Divisions: N/A

PENSION FUND COMMITTEE – 4 DECEMBER 2020

ADMINISTRATION REPORT

Report by the Director of Finance

RECOMMENDATIONS

The Committee is RECOMMENDED to

a) note this report, and

b) agree the draft changes to the Funding Strategy Statement as set out in Annex 4 as the basis for consultation with scheme employers.

Introduction

1. This report is to update members on scheme administration data and issues.

Staffing

2. By the time of this meeting all administrator and administration assistant vacancies will be filled, with the last administrator joining the team on 03 December 2020.

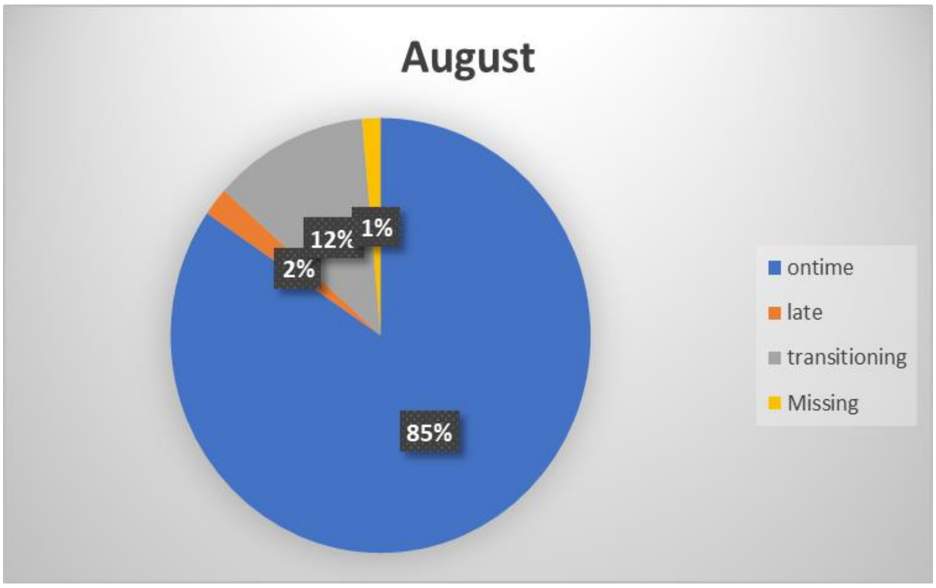
3. At the time of writing this report the recruitment process for the two senior administrator vacancies was in progress. There are two internal and one external candidate scheduled for interview during week commencing 23 November. A verbal update of the outcome will be given at the meeting.

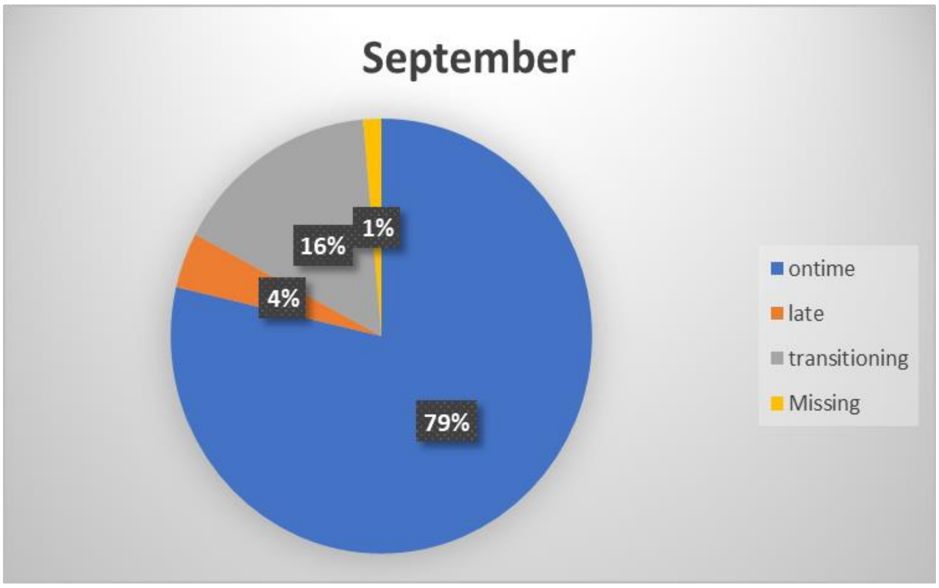
4. Training for the new recruits is going well.

