

PENSION FUND COMMITTEE – 4 DECEMBER 2015

FUTURE TEAM STRUCTURE

Report by the Chief Financial Officer

Introduction

1. As set out in recent reports to this Committee, there is a need to review the structure of the Pension Administration and Investment Teams following changes within the Council and new pressures facing the service. This report sets out the proposed structure for the Committee's approval.

Reasons for Review

2. The main reason for the review is to ensure that this Committee can continue to meet its statutory responsibilities under the relevant Pensions legislation. To this end, the Scheme Advisory Board has recently written to the Chairmen of all Administering Authorities to remind them of their responsibilities and the need to ensure adequate resources are in place to meet these responsibilities. A copy of this letter is included at Annex 1.
3. We have also considered the following issues in respect to the Pensions Administration and Investment teams which support the work of this Committee.

Pensions Administration

4. The main driver for a review of the current Pensions Administration team is the work pressures created by the rapidly changing nature of the Local Government Pension Scheme. There are two key aspects to this, being the fundamental changes to the benefit structures under the New Look 2014 scheme, and the number and size of scheme employers.
5. As noted within the Administration Report elsewhere on this agenda, the increased complexity of the scheme and the large numbers of new, small employers has led to significant issues with the quality of data held by the Fund, and a breach of the statutory requirements in respect of the late issue of the Annual Benefit Statements. As part of the action plan to ensure that this Fund meets the requirements of the Pension Regulator in respect of next year's statements, there is a clear need to develop a stronger employer/data focus within the Pensions Administration Team.
6. Other issues impacting on the size and structure of the Pensions Administration Team are

- the complexity of the taxation regime in so far as it applies to pensions (with further potential changes likely following the Government's recent consultation on tax relief on pension contributions),
- the proposed changes to the state pension arrangements and the impact on Guaranteed Minimum Pensions (GMP)
- the out-sourcing of payroll services and the need to ensure that the employers and their payroll providers fully understand their responsibilities in relation to pensions
- the increasing complexity of the Fire Fighters Pension Scheme which is also administered within the Team
- the new focus on the work of the team from the Pensions Regulator

Pensions Investments

7. There are three key drivers prompting the review of the Pensions Investment Team. Two of these are external factors to the Council and the third internal.
8. The main external factor is the workload associated with the Government's collaboration agenda. At present much of the work, as set out in the report elsewhere on the agenda, is strategic in nature. However, once decisions are made on the direction of travel, there is likely to be a significant amount of work for the investments team in exploring the detailed proposals, how they fit with this Funds current asset allocation and how the transition to the new arrangements is to be managed.
9. The second external factor which will stretch the resources of the Pensions Investment Team is proposed legislation from the European Union. The Markets in Financial Instruments Directive (MiFID II) could potentially have a major impact on the investment opportunities available to this Fund, as LGPS Funds are likely to be defaulted to "retail client status" and as such be ineligible to invest in certain investment products. Work will be required to either obtain "professional client status" to retain the current range of investments within the Fund, or to manage the consequences of the reduce investment opportunities.
10. The internal factor which has led to a review of the structure of the Pensions Investment Team is the additional responsibilities placed on the Treasury Management and Pensions Investment Team as a consequence of the changes required following the transfer of services to the Integrated Business Centre in Hampshire.

Proposed Structures

11. The proposed structures of the two teams are set out in Annex 2. As previously set out, these teams will report to a Service Manager (Pensions) who will be dedicated full time to work on Pension Fund issues. This is one of the best practice guides set out in the key performance indicators established by the Scheme Advisory Board, as detailed elsewhere on this agenda.

12. The Pensions Administration Team has been strengthened by the addition of two Pension Administrators to the overall establishment. This will result in an additional cost in a full year of £55,000. In the current year, any additional cost can be absorbed within the budget, as a result of running with vacancies during the year. The budget will need to be increased for the 2016/17 financial year, and this will fall to the Pension Fund, to be recovered from all scheme employers through their employer contributions. Any additional cost needs to be seen in the context of potential fines from the Pensions Regulator and the Pensions Ombudsman resulting from issues with the data quality held by the Fund.
13. The overall resources have then been re-distributed to form a team to focus on Scheme Employers and Data Quality. This Data Team will provide support to new employers to ensure they understand their responsibilities from the outset, and are capable of returning scheme data to the correct standard and within the correct timescales.
14. This team will also provide additional support to scheme employers in the event that performance issues are identified. The Data Team will be resourced to support current requirements. In the event that employers consistently fall below acceptable performance standards, it may be necessary to review the current Administration Strategy and develop a system whereby the scheme employer is required to finance additional support to bring their performance back to an acceptable standard.
15. The Data Team will also be responsible for the technical support of the pension's administration system and the running of the monthly pension's payroll.
16. The two Benefit Teams within the structure will be responsible for dealing with all issues in respect of individual scheme members. These teams will be able to refer back to the Data Team any concerns about a given employer where similar issues occur on a regular basis.
17. The Pensions Investment Team will be set up as a separate team from their current colleagues within Treasury Management and Banking. The teams though will be co-located to ensure they continue to share market intelligence etc. which runs across both Treasury Management and Pensions Investment. The two teams will also work together to ensure that the treasury management functions for both the County Council and the Pension Fund are undertaken in the most efficient and effective manner.
18. The structure of the new Pensions Investment Team reflects the level of resource included in the current budget presented to this Committee at their meeting in March 2015. There will need though to be a recruitment process to fill the roles within the team as a consequence of vacancies within the current Treasury Management and Pensions Investment Team.

RECOMMENDATION

- 19. The Committee is RECOMMENDED to agree the proposed team structures as set out in Annex 2 to this report.**

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Background papers:
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November 2015