Division(s): N/A

PENSION FUND COMMITTEE – 7 JUNE 2019

ADMINISTRATION REPORT

Report by the Director of Finance

Introduction

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

Staffing

2. April saw some changes in staffing as two administrators left the team; the two successful administration assistant candidates joined the team and a part time administrator was also appointed.

3. Overall this leaves a shortfall against establishment of 4.61 FTE (170.51 hours), which is broken down across the team as detailed below, although where the vacancy sits can be fluid depending upon workloads.

   Benefits – administrators -3.89 FTE
   Communications – managers + .13 FTE
   Employers – administrators +.19 FTE
   Systems – administrators -1.04 FTE

   Note: In July one of the Communications Managers is taking flexible retirement and will be reducing working hours to 12 per week.

Workloads

4. This item links over to the improvement plan report where the method and frequency of reporting are to be agreed with this Committee. As part of the work on the Improvement Plan we are currently reviewing the latest CIPFA / AON publication setting out not only good administrative practice but helpful guidance on monitoring and reporting of workloads. We should be able to present a new performance framework at the September meeting.

5. Members will be aware of the challenges in getting (consistent) data out of the administration system, however the intention is to aim to produce not only performance measurement against SLA but also against statutory deadlines from April 2019 onwards.

6. Given the continuing vacancies at the last meeting members suggested that the SLA measures were temporarily reduced whilst we continued to recruit. The proposal below takes not only recruitment into account but also training and changes to system processes and changes over the coming months.

Period	Original SLA measure	New SLA Measure
April – Aug 2019	95%	75%
	90%	70%
Sept – Dec 2019	95%	85%
	90%	80%
Jan 2020 onwards	95%	95%
	90%	90%

7. For the last full quarter LGPS and FIRE performance statistics are in the "old format" attached at annex 1 and 2.

Project Work

8. **Administration to Pay** – this project status has, since last quarter, changed to red. Initial testing had identified some 31 errors which were raised with our software suppliers who then investigated and made system changes to correct. Therefore, the initial implement date of May was missed.

9. As a result, testing has re-started from the beginning to ensure that these changes have not caused any knock-on errors. The testing is scheduled to end on 31 May at which point the project will be reassessed and a revised implementation date set.

10. **GMP Reconciliation** - this project status has, since last quarter, changed to amber. We have been undertaking a GMP reconciliation project which is designed to ensure that the records held here regarding contracted out membership are in line with those at HMRC. This exercise is being undertaken nationally.

11. A GMP is a notional figure which relates to membership of a contracted-out pension scheme between 1978 and 1997. It is the minimum amount of pension that must be paid to the member on attaining state pension age.

12. We appointed ITM to undertake the bulk of the work on this project. ITM have been liaising with HMRC where queries exist. We have been working with ITM to look at the replies received from HMRC to ensure that the data held here is accurate.

13. The project is nearing the final stage, which will involve a comparison of the final HMRC data cut with our data, and then correcting the data held if necessary. This could involve an underpayment, or overpayment of pension benefits.

14. Unfortunately, HMRC have confirmed that the date of the final data cut has been moved from June 2019 to October 2019 at the earliest. We are currently working with ITM to look at a number of test cases to ensure that we are happy with the

calculation of the underpayments / overpayments. As soon as the final data cut is received, ITM will undertake a final comparison of the data, and we will be able to move to completion of this exercise in early 2020.

15. We have received a bill from HMRC for £16,995.62 which represents outstanding Contribution Equivalent Premiums (CEPS). A CEP is an amount which is paid back to HMRC if a scheme member cancels their membership of the Local Government or Firefighters Pension scheme by taking a refund of contributions. It effectively reinstates their State Scheme benefits. We were not provided with a breakdown the figure owing and were given a deadline of 21 May 2019 to pay this amount, so we have paid this. We have also been told that this may not be the final bill issued as HMRC are undertaking further analysis. We are waiting for a further update on this.

16. **Pension Software Contract** – this project status remains green. Stage 1 of the OCC Gateway process is complete with the second stage being due on 28 May. After which the requirements will be published on OJEU on 12 June. The team are in the process of writing the specification for the system.

Pension Audit

17. The final internal audit report for 2018/2019 was issued on 28 March 2019. The overall report gives an amber rating which whilst disappointing is reflective of the progress that has been made and continuing work within the team to ensure work is processed in specification.

Scheme Employers

18. The process review has been delayed whilst we await the outcome of the recent Fair Deal consultation which ended on 04 April. Once this is received the process can be finally reviewed and issued.

19. The lack of knowledge (about outsourcing) and engagement within scheme employers remains a concern. To address this officers have been working with Procurement and County HR at OCC to explain process and ensure that staff are aware of the need to involve Pensions in any outsourcings.

20. Wider communications have also been sent out to all scheme employers and officers continue to try to raise awareness when dealing with outsourcing. A letter is shortly due to be sent out to all scheme employers to explain the process and actions to be taken.

Complaints

21. 2018 ended with a total of 21 complaints (0.10% of active membership), which was down from 0.14% in 2017. As previously reported over half of these were made using the internal procedure to complain about delays in replying to queries.

22. As a response to this the whole team attended customer service training with a view to improving our overall skills and to produce a team document setting out

our customer service standards. This has been shared with scheme employers and is now on our website. Copy at annex 3.