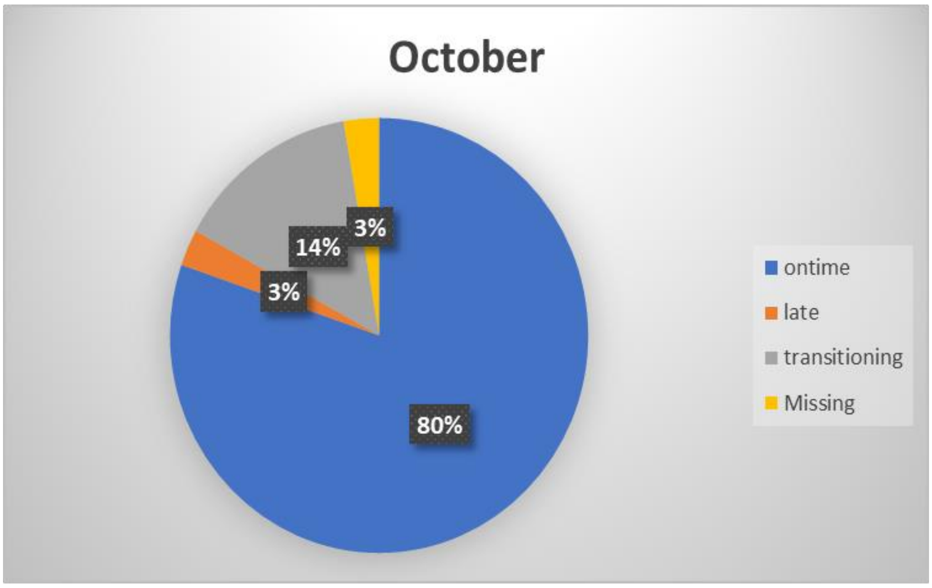
Data

5. Scheme employers are required to submit both data and contribution payments by 19th of month following payroll. Data returns are currently being made either via MARS or i-connect – information on the receipt of these returns and our internal vetting procedures are detailed in paragraphs 6 to 11.

6. I-connect returns

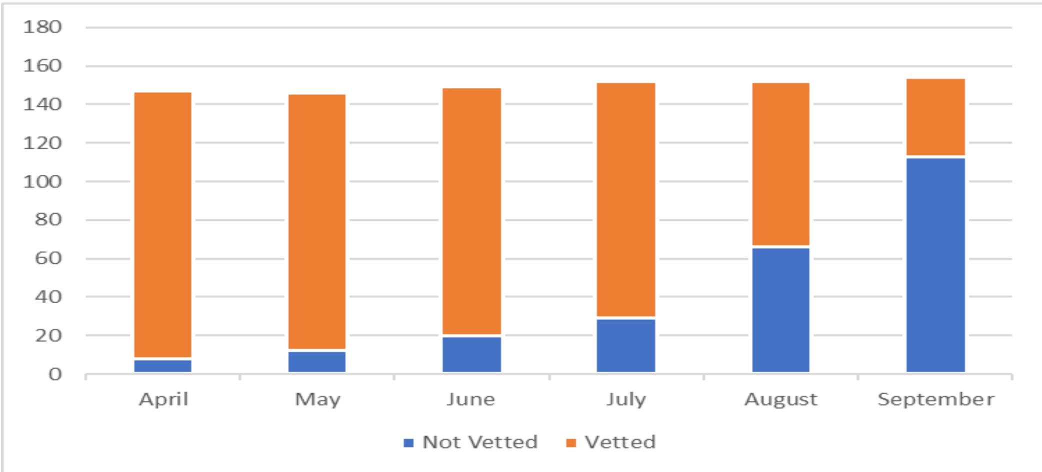






7. The above charts show the employer submission of their i-connect files. Employers are still moving on to i-connect and there are a number of employers changing payroll which have marked as transitioning.

8. <u>Vetting of returns</u>



9. The above chart shows the vetting of returns. Transitions to i-connect, multiple i-connect months being uploaded at once, payroll changes, knock on effect from end of year have had a delay on the vetting. To help catch up with vetting the following has been implemented:

- All outstanding returns for each employer are vetted together.
- Spreading vetting out in the team.
- Looking at the recording of the returns to flag actual late returns/vetting.
- Running reports overnight, rather than running individual reports, which can be a lengthy process.

