

# PENSIONS BOARD

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Monday, 31 July 2017 at 10.00 a.m.

MP702, 7th Floor, Town Hall, Mulberry Place, 5 Clove Crescent,  
London E14 2BG.

## SUPPLEMENTAL AGENDA

**This meeting is open to the public to attend.**

**Contact for further enquiries:**

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**7. PENSION BOARD REPORTS FOR CONSIDERATION**

**7 .4 Report on Pension Fund Administration Update**

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Non-Executive Report of the: <b>PENSIONS BOARD</b>  31 <sup>st</sup> July 2017	
<b>Report of:</b> Zena Cooke, Corporate Director of Resources	<b>Classification:</b>
<b>Pension Fund Administration Update</b>	

<b>Originating Officer(s)</b>	George Bruce, Interim Pensions Manager
<b>Wards affected</b>	All

## Introduction

This report covers issues affecting scheme members and employers participating in the Tower Hamlets pension scheme.

## Recommendations:

Members of the Pensions Board are asked to note the contents of the report and make comments on the recommendation to approve the admission of Energy Kidz Ltd as an employer within the pension fund (para 3.10).

### 1. REASONS FOR THE DECISIONS

- 1.1 To enable staff transferring to Energy Kidz Ltd to remain within the pension fund.

### 2. ALTERNATIVE OPTIONS

- 2.1 There are no grounds for refusing admission as all formalities have been completed. The formalities completed are the signing of an admission agreement by the admitted body and school, the calculation of the employer's contribution rate by the Actuary (included within the admission agreement) and the provision of a parent company guarantee as a substitute for the bond.

### 3. DETAILS OF REPORT

#### Introduction

- 3.1 This report provides an update on pension administration issues between March and July 2017. The issues covered are:

Staffing

Activity & Performance

Internal Dispute Resolution Procedure  
Employer developments  
Reports to the Pensions Regulator  
Internal Audit & Data Quality  
Verification of Continued Entitlement to Pension  
Projects  
Administration Strategy Statement

### **Staffing**

- 3.2 There was one significant change in staff during the quarter with the retirement of the Pension Manager, Anant Dodia, after 29 years of service with the Pension Team.
- 3.3 There is a separate paper discussing future arrangements for the provision of pension administration services.

### **Activity and Performance**

- 3.4 The activity levels and performance against service standards are reported in appendix 1.
- 3.5 Overall achievement of service standards increased to 82%. The main area requiring improvement is payment of lump sums for which the target is 5 days.

### **Internal Disputes Resolution Procedures**

- 3.6 The table below summaries the actions taken in responses to complaints received under the formal Internal Disputes Resolution Procedures.

### Compliants IDRP summary

	Stage 1	Stage 2	Ombudsman	Total
As reported at last Committee	5			5
New stage 1 appeal	4			4
Stage 1 Response	-8			-8
Stage 1 moved to stage 2		2		2
Stage 2 response		-2		-2
complaint to Ombudsman				
Ombudsman determination				
Outstanding compliants	<u>1</u>	<u>0</u>	<u>0</u>	<u>1</u>

3.7 There is one outstanding appeal awaiting a response.

3.8 Three decisions have been reversed on appeal. Two relate to the granting of ill-health benefits to a deferred member following a second medical review and the other concerns the inclusion of a market supplement (referred to as a retention bonus) as remuneration for pension purposes.

### Employer developments – admissions and cessations

3.9 As was reported at the last meeting, there are employers joining and leaving the scheme on a regular basis. A listing of all active employers is given on appendix B.

#### New Employers

3.10 Since the last meeting the following employers have completed the process of participating in the scheme.

Mulberry Academy – 42 members

Energy Kidz (after school club contract) – 4 members

3.11 All the above were previously notified to the Committee. However, the minutes of the December 2016 Committee do not record the discussion or agreement to admit Energy Kidz, therefore it is repeated in the recommendations. Energy Kidz operates an after school club at St Luke's primary school.

3.12 Eleven employers are in the process of joining the scheme; 4 academies (Stebon, Bygrove, Clara Grant, Stepney Green) and 7 admitted bodies

(Wettons – cleaning contract and six providers of home care services). One school previously intending to convert, (lan Mikardo) has put the project on hold.

- 3.13 One employer, Compass Catering, has recently made contact stating that they took on approximately 16 staff under a schools catering contract as of September 2015. For some reason their request for admitted body status was not processed. Given the passage of time we are checking how many of the transferred employees remain in service and whether contributions have been deducted and withheld in the intervening period. It is unclear at present whether the staff who transferred will wish to re-join the pension scheme.

#### Employer Cessations

- 3.14 There have been no employer cessations since the last Committee meeting. Three Housing companies (One Housing, Gateway and Tower Hamlets Community Housing) have indicated that they will cease to have active members and are expected to bring forward funding proposals to avoid an immediate cessation payment.

### **Report to the Pensions Regulator**

- 3.15 There have been no reports to the Pensions Regulator in the period and no response from the Regulator to the December 2016 report on the delay to the issue of annual benefit statements.

#### **Internal Audit and Data Quality**

- 3.16 Two reports were issued in the last quarter relating to the operation of internal controls and data quality. The findings from the annual internal audit and the Actuary's comments on the quality of data provided to facilitate the triennial review are summarised below.

#### Annual Review by Internal Audit

- 3.17 A summary version of the Internal Audit report issued March 2017 is attached (appendix 3). The Comments made and actions taken are summarised below.

#### Overseas Life Certificates

- 3.18 Internal Audit note that the 2016 circularisation of certificates of continued entitlement to pension was not followed through to action (reminders and pension suspension) when no response was received. The process was repeated in Q1, 2017 and the results are set out from para 3.30 below.

#### Recording of Work Undertaken

- 3.19 Processes within the Pension Administration system require that each calculation is reviewed by a second person. Failures to properly use work control procedures with the administration system resulted in occasional lack of evidence that checking was undertaken. Improvement to work control procedures and the monitoring of overdue tasks will result in better records of activity undertaken.