23. To date four complaints have been received in 2019.

Write Offs

24. This report provides the details of those debts written off in the last quarter. In the current period, £17.60 has been written off in respect of three cases where a member has died.

25. Results from the latest National Fraud Initiative exercise have now been received. This will identify where any deaths have not been reported to the Fund as well as looking at other scenarios which could lead to over payment of benefits. Officers are working through the report and an update will be included in the next quarterly report to this committee.

Consultations

£95K Exit Cap – Consultation Deadline 3 July 2019

26. The implementation of the £95k exit payment cap is now moving ahead. The idea behind the cap is that there should be a limit on the cost to the "public purse" of terminating someone's employment in the public sector. Once implemented the cap will affect both voluntary and compulsory terminations.

27. According to gov.uk, the implementation of the cap is in response to research which found that exit payments to employees leaving the public sector in 2016-2017 cost the taxpayer £1.2billion, with payments over £100,000 costing £200million.

28. The original proposals were published in 2015, and there is now a formal consultation which opened on 10th April. You can find the consultation documents at https://www.gov.uk/government/consultations/restricting-exit-payments-in-the-public-sector

29. The LGPC have published a briefing of the information contained in the consultation documents – find this at http://lgpslibrary.org/assets/cons/nonscheme/20190410_95K_BR.pdf

30. The issues arising from this consultation largely impact on scheme employers and their ability to manage their workforce rather than the Administering Authority. A key issue is if the proposals are implemented without further change to the LGPS Regulations, scheme members made redundant after the age of 55 maybe required to take a reduced pension where otherwise they would breach the cap. The amendment of the LGPS Regulations to no longer require a scheme member made redundant at the age of 55 or above to take immediate payment of their pension is likely therefore to be a key element of many responses.

Changes to Valuation Cycle and Management of Employer Risk – Consultation Deadline 31 July 2019

31. On 8 May 2019, the Government Issued a further consultation om the valuation cycle and the management of employer risk. At the time of writing this report, it has not been possible to draft a full response, but one will be issued as an addenda to the Committee papers. The key points are covered below.

32. In respect of the valuation cycle, the Government have proposed to bring the LGPS in line with other public sector schemes and change the valuation cycle from every 3 years (triennial) to every 4 years (quadrennial). This would require that this current valuation will give employer rates for the next 5 years but allowing the administering authority to perform an interim valuation if needed. The Government's preferred alternative option is to have a valuation giving results for 3 years as usual and the next valuation giving results only for 2 years.

33. The consultation seeks views between the two approaches. Whilst the Government's preferred approach is seen as providing greater continuity and greater funding certainty, it comes at a time of increased uncertainty associated with the recent McCloud/Sargeant judgements of legal discrimination in the transitional arrangements implemented in the public sector schemes following the Hutton review and the pausing of the cost capping procedure. Given the uncertain timescales for resolving these issues, the option for a Fund to carry out an interim valuation on the conclusion of these issues may be more attractive.

34. The consultation proposes the option for Funds to carry out interim valuations once the quadrennial programme is up and running. The circumstances under which an interim valuation can be carried out should be set out in the Funding Strategy Statement to ensure they are proportionate to the cost of an additional valuation and not simply to reflect short term changes in valuation assumptions. Similarly, the consultation proposals that Funds set out in their Funding Strategy Statements those circumstances where the contribution rate of an individual employer or group of employers can be reviewed between full or interim valuations. These proposals are largely welcomed

35. The consultation also looks at options of how funds can manage debt of scheme employers when they end participation in the scheme. The Government is proposing to introduce greater flexibility into the process, allowing scheme employers with an appropriate financial covenant to become deferred employers, making regular contributions calculated on an on-going basis rather than a one off cessation payment calculated on a low risk basis. A further proposal allows the Fund to agree the low risk cessation valuation to be repaid over a fixed period rather than as a one-off payment, the period to be determined by the Fund based on the financial circumstances of the exiting scheme employer. We would again welcome these proposals which formalise arrangements a number of Funds including Oxfordshire have sought to deliver through separate legal contracts following a scheme employer's loss of its last active member.

36. The consultation also seeks to introduce greater flexibility into the calculation of an exit credit to allow for any risk sharing arrangements in place for the exiting

scheme employer to be taken into account when calculating an exit credit. This proposal is welcomed in that it addresses a weakness in the current Regulations which mean an exiting scheme employer can receive an exit credit despite being fully protected from pension risk and the risk of a cessation payment.

37. The final proposal within the Consultation is to change the status of further and higher education bodies within the Fund so that they are not required to offer membership of the LGPS to any new non-teaching staff, although those currently in scheme would have protected rights. The implications of this proposal in terms of the potential impact on future cash flows, investment strategies and contributions rates needs significantly more work before an opinion on the proposed approach can be offered.

38. The consultation documents can be found at: http://www.lgpsregs.org/schemeregs/consultations.php

RECOMMENDATIONS

39. The Committee is RECOMMENDED to:

(a) note the report;

(b) agree the proposed temporary changes to the SLA targets; and

(c) agree the proposed response to the Government Consultation on Changes to the Local Valuation Cycle and the Management of Employer Risk.

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Lorna Baxter
Director of Finance

Background papers: None
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