10. <u>MARS returns</u> - No issues with these reports being received

11. Annex 1 details the receipt of pension contributions from scheme employers and members. The majority of returns have been received on time and we continue to engage with scheme employers where returns have been late on more than one occasion. No fines for late submission have been levied this year which is in line with the Pension Regulator's stance.

12. Data quality reporting is being re-run as at end of November to provide the final figures to submit to the Pensions Regulator. More detail in contained in the Business Plan Report.

Workloads and Performance

13. The statistics are attached at annex 2. There are 3 subjects which failed to meet the SLA standard during the latest quarter –IFA out; transfers out and transfers in.

14. The issue of underperformance in the case of one administrator reported last quarter has been addressed and figures from this member of staff have improved. However, staff sickness and moving administrators to help with the production of annual pension saving statements has caused these subjects to fall out of specification.

15. Work on developing statistic reporting continues. At the time of writing this report 41% of the active workload is pending awaiting replies.

Complaints

16. In 2020 six complaints have been recorded. One of these is a case from 2019 which has been re-opened by the Pension Ombudsman. Of these two cases have been completed (1 upheld and 1 dismissed); three reviews of ill-health decisions are with scheme employers and the final ill-health decision has been referred to stage 2 of the complaint procedure.

Year	Number of Complaints	Percentage of Active Membership
2019	06	0.03%
2018	21	0.10%
2017	28	0.14%

Projects

17. MSS / Benefit Projections – the next development will be document uploads to allow members to upload documents which will feed into the workflow system. The timetable has yet to be determined as these changes will follow on from subject process reviews.

18. Administration to Pay - this project was due to be completed in December 2018 and has been subject to continual delays. At the meeting in September an implementation plan was agreed with the first subject being refunds and then a new subject being activated every two months thereafter with transfers being scheduled for February.

19. GMP Reconciliation - now being finalised in line with the decisions taken at the September meeting of this Committee.

20. Address Tracing – being carried out as part of our data quality monitoring. This is being carried out by Target - data has been uploaded and initial tracing letters are now being sent.

21. I-connect – there are 21 employers still to go live as detailed below, although numbers can vary as employers join / leave the Fund. The employers highlighted have issues to be resolved before going live. As previously reported the go live date for both Oxfordshire County Council and Oxford Brookes University has been moved to April 2021 in order to prevent a very high level of manual intervention and to ensure that data does not get over written.

00324	Ecocleen Services Limited	6
00262	APCOA PARKING	1
00273	REGENCY CLEANING - CALDECOTT ABINGDON	1
00297	Regency Cleaning Services - Meadowbrook Coll	2
00034	OXFORD BROOKES UNIVERSITY	1836
00001	OXFORDSHIRE COUNTY COUNCIL	8445
00280	Maiden Erlegh Trust	23
00002	WEST OXFORDSHIRE DISTRICT COUNCIL	5
00146	COMMUNITY ALLIENCE	138
00260	Publica	150
00157	WILLOWCROFT PRIMARY SCHOOL	57
00189	UBICO	14
00003	SOUTH OXFORDSHIRE DISTRICT COUNCIL	268
00005	VALE OF WHITE HORSE D C	141
00040	THE HENLEY COLLEGE	90
00071	ABINGDON AND WITNEY COLLEGE	294
00099	OXFORD ACADEMY	59
00127	BURFORD ACADEMY SCHOOL	96
00211	WEST OXFORD SCHOOL TRUST (MATTHEW ARN	209
00239	GLF - William Morris School	115
00084	ACTIVATE LEARNING	681

22. The next chart details the scheme employers who are now testing and making final adjustments to file submissions ahead of going live:

00280	Maiden Erlegh Trust	23	TESTING
00002	WEST OXFORDSHIRE DISTRICT COUNCIL	5	TESTING
00146	COMMUNITY ALLIENCE	138	TESTING
00260	Publica	150	TESTING
00157	WILLOWCROFT PRIMARY SCHOOL	57	TESTING
00189	UBICO	14	TESTING
00003	SOUTH OXFORDSHIRE DISTRICT COUNCIL	268	TESTING
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23. National Fraud Initiative (NFI) – there are still a couple of outstanding cases which have yet to be resolved.