#### Payroll Interface Rejections

- 3.20 A considerable volume of data on earnings and changes in staff working arrangements passes from payroll to pensions each month. When the interface cannot find a matching record the interface file has to be amended to correct the identification headers and re-run to allow the interface to operate. In future, exception reports will be printed with a note of all manual adjustments. Changes will be verified by a second officer and reports will be scanned and saved

#### Reconciliations between General Ledger and Pensions Administration System

- 3.21 Audit note that reconciliations were not being reviewed. Review procedures are now operating.

#### Updating of Procedure Notes

- 3.22 Audit comment that there is no evidence that all procedure notes are being reviewed on a regular basis. Reviews take place annually and will now be signed & dated even if no changes take place.

#### Actuarial Feedback on Data Quality

- 3.23 Following the completion of the triennial actuarial valuation as at March 2016 the Actuary issued a report on the quality of the data provided. The conclusions are copied below:

- 3.24 "In general, the data was of good quality and we believe that it is fit for the purpose of the valuation. We were able to reconcile the employee contributions for 2015/16 provided in your accounts to within 0.7% at a whole Fund level. Initially, we were unable to reconcile the pensions paid to a suitable figure due to issues with the unfunded pensioner data. The original comparison to the pensions paid for 2015/16 in your accounts and from the data was within 7.1%. Once the extract was amended and unfunded pensions were converted to funded pensions the comparison to the pensions paid for 2015/16 in your accounts and from the data was within 3.7%."

- 3.25 There will always be differences between pensions paid in the annual accounts and that recorded within the administration system as the latter is only accurate when the pension is initially put into payments. Thereafter

increases in some elements of pension e.g. GMP, are only recorded within payroll. A similar comparison will be undertaken internally for 2016-17 to ensure that the level of discrepancy is consistent with known differences.

### **Verification of Continued Entitlement to Pension**

3.26 Two exercises are carried out each year to ensure that pensions are only paid to surviving scheme members. These are

- National Fraud Initiative for UK pensioners.
- Life certificates for overseas pensioners.

The findings from each are discussed below.

#### National Fraud Initiative

3.27 The NFI is a national initiative uses data matching to identify potentially fraudulent claims and overpayments. Part of the exercise is to match pension information to data about deceased people, which is provided by DWP and the Disclosure of Death Registration Information (DDRI) from the General Registrar's Office. This is referred to as 'mortality screening'. Nationally the NFI identified 3,410 cases where pensioners had died, but payments were continuing. The majority, 98 per cent, of these cases were identified by public sector pension schemes. Actual overpayments detected (£11.4 million) and estimated future losses prevented total £85 million.

3.28 The 2016-17 exercise identified 63 Tower Hamlets members' records where the national database has recorded a death. Of these 36 have previously been notified to Tower Hamlets, but additional information was outstanding to determine whether additional benefits are payable. The remaining 27 deaths, which had not been notified to the scheme represented overpayments of £55,950. The largest overpayment is £14,924 and there were 13 in excess of £1,000.

3.29 In line with normal practice, the pension is immediately suspended and next of kin asked to provide a copy of the death certificate to confirm the accuracy of the NFI data. When it is confirmed that the NFI data is correct, attempts are made to recover the overpayment from the estate of the deceased. Historically, there has been little success in recovering overpayments, thus the importance on proactively identifying deceased pensioners.

3.30 Tower Hamlets have previously participated in the NFI bi-annually. The facility is available semi-annually and it is intended to submit data every six months in future to reduce the scale of overpayments identified. Data was submitted June 2017 and results are due end July.

#### Overseas Life Certificates



- 3.31 For pensioners living abroad there is either no similar service to the NFI available or the numbers of pensioners living in any single country makes participating not viable. Instead a letter is sent to each pensioner overseas (a life certificate) requesting that the pensioner sign the letter and have the signature witnessed. The signature is then matched to previous correspondence to conform that the pensioner remains eligible to a pension.
- 3.32 The 2017 exercise was completed in the first quarter of 2017 and involved 154 letters and 32 reminders. As a consequence of the exercise, 3 deaths have been reported and 4 pensions suspended due to a failure to return the certificates.
- 3.33 Where a death has been reported, a death certificate is requested and attempts made to recovery overpayments. As mentioned above, successful recoveries are rare.

### **Projects**

- 3.34 Updates on the projects discussed at the previous meeting are given below.

#### Member Self-Service

- 3.35 Member self-service is software designed to enable scheme members to amend their personal data held within the pension administration system and to avoid estimates of their accrued benefits. Heywood, the supplier, is currently configuring the software (mainly giving the menus a Tower Hamlets appearance) in the test environment and it is hoped that testing can begin during July.

#### Payroll Data Exchange (i-Connect)

- 3.36 Considerable data is passed between employer payrolls and Altair each month. Forcing employers to use a standard format that verifies the earnings and employment data will result in considerable efficiency gains. To date, the supplier has delivered i-Connect screens, menus and system links. To ensure the smooth running of the interface, i-Connect have run six data cleaning reports that have identified minor data issues that have been corrected. Testing will involve information transferred from both Tower Hamlets Payroll and Epm, who provide payroll services to schools. Once testing is complete, Payroll providers will need to be training to use the new interface.

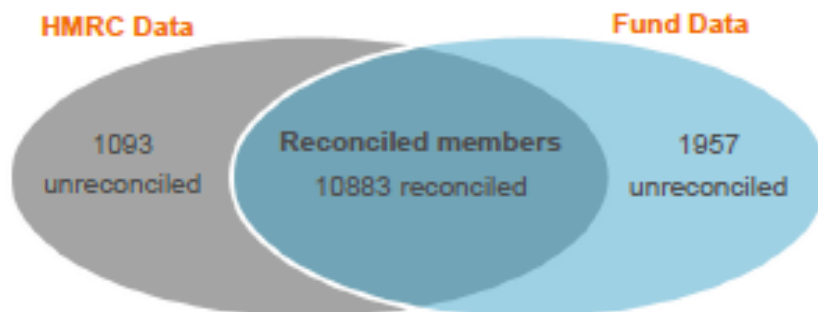
#### GMP Reconciliations

- 3.37 For those scheme members who were contracted out of the State Second Scheme, part of the pension they receive is called a Guaranteed Minimum Pension. The GMP is part of, not additional to, the LGPS pension. However, annual inflation increases on the GMP element are paid by the

Government as part of the state pension and the pension fund awards pension increases on that element of the pension that is not GMP. Thus errors in the recording of GMPs will lead to errors in calculating the annual pension increase.

