

Non-Executive Report of the: <b>PENSIONS COMMITTEE</b> <b>16 March 2017</b>	
<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

Until recently the Pension Committee has received a quarterly report from the Pensions Manager, mainly focusing on Key Performance Indicators. With the quality of pensions administration being actively monitored by the Pensions Regulator, the purpose of this report is to provide assurance that processes are in place to ensure a high quality administration service is provided to Scheme Members and Employers. The report covers the following areas:

- Team staffing [3.5]
- Workload and performance [3.10]
- Employer developments – new and ceased [3.14]
- Report to the Pensions Regulator [3.33]
- Internal Disputes Resolution Procedure [3.35]
- Internal Audit and Data Quality [3.40]
- Projects [3.56]
  - I-Connect
  - Member self-Service
  - GMP reconciliations
- Administration strategy statement [3.78]
- Review of actuarial data processes [3.84]
- Extension of transfer in rights [3.90]

At the time of drafting the report, input from Internal Audit, the Actuary and Aquila Heywood relating to audit and data quality reviews were awaited. These are anticipated prior to the Committee meeting and findings will be summarised at the meeting.

## Recommendations:

Members of the Pensions Committee are asked to:

- (1) Note the five academies that will join the Pension Fund as new employers and agree to the participation of Enterprise Limited, provided that the latter signs an acceptable admission agreement and also a satisfactory bond / guarantor (see paragraph 3.20 to 3.25).
- (2) Approve the admission of the seven companies appointed to provide home care services provided that they meet the conditions of admission (sign Council's admission agreement, agree to pay contribution calculated by the Scheme Actuary and provide a satisfactory bond or guarantee).
- (3) Note that the breach of Regulations in connection with the issue of annual benefit statements has been reported to the Pensions Regulator (see paragraph 3.33 to 3.34).
- (4) Approve the additional annual costs of £21,000 associated with Member Self-Service and i-Connect (paragraphs 3.59 & 3.66).
- (5) Note the additional Actuarial costs of £4,000 incurred re GMP reconciliations (paragraph 3.73)
- (6) Comment on and agree to circulate the draft Administration Strategy Statement to employers and delegate authority to the Chair of the Committee to agree any minor amendments prior to publication (paragraphs 3.78 to 3.83).
- (7) Note the extension of the time limit to transfer in service from other pension schemes (paragraph 3.90)

## **1. REASONS FOR THE DECISIONS**

- 1.1 The proposed decisions to accept new employers into the pension fund are in accordance with LGPS Regulations. The Committee sets the conditions for participation but provided these are met, there are no grounds to refuse admission of new employers.
- 1.2 The remaining recommendations are designed to enhance the governance of the pension fund.

## **2. ALTERNATIVE OPTIONS**

- 2.1 Where relevant, alternative options are discussed in the paper. The most obvious alternative for recommendations (2) to (7) is to do nothing. In each case, as explained below, the outcomes and costs of 'do nothing' are deemed less attractive than the proposal.

## **3. DETAILS OF REPORT**

### **Introduction**

- 3.1 A core part of the role of running a pension fund is the maintenance of scheme membership records that enable scheme benefits to be calculated and paid and staff to be notified of their future entitlements. This activity is carried out in-house by the pension's administration team within HR

department. This team also deals with employer related issues, including new employers and cessation.

- 3.2 Best practice is for the Pensions Committee to receive a quarterly report on activities, performance and projects being undertaken by the pension administration team. That has not happened in the last 12 months due to staff absences. This report is therefore intended to be the first of regular quarterly reports concerning pension administration activities. Due to recent absence of regular reports the note is partially a catch up and is longer than will be normal, referring to some historical issues.
- 3.3 Historically, most pension committees have focused on investment issues due to limited time availability, although much of the regulations concern governance standards and dealing with scheme members. Breaches in regulations arising from investment issues are rare, whereas breaches due to administration issues are common for pension schemes in general due to the number of demanding regulations. This report is designed to help the Committee ensure that scheme administration remains on a solid foundation.
- 3.4 As always, it will be helpful to have feedback on the report contents and the information that the Committee would like to see in future.

### **Staffing**

- 3.5 Pension administration staff work within the HR team at Tower Hamlets. A team of seven has until recently comprised of:
  - Pensions manager;
  - Two team leaders;
  - Two pensions officers; and
  - Two pension administrators
- 3.6 The five most senior members of the team have worked together at Tower Hamlets for over 10 year, bringing considerable experience.
- 3.7 There have recently been a number of temporary changes in staffing which has resulted in technical responsibilities for pension matters being shared between the two team leaders. An interim pensions manager has been appointed to support the team, in particular to deal with employer issues, reporting, interface with external bodies and project management. In addition, an interim Pensions Officer with ten years local government experience has been recruited to undertake some of the day-to-day activities to allow the team leaders to devote time to the projects and enhancements discussed below.
- 3.8 Finally, two replacement pension administrators have been recruited to replace one who has been seconded to another team within the Council and the second who has just commenced maternity leave.

- 3.9 The core of the team handling day-to-day activities remains unchanged and highly experienced. The regular production of activity and performance statistics will be used to ensure that the team continues to maintain high standards.