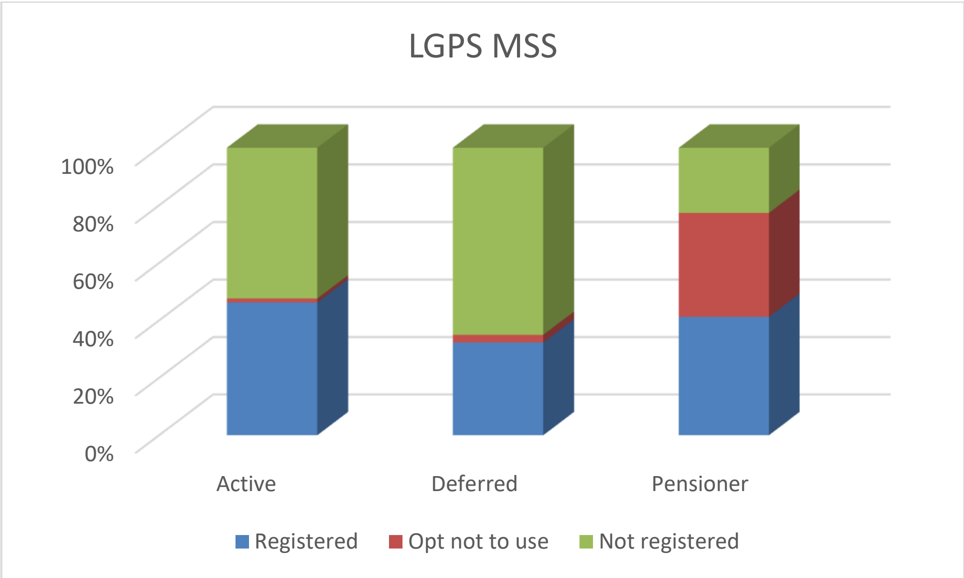
24. McCloud / Sergeant – This will be a major project with significant resource implications. We are currently working with our Actuary to establish the numbers impacted by the proposed changes. A project planning meeting is being held at the end of November.

25. The Fire Pension Scheme consultation response has been sent and the early indications are that the next steps will be issued in January 2021.

26. Accessibility – Work is continuing with colleagues in ICT to ensure that the website meets required standards.

27. Additional Voluntary Contributions (AVC) – this project is in process to compare our records with those of Prudential

Member Self Service



28. This chart shows current registration numbers to member self-service.

Employers

New Work	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20
A - New admissions - Service outsourcing	0	0	3	0	1
B - New admissions - Designating / Resolution bodies	0	0	1	0	0
C - New admission enquiries raised	0	1	3	2	1
D - Academy moves	1	0	1	0	4
E - Closures	0	0	0	3	0
Total	**1**	**1**	8	5	**6**

29. These initial stats provide numbers of new cases coming into the team. Once we have a way of recording workflow, we will be able to report on the timescales of the work in progress.

Employer team going forward

30. The plans for the next few months are to run alongside the completion of the i-connect implementation project and as such have to be fluid in order to achieve this.

31. Team members will be split on an employer basis which will need training as these areas of work responsibility move around the team.

32. A new work monitoring system needs to be developed to enable work to be tracked effectively and statistics to be produced.

End of Year and Production of Annual Benefit Statements (ABS)

33. Annual benefit statements have been issued to 99.59% of active scheme members and 99.3% of deferred scheme members.

Write Off

34. Since the last report in March write offs of £50.59 have been agreed in 8 cases where pensioner has died.

Fund Communication Update

Member engagement

35. '**Reporting Pensions**' for active scheme members, available from our pages on the public website, to individual pension accounts for all who are registered to *My Oxfordshire Pension*, email alert is also sent, printed and posted to home addresses for members who have registered for paper only. We also send all employers a pdf of Reporting Pensions, requesting distribution via their intranet to reach employees who are eligible to join but not members.

36. The format for the quarterly member newsletter has changed significantly this year, to provide links for further information on topical subjects. By issuing 4 times a year, we can ensure that changes to regulations and procedures are disclosed within statutory timetables.

37. Site visits and member meetings have been on hold since March 2020.

Employer engagement

38. '**Talking Pensions**' issued to Employers / PFC / Board and pension and investment teams monthly by email to known contacts, to introduce administration topics and regulation changes. Issued on last working day of every month, and earlier in December.