3.38 With the ending of contracting out, HMRC will be writing to all persons who are entitled to a GMP telling them the amount and which pension scheme will pay. HMRC are giving schemes an opportunity to agree records prior to this notification. If we don't challenge HMRC records before December 2018 we will be expected to accept their calculation of GMPs which might lead to accepting additional liabilities in cases where HMRC has a lower GMP than Tower Hamlets.

3.39 Initial comparison of HMRC records with Tower Hamlets records generated the following results in terms of the matching individuals.



3.40 The major differences between Tower Hamlets records and HMRC records are as follows:

- 721 records (not shown above) in which HMRC record a liability but Tower Hamlets indicate the liability has been extinguished by a refund or transfer.
- 1,093 HMRC records for which there is no corresponding Tower Hamlets records. Some are likely to be teachers who have been misallocated by HMRC.
- 1,957 Tower Hamlets records not identified by HMRC. Some of these will be allocated to Tower Hamlets as other schemes complete their reconciliations.
- 6,678 members for whom names match but the GMP value differs.

3.41 We are starting to investigate these differences. With limited resources we have to prioritise our time and have started with the 721 members who either transferred or took a refund. We will be gathering the information we hold on these members and sending to HMRC. In addition, we have asked HMRC for additional information on the 1,063 non matches and for details on GMP

calculations for those members where there is a difference in the GMP calculation.

3.42 Progress will be reported at subsequent Committee meetings.

Extension of transfer in-deadline

3.43 The Committee agreed at the last meeting to notify scheme members that the relaxation to accept transfers in of previous service beyond the normal 12 month time limit would end after a designated period. Notification will be issued to scheme members as part of the annual benefit statement process allowing members to see which periods of service we currently hold.

**Administration Strategy Statement**

3.44 A draft of the pension administration strategy statement (ASS) was approved at the last meeting. The purpose of the ASS is to communicate the roles and responsibilities of both the Fund and employer, in particular the level of services the parties will provide to each other and the performance measures used to evaluate them. Subsequent to the last meeting the ASS was circulated for comments to all scheme employers.

3.45 As no comments were received from employers the ASS has been published on the scheme web site and is the basis of the services being delivered to scheme members.

**4. COMMENTS OF THE CHIEF FINANCE OFFICER**

4.1 There are no expenditure proposals within the paper.

**5. LEGAL COMMENTS**

5.1 The Pensions Committee is required to consider pension matters and ensure that the Council meets its statutory duties in respect of the fund. It is appropriate having regard to these matters for the Committee to receive information from the Pensions Administration team about the performance of the administration function of the pension fund.

5.2 The Council may in accordance with regulation 59(1) of the Local Government Pension Scheme Regulations 2013, have an Administration Strategy which covers matters such as the setting and review of performance targets, communication between the administering authority and employers and such other matters which the Authority deems suitable for inclusion in the Strategy. The Authority is required to publish its Strategy and keep it under review. The Authority and employers must have regard to the Administration Strategy when carrying out their functions under the 2013 regulations. Following approval of the draft Administration Strategy Statement at the last meeting of the Committee, it was circulated for comments to all scheme employers. No comments were received from scheme employers and the Strategy has now been published and is in force. The Administration

Strategy covers the criteria set out in regulation 59(1) of the 2013 regulations and should assist the Council to fulfil its legal obligations in respect of administration of the pension fund.

5.3

The Committee is asked to approve the admission of Energy Kidz Ltd to the pension scheme. In accordance with Schedule 2, Part 3, section 1(d)(i) of the Local Government Pension Scheme Regulations 2013, the Committee may approve the admission. The Committee must satisfy itself that Energy Kidz Ltd is a body that is providing or will provide a service or assets in connection with the exercise of a function of a Scheme Employer as a result of –

the transfer of the service or assets by means of a contract or other arrangement. This appears to be the case, with 4 employees of St.Luke's School having transferred to Energy Kidz Ltd who now run the after school club at the school. The after school club was previously run directly by the Council who decided to contract out the service. Energy Kidz successfully bid for the contract to run the service.

The Committee must also be satisfied that Energy Kidz have signed an admission agreement and secured an appropriate level of indemnity or bond,

5.4 When carrying out its functions as the administering authority of its pension fund, the Council must have due regard to the need to eliminate unlawful conduct under the Equality Act 2010, the need to advance equality of opportunity and the need to foster good relations between persons who share a protected characteristic and those who don't (the public sector duty).

## **6. ONE TOWER HAMLETS CONSIDERATIONS**

6.1 The administration costs of running the pension scheme are a very small part of the contributions paid. An efficient administration function will contain costs over the long term, minimising the costs falling on the scheme employers, including the Council.

6.2 A viable pension scheme also represents an asset for the recruitment and retention of staff to deliver services to the residents.

## **7. BEST VALUE (BV) IMPLICATIONS**

7.1 In each case decisions to acquire additional services have followed the Council's procurement procedures. All costs are paid for from the assets of the Pension Fund.

## **8. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT**

8.1 There is no Sustainable Action for A Greener Environment implication arising from this report.

## **9. RISK MANAGEMENT IMPLICATIONS**

9.1 Risks arising from poor administration tend to be reputational but can include additional expenditure through inaccurate benefits, delays in collecting

contribution, fines and interest on late payments. This and future reports are designed to provide the Pensions Committee with assurance that pension risks are being adequately managed.

