

PENSION FUND COMMITTEE – 5 JUNE 2015

EMPLOYER MANAGEMENT

Report by the Chief Finance Officer

Introduction

1. At their March 2015 meeting, the Committee received a report on managing employer risk, which included a financial risk report prepared by the Fund's Actuary, Barnett Waddingham. That report considered the size of employer deficits in relation to the assessed financial strength of the organisation and any covenants in place which would secure future pension payments.
2. As we stated in the meeting, we need a wider assessment of the strengths of the individual employers within the Fund. In particular, it is felt that we should ensure that there is greater transparency at this Committee in respect of the record keeping in respect of each employer, and the timeliness and accuracy of their payments of pension contributions.
3. Poor record keeping and late or inaccurate payments may well mask underlying problems within the management of the employer. It should also be noted that these problems also impact directly on the quality of service that can be offered to scheme members, and can eventually lead to delays in the payment of pensions. This issue is now more under the spotlight with the Pensions Regulator in place with powers to review our performance.
4. This report therefore looks at a new approach to employer management in the Fund, and proposes a new template for a regular monitoring report to be presented to this Committee.

Employer Responsibilities

5. Under the relevant LGPS Regulations, all employers within the Fund have a number of responsibilities. Key amongst these are:
 - to maintain a full set of policies to cover employer discretionary powers under the Regulations,
 - each month to deduct pension contributions from scheme members in line with the Regulations and their discretionary policies and pay these over to the Administering Authority along with the employer contributions by the 19th day of the following month,
 - to provide monthly and annual returns to the Administering Authority in the format prescribed by the Authority to set out the supporting information on each scheme members employment and pension contributions deducted in that period,

- to provide the Administering Authority with timely information in the required format on all starters and leavers from the Fund.
6. The timely and accurate fulfilment of these responsibilities is key to the effective and efficient administration of the Fund. Previously though, this Committee has not had any oversight of how employers have performed either individual or in total. As such, there is a risk that the Committee is not in a position to ensure the effective governance of the Fund.

Performance Template

7. Annex 1 therefore sets out a draft template for the future monitoring of employers performance, to enable this Committee to form a view on the overall standard of performance of the Fund, and to develop action plans to address issues of concern. This would sit alongside the financial risk assessment discussed in the March meeting, with particular attention paid to those employers flagged as high risk under both measures
8. The annex will set out for each employer:
- The number of late contribution payments over the last 12 months,
 - The number of late returns over the last 12 months,
 - The number of annual benefit statements (both as a number and as a percentage of all annual benefit statements for the employer) which have been sent out,
 - The level of outstanding work associated with each employer
 - An overall assessment for each employer, based on the above indicators, and feedback from the Pension Services Team
9. For each indicator, the score has been colour coded to provide a quick view of the current performance levels for each employer.
10. If the draft annex is agreed, future reports will contain data for all employers within the scheme, separated out between established employers and new employers, so that some allowance can be made for new employers picking up their new responsibilities for the first time.

Developing Action Plans

11. It should always be the case, that at the point that the performance of any employer becomes an issue for this Committee, that the employer will have received additional training/support from the Pension Services Team (although see report on structure resources below). The issue will also have been escalated to senior management within the employer, and any fines applicable under the Administration Strategy raised.
12. Where the employer has failed to respond despite the additional support and training, and any subsequent escalation, there are only a limited number of options open to the Committee, depending on the nature of the employing body. A critical point here though is the impact these options have on the scheme members.

13. For transferee admission bodies, the next contact will need to be with the ceding scheme employer, who holds the contractual relationship with the admission body. It is the ceding employer who has the legal responsibility to the staff to protect their pension rights on outsourcing. The ceding employer will need to consider their options under their contract to improve performance, or consider ending the contract.
14. For community admission bodies, the Administering Authority will have the option of ceasing the admission agreement on grounds on consistent non-compliance with the terms of the agreement. As noted above, this will directly impact on the scheme member, and therefore such a decision should not be made lightly.
15. The widening of the role of the Pension Regulator provides an additional option for the Pension Fund Committee in terms of developing action plans where performance is not at an appropriate level. For scheduled and designating employers, this is arguably the only option. However, this should only be used as a last resort, as evidence from elsewhere has highlighted that as well as imposing fines on the scheme employer, the Regulator will look at the performance of the Administering Authority and can impose fines on the Authority itself if he finds that more should have been done to avoid the issue.
16. Going forward, the Committee will therefore need to develop its policies in respect of persistent poor performance from individual employers. As part of this, it will need to ensure that the Administration Strategy contains sufficient remedies to support the action plan to deliver performance improvements at the earliest opportunities, and avoid the more extreme measures outlined in paragraphs 12 – 14 above.

RECOMMENDATION

17. **The Committee is RECOMMENDED to**
 - (a) note the report;**
 - (b) approve the performance template as contained in Annex 1 as the basis for future reports to this Committee, and**
 - (c) review the Administration Strategy on a regular basis to ensure it supports the developing approach to employer management.**

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Background papers: Nil
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