Employer Training and development

39. ‘**New To the LGPS’** training enables the introduction of the LGPS to those new to the work area or new employers to the LGPS, offering outline of how the scheme works - costs and benefits and the employer responsibilities. The meeting is currently held online, 7 times a year.

40. **Employer meetings** are scheduled regularly to pick up on procedure changes, new regulations and encourage employers to bring topics for discussion. The meeting is currently held online, 4 times a year.

Fire Pension Administration Report

41. Training is being undertaken in the systems team to spread the knowledge of the Fire Service Pension Schemes, although this is dependent on both type and volume of the incoming work.

42. Details of the current completed workloads are attached at Annex 3

43. Fire Pension Board was held on 17 June, minutes can be accessed via this link -
https://intranet.oxfordshire.gov.uk/cms/content/pensions-1

Proposed Amendments to the Funding Strategy Statement

Background

44. In May 2019, MHCLG launched its consultation “Local Government Pension Scheme: Changes to the Local Valuation Cycle and the Management of Employer Risk”. The consultation sought views in the following areas:
a) Changes to the LGPS local fund valuation cycle
b) Increased flexibility for Funds to carry out interim valuations and/or review employer contributions between formal valuations
c) Proposals for flexibility around employer cessation debts
d) Proposals for policy changes for payments of employer exit credits
e) Potential changes to employers required to offer LGPS membership.

45. At the date of writing, there has been no update on changes to the valuation cycle proposals (a) or to the employers who are required to offer LGPS access (e). The outcome of the exit credit consultation (d) was published in February 2020 and the subsequent regulation changes came into force from 20 March 2020. A response to items (b) and (c), together known as “employer flexibilities”, was published in August 2020 and the subsequent regulation changes came into force from 23 September 2020.

46. Working alongside the Fund’s Actuary, officers have considered the new regulations and the updates required to the Fund’s Funding Strategy Statement and policies, such that:

- A consistent approach is taken between employers and over time; and
- The interests of all parties are taken into account.

Funding Strategy Statement (FSS)

47. Under the Regulations, all LGPS funds have a statutory obligation to produce a Funding Strategy Statement ("the FSS"). The Fund reviews the FSS at least every three years alongside the valuation but also from time-to-time when required. The current version of the FSS was approved by this Committee in March 2020 following updates made as part of the 2019 formal valuation.

Exit Credits

48. Following the MHCLG consultation (above), the LGPS Regulations 2013 were amended from 20 March 2020 to address issues arising as a result of previous changes requiring Administering Authorities to pay exit credits when an employer ceased while in surplus (on their respective exit valuation basis). Previously, the Fund's Actuary would determine the level of any exit credit to be paid. However, the updated Regulations, while still requiring the Actuary to carry out an exit valuation to determine the amount of any surplus, place the responsibility for determining the level of any exit credit on the Administering Authority, having considered various factors.

49. When applying these new discretionary powers, the Regulations require the Fund to take account of:

The extent to which the employer's assets are in excess of its liabilities – this is not contentious for the Fund as our actuary tracks each employer's assets and liabilities (unless a pass-through arrangement is in place)

The proportion of the excess of assets which has arisen because of the value of employer's contributions – the initial regulations had unintentionally enabled some short-term employers to leave funds with large exit credits (due mainly to strong growth on the assets that were transferred from letting authorities). In some cases, across the LGPS, exit credits have been large and have even dwarfed any contributions made by the contractor. This amendment now allows the Fund to consider whether or not to restrict future exit credits to growth only on the money paid by employers.

Any representations made by the exiting employer and the letting authority/guarantor – the intention behind this is to allow any risk-sharing arrangements that sit behind an employer's participation to be taken into account. The Government has said however that there is no onus on the Fund to 'enquire into the precise risk sharing arrangements adopted'. Instead, it will be left to the employer and letting authority/guarantor to explain why the arrangements made by them make payment of an exit credit more or less appropriate. There is a risk that the Fund could get caught up in the middle of arguments between employers over commercial terms that were agreed outside the Fund, leading to higher actuarial, legal and internal management costs, and of course delays to the settlement of cessation valuations. It is worth noting that the amending regulations force the Fund to notify how it intends to deal with the exit credit to both parties ahead of any payment.