## **10. CRIME AND DISORDER REDUCTION IMPLICATIONS**

10.1 There are no crime and disorder reduction implications arising from this report.

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### **Linked Reports, Appendices and Background Documents**

#### **Linked Report**

- NONE

#### **Appendices**

- Appendix 1- Activity and performance, quarter to 31<sup>st</sup> March 2017 April / May 2017
- Appendix 2 – Listing of participating employers
- Appendix 3 - Summary Annual Internal Audit Report

#### **Local Government Act, 1972 Section 100D (As amended)**

#### **List of “Background Papers” used in the preparation of this report**

- NONE

#### **Officer contact details for documents:**

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Appendix 1															
Key Performance Indicators Quarter to 31st March 2017 and April / May 2017															
Process	Target days	Total Cases			within target			% within target			Trend Analysis	average days			
		April & May 17	Q4, 2016-17	Q3, 2016-17	April & May 17	Q4, 2016-17	Q3, 2016-17	April & May 17	Q4, 2016-17	Q3, 2016-17		Q3 to April / May	April & May 17	Q4, 2016-17	Q3, 2016-17
Address Changes	10	65	29	76	59	27	71	90.77%	93.10%	93.42%	↓	3.91	3.59	3.27	
Bank Account Changes	10	20	15	24	19	12	22	95.00%	80.00%	91.67%	↑	3.10	3.60	3.33	
Death of a Pensioner	5	11	56	17	7	51	17	63.64%	91.07%	100.00%	↓	2.73	3.04	1.59	
Deferred Calculations	15	64	75	120	40	33	62	62.50%	44.00%	51.67%	↑	13.06	20.32	23.51	
Estimates	10	20	33	28	18	28	27	90.00%	84.85%	96.43%	↓	5.60	4.45	1.14	
General Enquiries	10	182	231	167	146	178	131	80.22%	77.06%	78.44%	↑	6.34	6.87	8.14	
Lump Sum Payments	5	55	50	57	28	40	48	50.91%	80.00%	84.21%	↓	5.78	3.80	4.44	
Nomination Updates	10	43	83	133	42	75	121	97.67%	90.36%	90.98%	↑	2.23	3.71	3.48	
Refund Calculations	15	97	88	64	95	80	50	97.94%	90.91%	78.13%	↑	3.02	5.17	14.48	
Refund Payments	10	59	65	102	59	55	80	100.00%	84.62%	78.43%	↑	4.83	5.48	6.75	
Retirements	10	16	45	35	12	43	35	75.00%	95.56%	100.00%	↓	10.19	4.16	1.43	
Transfers In (Actual)	10	8	8	4	5	6	3	62.50%	75.00%	75.00%	↓	8.50	6.25	4.50	
Transfers In (Quotes)	10	25	32	14	18	22	12	72.00%	68.75%	85.71%	↓	7.60	11.12	5.14	
Transfers Out (Actual)	10	13	16	10	9	11	5	69.23%	68.75%	50.00%	↑	10.31	6.94	31.70	
Transfers Out (Quotes)	10	9	44	23	7	21	15	77.78%	47.73%	65.22%	↑	4.67	22.36	19.09	
		687	870	874	564	682	699	82.10%	78.39%	79.98%					
<b>Notes</b>															
Work volumes wer 18% greater in April and May compared with the two previous quarters.															
There was a slight improvement in the attainment of target service levels to an overall 82%															
The most significant slippage was in the processing of lump sum payments.															

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<b>Names of Employers</b>							
Scheduled Bodies							
	LB Tower Hamlets						
	London Enterprise Academy						
Academies							
	Canary Wharf College						
	City Gateway						
	Green Spring Academy (previously Bethnal Green)						
	Mulberry Academy						
	Paridigm Trust Pool (Culloden Primary, Old Ford Primary & Solebay Primary)						
	Sir Paul's Way Trust						
	Sir William Borough School						
	Wapping High school						
Admitted Bodies							
	Agilisys						
	East End Homes						
	Gateway Housing Association						
	Greenwich Leisure Ltd						
	One Housing						
	Swan Housing						
	Tower Hamlets Community Housing						
	Tower Hamlets Homes						
	Vibrance (Redbridge Community Housing)						

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Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Pensions	March 2017	<p>This audit was undertaken as part of the 2016/17 agreed internal audit plan.</p> <p>The Pensions function is responsible for the administration of the Pensions scheme from the Council side, excluding the investment of the funds.</p> <p>Employees of the Council up to 75 years of age, who have a contract of more than three months duration, are entitled to join the LGPS. Decisions on delegated provisions are agreed by the Pensions Committee. The LGPS is a contributory scheme, whereby the employees contribute from their salary.</p> <p>The level of contribution is determined by whole time salary and contribution levels are set by the National Government.</p> <p>As at 31 December 2016, employees and employers contributions totalled £8,351m and £37,397m respectively.</p> <p>The audit was designed to provide assurance to management as to whether the systems of control around the Pensions system are sound, secure and adequate, and also to evaluate the potential consequences which could arise from any weaknesses in the internal control procedures. The main weaknesses were as follows:-</p> <ul style="list-style-type: none"> <li>• Examination of 20 out of 170 overseas individuals identified seven cases where the required life certificate form had not been returned, but these individuals were still being paid. In addition, no reminder letters were sent.</li> <li>• A sample of 20 leavers, from a total of 765 pension scheme leavers since April 2016, was tested. Two exceptions were identified, one where the same officer had undertaken and reviewed his own work, the other where the second officer is yet to review the work undertaken.</li> </ul>	Extensive	Limited 

