.3 SAB wrote to TPR in November 2018 expressing concerns about the burdens being imposed by TPR on individual administering authorities. TPR replied in December 2018 and in due course will meet with SAB to discuss the issues further.

11. MHCLG issue consultation on fair deal

- 11.1 On 10 January 2019 MHCLG circulated a policy consultation and draft regulations on ‘Fair Deal’ – Strengthening pension protection in the LGPS. The consultation contains proposals to strengthen the pension protections that apply when an employee of a LGPS employer is compulsorily transferred to the employment of a service provider. The proposed amendments to the LGPS Regulations 2013 would, in most cases, give transferred staff a continued right to membership of the LGPS. These changes are intended to bring the LGPS in line with the government’s October 2013 Fair Deal guidance that applies in relation to transfers from central government.
- 11.2 The consultation closes on 4 April 2019.
- 11.3 An Officer response will be sent on behalf of the Pension Committee in due course. In addition, an Officer of the Fund is part of a sub-group, on behalf of the national LGHPS Technical Group, who will review the impact of the consultation and make recommendations for response by the National Group. The sub-group will be working closely with the LGA and MHCLG.

List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)

Pensions Committee Meeting 21 September 2018 Pensions Administration Report

Cabinet Member (Portfolio Holder)

NA

Local Member

NA

Appendices

Appendix A – Performance Chart

Appendix B – Pension Administration Risk Register

Appendix C - Governance Compliance Statement

Appendix D – Employer Events Policy