Any other relevant factors – this gives a lot of discretion to the Fund to consider whatever factors it feels is relevant in its decision. The Fund will need to ensure that it applies this discretion consistently over time and provide justification to the employer and letting authority/guarantor about why any factors have been considered.

In addition, the amendments have extended the maximum time period by which an exit credit must be paid to an employer from three to six months.

50. Working alongside the Fund's Actuary, the FSS has therefore been updated to allow for the Fund's policy on applying these new discretions on determining the payment of exit credits. The following summarises the proposed approach:

- Exiting employers should be assessed on a case-by-case basis, and be subject to the principles set out in the revised FSS in order to consistently apply the discretion in assessing the amount of and in paying any exit credit.

- In the first instance, the onus is on the exiting employer (and any letting/guaranteeing employer) to provide representations on how they consider any exit credit should be treated.

- However, in all cases, the Fund considers that the maximum value of any exit credit is the surplus identified in the Fund Actuary's exit valuation on the exit basis appropriate to the cessation event/employer.

- The approach differentiates by the type of body involved. This is a result of Admission bodies being able to terminate their participation in the Fund at any time. On the other hand, Scheduled bodies do not have this ability.

- In general, where an admission agreement began prior to 14 May 2018 (the date when exit credits became allowable under the Regulations), the Fund will not pay an exit credit as the potential for an exit credit would not likely have been priced into tenders for service.

- Where guarantees, pass-through and risk sharing agreements are clearly set out in admission terms, the Fund will reflect these in its determination. In particular, no exit credit will be payable to any admission body which participates in the Fund via a pass through agreement.

- Where pass through or risk sharing agreements are not applicable, the Fund will generally limit any exit credit to the value of employer contributions paid over the employer's contract allowing for investment returns on those contributions. The Fund will ask the actuary to carry out this calculation alongside the cessation valuation. (Noting that a proportionate approach to this calculation may have to be taken when an employer has participated in the Fund over a long period and historic contribution information may not be readily available.)

Employer flexibilities

51. Following the MHCLG consultation (above), the LGPS Regulations 2013 were amended from 23 September to allow the Fund to recalculate employer contributions outside of the triennial formal valuation in the following circumstances:

- There has been a significant change to the liabilities of an employer;
- There has been a significant change in the employer's covenant; or
- At the request of the employer.

52. The amendments also allow greater flexibility around managing the exit of an employer from the Fund. On exit from the Fund, where the employer is in deficit, the following options are available:

- The employer pays a full cessation payment carried out in line with regulations;
- The Fund can agree a repayment schedule with an employer to allow them to spread the exit payment over a number of years; or
- The Fund and employer enter into a Deferred Debt Arrangement (DDA) where an employer can continue in the Fund with no active members but continue to pay secondary contributions as determined at formal valuations. An employer entering into this arrangement would be known as a "deferred employer".

53. Whilst many LGPS Funds, including Oxfordshire, have entered into similar arrangements, these practises are now strengthened by the regulation amendments.

54. Working alongside the Fund's Actuary, the FSS has therefore been updated to allow for the Fund's policy in applying these new employer flexibilities. These proposed changes are summarised below:

   - Contribution review - In general, the draft FSS updates consider an amendment to contribution rates between valuations only as a result of significant changes to the liabilities or covenant of an employer. While the Fund would consider requests from employers to review contributions, it is expected that the reason for the request is a material change in covenant or significant restructure which impacts their membership and consequently liabilities in the Fund.

- Exit arrangements - despite the updates, for an employer ceasing with a deficit, the normal policy within the draft FSS remains the requirement to immediately pay any debt. Any variation away from this would be considered in the light of this benchmark and would primarily need to be in the interests of the Fund. However, the FSS updates allow the Fund to be mindful of the broader objectives and finances of the employer when considering a more flexible exit arrangement. For example, a flexible approach may in some cases still be appropriate where the employer covenant is weak as it may allow the employer to avoid building up further liabilities. When entering into any flexible exit arrangement, a continual but proportionate review of the conditional elements will be required to ensure it remains appropriate and in the best interests of all parties.

55. Please note we are currently awaiting further guidance on applying these new employer flexibility regulations. Therefore, while the proposals are in line with the draft guidance, we may need to revisit FSS changes once these have been formally issued.

LORNA BAXTER
Director of Finance

Background papers: None
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November 2020