		<ul style="list-style-type: none"><li>• Examination of a sample of 20 retirements, tested from a total population 148 retirements since April 2016, identified that there were missing signatures on one AP1 form (payments voucher) and two payroll input forms. In three of the Final Pay calculations, not all pages had been scanned onto the individual's records and therefore evidence of the physical sign-offs could not be verified.</li><li>• Examination of five transfers in, from a total of 19 transfers into the pension scheme since April 2016, identified that in one case a second officer review should have taken place in August 2016 but is yet to take place (as at end of January 2017).</li><li>• Where the parameters for NI number, payroll number and the post number are found not to match (between the payroll system and pensions system), or there are any changes required to be made to employee addresses, hours, surname and first name, amendments and adjustments should be actioned by the Pensions Team. However, processing of these cases is known not to be up to date and there is also no review by a second officer of the changes subsequently made. This has the implication that confidential pensions information could be provided to the wrong locations or individuals may not receive accurate information regarding their pensions.</li><li>• Three key reconciliations are performed between Altair and Agresso (covering refunds, lump sum payments, and transfers out). A fourth reconciliation is conducted between Altair and a manually maintained spreadsheet (within the Finance Department) which records details of transfer payments received. This acts as a double check that the expected transfer-in monies have been received. However, there is no evidence to suggest a second officer reviews any of these reconciliations on a monthly/quarterly basis.</li><li>• Although procedures exist for the Pensions Team, as well as flow charts, some of these are now out of date and version controls are not sufficiently detailed.</li></ul> <p>All findings and recommendations were agreed with the Pension Manager and Team Leader, and reported to the Corporate Director, Resources.</p>		
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**Management Comments**

The performance of the Pensions Team during 2016 was impacted by the prolonged absence of the Pension Manager and the diversion of one of the two team leaders to address weaknesses in the payroll system relating to auto-enrolment. In addition, a built up of work had been allowed to develop relating to the recording of monthly earnings from a growing number of external payroll providers. Since the introduction of CARE benefit in 2014, the volume of data required to calculate benefits has increased and reliance was being placed on manual processes. Starting from December 2016, steps have been taken to address the underlying problems with two interim appointments; a pension manager and pension officer. Although the backlog of earnings data has been cleared and technology solutions to capture this data have been identified, they have not yet been implemented. In addition, the diversion of pension staff time to resolve the inability of the Council's payroll system to handle auto-enrolment continues.

Looking at the detailed comments above

Checks on Continued Entitlement to Pension

The overseas life certificate exercise undertaken in Q1, 2016 was not followed through to the issue of reminders or the suspension of pensions. This exercise is undertaken annually and was repeated in Q1, 2017 from which 3 deaths were notified and 4 pensions suspended due to non replies. Also undertaken in Q4, 2016 was the matching of members records against the UK national death register. This identified 27 deaths which had not been notified to the pension team. These pensions have all been suspended and recovery action is being pursued with next of kin.

Use of Workflows and Recording of Work Undertaken

Bullet points 2-4 relate to the same issue, that the correct procedures for the use of Task Management Workflow have not been followed. Workflows are set up for each task within the pension administration system and guide staff through the process and record who does what and when. The design of workflows were reviewed with the software provider in December 2016 and significantly amended to record each stage of a calculation or task leading to greater accuracy in the recording of work and the performance of the team against KPIs. Staff have been shown how to use the new workflows and reminded of the need to record the work undertaken. Previously, in some instances tasks undertaken have not been signed off in workflow meaning that the tasks remain classified as outstanding even if the work (a review) has been undertaken. At a later date it is not possible to demonstrate task completion and by which team member. The absence of timely reviews of tasks shown as remaining outstanding within workflow has caused uncertainty as to whether work was checked or not and resulted in short cuts being taken to close workflows e.g. same individual recorded as both checking and completing calculations. In addition, to improving workflow processes, weekly task management reports are being issued to staff to remind them of outstanding work and to monitor that tasks are being completed in accordance with targets.

#### Scanning Paper Documents to Record Signatures

Where a computer record exists of the staff that completed and checked a task, there is no need to sign paper calculations and scan. The computer records provide sufficient, and superior, evidence of the work undertaken. Procedures notes will be amended to remove reference to scanning signatures where alternative records of work undertaken exist.

#### Pension / Payroll Interface Rejections (5<sup>th</sup> bullet point)

A considerable volume of data on earnings and changes in staff working arrangements passes from payroll to pensions each month. When the interface cannot find a matching record in the pension's administration system due to a mismatch in identification data, the interface file has to be amended to correct the identification headers and re-run to allow the interface to operate. In future, exception reports will be printed with a note of all manual adjustments. Changes will be verified by a second officer and reports will be scanned and saved.

The reference to delays in updating and amending members records relate to the recording of CARE benefits. These are now up to date.

#### Reconciliations between Pension Administration System and General Ledger

The comments regarding reconciliations of lump sums, refunds and transfers out are agreed and have been implemented. These reconciliations will be completed within a month and reviewed by a second officer (normally the Pension Manager). A schedule will be maintained of reconciliations undertaken, including data and names (preparer and checker). The checker will sign each reconciliation to evidence the review.

With regards to the transfers in reconciliation this is not a financial reconciliation as such, rather Pensions will only credit the transferred service once the transfer value has been received and require a means of identifying when funds are received. Workflow memos are established when a transfer request is made and delays in receiving funds are queried with the previous pension provider.

#### Procedure Notes

All procedures were reviewed prior to the Audit, but those that required no action were not amended. In future all procedures will be checked annually, with each review being evidenced by a name and date.

Non-Executive Report of the: <b>PENSIONS BOARD</b>  31 <sup>st</sup> July 2017	
<b>Report of:</b> Zena Cooke, Corporate Director of Resources	<b>Classification:</b>
<b>Future Options for Pension Administration Services</b>	

<b>Originating Officer(s)</b>	George Bruce, Interim Pensions Manager
<b>Wards affected</b>	All

**Introduction:**

Pension Administration services to the Tower Hamlets Pension Scheme are provided by the Council’s in-house Pensions Team. This paper identifies alternative arrangements for providing an administration service, considers the advantages and challenges of the current arrangements and compares these with alternative arrangements. The paper concludes that further investigation should be undertaken of the alternatives discussed in the paper to be followed by a recommendation to the next Committee meeting.

The options being discussed do not involve the pension investment and finance teams. It is recommended that further detailed evaluation of the options outlined in the paper, including discussion with other local authorities, is undertaken.

**Recommendations:**

The Pensions Board is recommended to consider and comment on the contents of the report.

**1. REASONS FOR THE DECISIONS**

1.1 The LGPS is becoming increasing complex due to the frequent changes in legislation, regulation and best practice guidance. It is also under greater scrutiny through the enhanced role given to the Pensions Regulator. Maintaining awareness of and implementing new regulations is a challenge for a small team. Additionally, a small team such as that which operates in Tower Hamlets faces inherent risks from losing key staff. Working as part of a multi-client grouping will enable the resources required to demonstrate compliance with best practice to be shared and potentially offer greater resilience and transparency of performance.

**2. ALTERNATIVE OPTIONS**

2.1 The report fully explores the available options.

### **3. DETAILS OF REPORT**

#### **Introduction**

- 3.1 Services to the Pension Scheme are delivered by the Council's HR and Finance Departments. Finance provides investment and accounting support, while the Pensions team in HR maintain the records of contributing members, calculate and pay benefits and deal with employer issues. This report is concerned solely with the HR aspects of pension support.
- 3.2 The Pensions team comprises seven people. There are currently eight staff including three interims and one apprentice reflecting a need to replace three retired, seconded and maternity leave staff and to progress ongoing projects. Recent reviews by the LGA and Internal Audit have indicated procedural weaknesses in the team in the prolonged absence of the Pensions Manager. Although these issues are being addressed they indicate the vulnerability of small specialist teams to the loss of key staff.
- 3.3 The current in-house pension team has been in place at least 30 years and probably since the establishment of LB Tower Hamlets. Most London Boroughs have historically relied upon in-house pension administration, although this has been changing in recent years and now only 12 of the 32 London Boroughs have single borough in-house pension teams. Appendix A lists the pension arrangements for all London Boroughs.
- 3.4 This report will firstly look at the advantages and challenges of running a single borough in-house pension team. Alternative arrangements will be outlined and although a recommendation is made to investigate the option of working collaboratively with other Local Authorities there is no proposal at this stage to alter the existing arrangements. Following the Committee meeting, detailed evaluation of the alternatives outlined in the paper will be undertaken before the September meeting.

#### **Advantages and drawbacks of the current arrangements**

- 3.5 In comparing an in-house team with other possible structures there are both strengths and challenges to retaining an in-house team. These are explored below. Some of the challenges can be addressed, although residual risk may always remain as explained below.

#### **Advantages of an in-house team**

Direct control over the quality of the service.



With an in-house team, management are in full control and can alter the priorities, the targets, the resources and procedures / processes. Working with others involves a degree of loss of control.

#### Direct relationship with scheme members and other third parties

Currently, communication and service to scheme members is direct and not via an intermediary. Similar, there is direct contact with all service suppliers e.g. actuary.

#### Avoidance of conflicts from the needs of other clients

The in-house team only has one client and is therefore free from having to structure a service to balance the needs of multiple clients.

#### Certainty for staff

Continuing the current arrangements offers continuity for current staff.

- 3.6 Alongside the advantages of the current in-house arrangement there are a number of challenges. Calling these challenges reflects that many can be mitigated but that risks remain. These are:

#### Reliance of a few skilled staff

Small teams are inherently reliant on a few skilled individuals, with knowledge of key processes often known to only one or two. Staff changes can therefore have a significant impact on service levels.

#### Increasing complexity and regulatory oversight

The LGPS and pensions generally are increasingly complex and subject to regulatory oversight. Maintaining awareness of responsibilities and delivering a high quality service at a reasonable cost is challenging for a small team in such an evolving and complex environment. Regulatory oversight means that doing things well is only part of the requirement. There is also a need to demonstrate that compliance has been achieved.

#### Focus tends to be on day-to-day workload

Projects that are time consuming to implement but lead to efficiency savings can be difficult to progress when resourced from the existing team.

#### Higher costs

Costs, in particular project and IT, can be high for small schemes measured on a cost per member basis. National benchmarking indicates

economies of scale. For 2015, LGPS administration costs in England averaged £25 a member, while for London the average was £42 to £49.

#### Management of IT systems

Managing the IT platform is complex and intensive. The benefits accrue to one scheme only.

#### Limited access to senior management

The administration of pensions is not integral to any of the Council's priorities and can lack management attention. In addition, responsibility for oversight is shared with the Pensions Committee and Board, with each party not familiar with the monitoring work undertaken elsewhere

- 3.7 We have highlighted a number of challenges from having a small in-house team operating in a challenging and evolving environment. These challenges can be mitigated through having adequate resources both in terms of quantity and quality. Building in resilience requires some excess capacity (again both quality and quantity) at normal times so that ad-hoc issues e.g. staff departures, changes in regulation etc can be handled.
- 3.8 It is relatively rare for in-house team to be 'over' resourced to cope with the unexpected. This is reflected by surveys by the Pensions Regulator that report that small in-house pension teams are less aware of their regulatory duties and less likely to have in place procedures to ensure the completeness and accuracy of data. These findings are consistent with the tone of the LGA report commissioned for Tower Hamlets.
- 3.9 The current structure of the in-house team has seven staff, which is broadly adequate (with no spare capacity) post the completion of the various projects that are ongoing (Payroll data interface and enhancements to deal with auto-enrolment, member self-service and GMP reconciliations). A survey of in-house pension teams for London Boroughs (six responded) indicated team sizes of 4 to 13 with an average of 8.5.

#### **Consideration of Alternative Delivery Options**

- 3.10 There are two main alternative means of delivering pension administration services to the Scheme. These are:
  - (a) Co-operation with other Local Authorities
  - (b) Appointing an external third party administrator

Each of these two options is considered below.

#### Co-operation with Other Local Authorities

- 3.11 Co-operating with other local authorities can be seen as sitting in between an in-house team and fully fledged multi-client third party administrator. The Local Authority groupings have a handful of clients, not many hundreds and focus mostly or entirely on the LGPS. The main advantage they bring is scale of resources. With larger teams there should be less reliance on a single person. Similarly, when handling IT platforms, changing regulations or service enhancing projects the effort is spread across multiple schemes, which should mean lower costs per scheme.
- 3.12 There are three groupings of Local Authorities involving London Boroughs – Orbis (Surrey and East Sussex), Local Pension Partnership (LPFA and Lancashire) and Pensions Shared Service (Wandsworth). In addition the West Yorkshire Pension Fund also offer LGPS administration services, although it has no London Borough's as clients. Brief comments relating to each grouping is attached (appendix 2).
- 3.13 Each of the three London groupings provides pension administration services to four of five London Boroughs. Staff numbers vary between 35 (Pension Shared Service) and 120 (Local Pension Partnership). The parent entities being local authorities have an internal need to provide good quality pension administration (the senior directors will mostly be in the scheme), while for the third party administrators the service is commercially motivated.
- 3.14 Other potential advantages of working with Local Authority groupings include:
- IT economies of scale
    - Bigger grouping can negotiate lower per member IT costs. In addition they are consulted on systems developments and tend to be first adopters of updates.
  - Specialist staff
    - With larger teams, staff can specialise e.g. client facing, IT, regulatory oversight, data quality etc.
  - Standardised client reporting
    - Over time standardised client reporting will have been developed with the input of their various clients.
- 3.15 The London based local authority groupings discussed above can be appointed as a service delegation based on recovery of costs rather than a commercial fee.
- 3.16 In addition to the four existing Local Authority groupings highlighted in appendix 2, there is the possibility of working with other Local Authorities, including councils that face the same challenges as Tower Hamlets. There may even be opportunities for Tower Hamlets to be the host borough.

Setting up a new grouping from scratch will however take longer than joining an existing grouping.

3.17 It would be wrong to suggest that there are no risks with switching from an in-house provider to a local authority grouping. These are the reverse of the advantages of retaining an in-house team e.g.

- Loss of controls and the need to compromise.
- Reliant on third party to report on service standards.
- Key staff being diverted to address new business or other client needs.
- Less direct contact with scheme members and service providers.
- Impact on current in-house staff.

3.18 There are also issues around the transition to the new site and systems. Fortunately all the London based grouping use the same administration system as Tower Hamlets, reducing the transfer complexity.

3.19 Even if most day-to-day administration is transferred externally, some work (employer issues, complaints, contract reporting etc) will remain in-house.

3.20 Retaining continuity of the existing team should be a key goal. Good quality pension staff are increasingly rare and retaining knowledge of Tower Hamlets history is important. Locating the team in the borough or close by will increase the likelihood of continuity.

#### Appointing an external third party administrator

3.21 The third option identified is appointing a third party administrator by way of a commercial tender. There are many third party administrators who provide pension administration services to private and public sector schemes. Some of the largest pension scheme with 100,000s of scheme members e.g. British Coal Pensions have appointed external third party administrators. Other schemes e.g. Railways, have converted their in-house administrators into commercial entities seeking external business as a way of generating revenue. The key drivers for externalising pension administration are cost reduction and risk management. Pensions is highly specialised; costly if based on manual processes; highly dependent on good technology and requires constant vigilance to identify and comply with the frequent changes in legislation and regulation. Private (and public) sector pension schemes have over the years outsourced most investment management activity to

specialists and see a direct parallel in outsourcing in-house administration to specialist organisations.

3.22 In theory, appointing a third part administrator will magnify both the advantages (cost and resilience) and disadvantages (compromise and loss of control) of local authority groupings.

3.23 Third party administrators can be accessed through the National LGPS Frameworks. This is a relatively new framework (December 2016) and this framework has two lots (full administration services and support services). The providers for lot 1 (full administration services) are:

Capita Employee Benefits  
Equiniti  
Orbis  
West Yorkshire Pension Fund

3.24 A summary of Capita and Equiniti's pension administration scale is included on appendix 2.

3.25 There are many other third party administrators not on the national framework, some of whom may have local authority business. Using the framework has significant procurement benefits. However, a full tender could also be undertaken.

3.26 Local authority experience of third party commercial pension administration has been mixed in recent years. This is often due to the drive to minimise costs, requiring reliance on IT systems to record activity and make calculations with relatively few experienced staff. When IT problems occur, they can have a major impact on scheme members. The other drawback is the use of call centres and on-line portals to interface with scheme members that can make it difficult for a scheme member to resolve a query as for example the 'agent' dealing with the query may have little pensions knowledge. A tender that places a high weighting on service quality, demanding KPI and a low allocation to cost may result in a good quality service.

## **Conclusion**

3.27 The recommendation to review the options available to provide pension administration services reflects a view that although small teams such as Tower Hamlets can offer a more personal service to scheme members they can only do this and maintain robust and compliant processes through good fortune (retaining highly experienced and competent staff) and at a high relative cost.

3.28 Changing the manner in which services are provided aims to provide greater predictability in the service received by scheme members together with an

ability to rigorously monitor the quality of service delivery and increased confidence that the service meets regulatory requirements and has regard for best practice.

- 3.29 Of the two alternatives – multi-authority co-operation and third party outsourcing, the former is preferred as possibly offering the best balance of resilience through scale while not being lost in the crowd. The multi-authority groups are mainly or wholly LGPS focused, their own schemes being LGPS. In addition, their location will aid the retention of existing staff.

### **Next steps**

- 3.30 Should the Committee be content with the proposal to investigate the alternatives above, in-depth reviews of each of the alternatives will be undertaken with proposals made to the next meeting in September.

## **4. COMMENTS OF THE CHIEF FINANCE OFFICER**

- 4.1 The costs of pension administration are paid for from the assets of the pension fund and therefore do not impact directly on the council's General Fund. The paper indicates that the costs associated with changing to a multi-authority provider are unlikely to rise and that the cost per Member of such arrangements are generally lower however, detailed cost estimates have not been sought and will need to be considered before a final decision is reached.

## **5. LEGAL COMMENTS**

- 5.1 The Pensions Committee is required to consider pension matters and ensure that the Council meets its statutory duties in respect of the fund. It is appropriate having regard to these matters for the Committee to receive information from the Pensions Administration team about the performance of the administration function of the pension fund.
- 5.2 Outsourcing Pension functions is likely to have TUPE implications or may result in a redundancy situation depending on the following:
- i) If mobility clauses within the existing employees' contracts do not allow for the employees to work at alternative locations (outside the borough specifically) then the changes to the employees' contracts may be sufficient so as to render those employees potentially redundant and the Council will need to have regard to the consequential cost and/or the loss of skilled employees.
  - ii) The outsourcing of the service to a different provider is likely to mean that staff (subject to point i) above) will transfer pursuant to the TUPE regulations on their existing terms and conditions. Consultation with staff regarding the transfer and implications for their employment will need to take place in good time in advance of the transfer date

5.4 When carrying out its functions as the administering authority of its pension fund, the Council must have due regard to the need to eliminate unlawful conduct under the Equality Act 2010, the need to advance equality of opportunity and the need to foster good relations between persons who share a protected characteristic and those who don't (the public sector duty).

## **6. ONE TOWER HAMLETS CONSIDERATIONS**

6.1 The administration costs of running the pension scheme are a very small part of the contributions paid. An efficient administration function will contain costs over the long term, minimising the costs falling on the scheme employers, including the Council.

6.2 A viable pension scheme also represents an asset for the recruitment and retention of staff to deliver services to the residents.

## **7. BEST VALUE (BV) IMPLICATIONS**

7.1 In each case decisions to acquire additional services have followed the Council's procurement procedures. All costs are paid for from the assets of the Pension Fund.

## **8. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT**

8.1 There is no Sustainable Action for A Greener Environment implication arising from this report.

## **9. RISK MANAGEMENT IMPLICATIONS**

9.1 Risks arising from poor administration tend to be reputational but can include additional expenditure through inaccurate benefits, delays in collecting contribution, fines and interest on late payments. The review of the structure of pension administration has a primary aim of minimising the risk of poor administration and to provide the Pensions Committee with assurance that pension risks are being adequately managed.

## **10. CRIME AND DISORDER REDUCTION IMPLICATIONS**

10.1 There are no crime and disorder reduction implications from this report.

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### **Linked Reports, Appendices and Background Documents**

#### **Linked Report**

- NONE

#### **Appendices**

- Appendix 1 - Current pension administration arrangements for LB
- Appendix 2 - Brief summary of the external administrators

**Local Government Act, 1972 Section 100D (As amended)**  
**List of “Background Papers” used in the preparation of this report**

- NONE

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## Current Arrangements for London Borough Pensions

Barking and Dagenham	in-house
Barnet	Capita
Bexley	LPP
Brent	Capita
Bromley	Liberata UK
Camden	PSS
Croydon	in-house
Ealing	LPP
Enfield	in-house
Greenwich	in-house
Hackney	Equiniti
Hammersmith & Fulham	Orbis
Haringey	in-house
Harrow	in-house
Havering	in-house moving to LPP
Hillingdon	Orbis
Hounslow	Capita
Islington	in-house
Kensington & Chelsea	Orbis
Kingston	London Borough of Sutton
Lambeth	in-house
Lewisham	in-house
Merton	PSS
Newham	LPP
Redbridge	in-house
Richmond	PSS
Southwark	in-house
Sutton	in-house - shared with Kingston
Tower Hamlets	in-house
Waltham Forest	PSS
Wandsworth	PSS
Westminster	Orbis

## **LGPS based Pension Administration Groups**

### **ORBIS**

Orbis is the operating name of Surrey and East Sussex Councils' administration function. Orbis provide administration services to two county scheme (Surrey and East Sussex) and four London Boroughs (Hillingdon, Westminster, Kensington and Chelsea and Hammersmith and Fulham.) These schemes have 250,000 members with Orbis employing 80 staff based in Lewis and Kingston.

### **Local Pension Partnership**

The Local Pension Partnership (LPP) is the name given to the working arrangement between the LPFA and Lancashire Council. The partnership covers all aspects of the two authority's pension funds, in addition pension administration services are provided to a further 13 pension funds comprising two counties, three London Boroughs (Bexley, Ealing and Newham) and 8 Police and Fire Authorities. Bexley and Newham are 2/3rds of OneSource and the other participating Council, Havering, is negotiating with LPP, whose client schemes currently comprise approximately 500,000 scheme members and deal with over 1,000 employers. Currently they have 120 staff based in London, Hertford and Preston. LPP also offer ad-hoc service e.g. governance reviews, project support and interim staffing.

### **Pension Shared Service**

Pensions Shared Service is a grouping of five London Boroughs, being Camden, Merton, Richmond, Waltham Forest and Wandsworth. The five councils have collectively approximately 100,000 scheme members. Currently have approx. 35 staff based at Wandsworth. PSS has indicated that it will not be seeking new clients in the next 18-24 months.

### **West Yorkshire Pension Fund**

Based in the Bradford, West Yorkshire Pension Fund currently administers the LGPS for shared service members over 116,000 active members, total membership number over 368,000 and 630 employers. The majority of the membership work for the main 5 Councils within West Yorkshire. They also administer the Fire Pension Schemes as third party administrators, for 7 Fire and Rescue Authorities. Over the last few years WYPF has expanded its administration business by taking on new Fire clients and the shared service partnership with Lincolnshire Pension Fund. They employ 119 administration staff.

### **Capita**

Capita have provided LGPS administration services for over 40 years having been established in 1974 to administer the Water Authorities. They are now the UK's largest third-party pension's administrator, managing the entitlements of approximately four million individuals, over two million of whom are members of UK Public Sector Schemes. In total, they currently administer seven schemes with over

10,000 active members each and administer the benefits of over 200,000 LGPS Scheme Members for a range of clients including:

- Environment Agency
- London Boroughs of Barnet, Brent, and Hounslow
- West Sussex County Council

Capita also administer the Teachers' Pension Scheme which has almost 1.9 million members and a number of Police Forces. Their pension administration service has approximately 1,300 employees. Their main LGPS team is based in Darlington.

### **Equiniti**

The overall scale of Equiniti's business is not known, however they employ 1,675 staff in pension administration across 13 regional offices. LGPS business is handled from Crawley, although the call centre for first contact is located in Birmingham and is unlikely to have significant LGPS knowledge. The only existing LGPS client mentioned is Hackney and the Crawley LGPS team comprises 11 people. Their public sector business included NHS, Armed Forces, Civil Service and Metropolitan Police.

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