### **Activity and Performance**

- 3.10 Prior to 2016, the Committee received quarterly reports on the activity levels within administration of the pension scheme and the performance compared with the key performance indicators. The table in appendix 1 measures the number of days taken to complete tasks in the quarter to December 2016 compared with the performance targets and the twelve months to March 2016. Comments are included below the table.
- 3.11 The data used to calculate the performance statistics is questionable due to problems using the workflow recording process within Altair as discussed in appendix 1. This means that process end dates were not always accurately recorded. While it would be possible to review key dates for past cases this will be time consuming. Workflow procedures have been revised in the current quarter to ensure that the data being captured is more accurate, which will enhance the usefulness of the statistics in future.
- 3.12 It is intended that KPIs will be presented to the Committee each quarter in future.
- 3.13 During March, we will be moving to the new version of our pension administration system, Altair. The main change is the availability of a management 'workflow dashboard' providing a summary of activity and performance. It is intended that this dashboard will be the core of future reports to the Committee.

### **Employer developments – admissions and cessations**

- 3.14 Although the Council is the pre-eminent employer within the Scheme there were 17 employers as at March 2016 as listed in the annual accounts. This section discussed new employers and cessations.

#### New employers

- 3.15 There are a growing number of employers participating within the Scheme mainly due to schools moving to academy status. In addition, the outsourcing of council or school activity that involves the transfer of staff will normally result in a new employer joining the fund. Details of all new or potential new employers are given below.
- 3.16 Academies are identified as scheduled bodies and must participate within the pension fund. As the terms of their participation are determined by regulations, they are not required to apply for admission or sign an admission

agreement. Bodies who are admitted to the scheme because they are employers of staff that have transferred to them with the relevant service or activity (under legislation known as TUPE) are referred to as admitted bodies and must sign the Council's admission agreement that set out the terms under which they will participate. Although new admitted bodies are brought to the attention of the committee for approval to participate, the Committee is not able to refuse providing the employer signs the admission agreement, pays contributions on time, provides a satisfactory bond or guarantor and abides by the other scheme policies.

- 3.17 Community Admission Bodies (CABs) are a sub-set of Admission Bodies. They are described in the Regulations as “a body which provides a public service in the United Kingdom which operates otherwise than for the purposes of gain and has sufficient links with a Scheme employer for the body and the Scheme employer to be regarded as having a community of interest (whether because the operations of the body are dependent on the operations of the Scheme employer or otherwise)”.
- 3.18 Traditionally, CABs are charities operating within the borough, often undertaking work in support of the local authorities' priorities. The definition of a CAB is vaguely defined and thus there is greater room for discretion than for outsourcing contractors. Because of the precarious funding position of many charities and the need to protect other employers, most pension schemes are wary about admitting new CABs. The above comments are relevant as one charity, Tower Hamlets Youth Sports Foundation, is considering a re-organisation that will involve transferring staff who are currently LGPS members as discussed below.
- 3.19 In all cases, the Actuary calculates the employer's contribution rate in accordance with the funding strategy statement and admission policy. In the case of academies they currently inherit a deficit based on the Council's funding level for actives. Admitted bodies are, by their contractual nature, fully funded for past service liabilities at commencement. CABs are an exception, and the initial funding level for transferred staff (if any) is usually determined on a case by case basis.

#### Academy Schools

- 3.20 The following schools have indicated an intention to become academies and join the pension scheme. Shown below is the number of employees transferring and initial employers' contribution rate.

Mulberry Academy – 61 staff. Initial contribution rate 22.1%.

Ian Mikardo High School – 13 staff. Initial contribution rate 26.5%.

Stebon School – 34 staff. Initial contribution rate 21.9%.

Bygrove School– 18 staff. Initial contribution rate 22.1%.

City Gateway – 41 staff – Initial contribution rate 16.3%.

- 3.21 The first four schools have been allocated an initial funding level of 43%, using the Council's 'active' funding levels as at March 2016. Each new academy is allocated the actuarial liabilities for current staff and a proportional share of the Council's pension fund assets after allowing for pensioners and deferred members to be fully funded. A deficit recovery period of 20 years has been used.
- 3.22 As mentioned above, academies automatically become employers with no admission agreement.
- 3.23 While the first three are existing council schools converting to academies, City Gateway Alternative Provision is a recently established school (<https://www.citygatewayap.org.uk> ) working in conjunction with a charity of the same name (<https://home.citygateway.org.uk>). They describe themselves as "a Tower Hamlets based Alternative Provision Free School, working to transform the lives of young people aged 14-19, unable to thrive within mainstream education." None of the staff involved were previously LGPS members, thus there is no allocation of past service liabilities, explaining the lower contribution rate. The School has been paying contributions to the Council since September 2016, initially applying the Council's employer's contribution rate. The school is listed on the DfE web site as a free school based in Tower Hamlets.
- 3.24 Two further schools, Clara Grant and Stepney Green, have recently received approval to convert to academies. Conversion will not take place before 1<sup>st</sup> September 2017.

#### Admitted Bodies

- 3.25 Eleven entities, including one Community Admission Bodies are in various stages of becoming employers within the Scheme. The position of each is discussed below.

#### Energy Kidz

The Pensions Committee received a report at the December 2016 meeting and agreed to admit Energykidzs Limited as a new scheme employer following the transfer of four staff members from St Luke's Church of England Primary School involved in the after school club. The Scheme Actuary has calculated the initial contribution rate as 27.2% and the admission agreement has been sent to the contractor and school for signature.

### Enterprise Limited

Green Spring Academy (formerly Bethnal Green Academy) has appointed Enterprise to provide cleaning services, with two staff members with minimal past service are transferring to the new scheme employer. The Actuary is currently calculating the initial contribution rate and a specimen admission agreement has been provided to the school and the new contribution.

### Home Care Workers

A procurement exercise has been underway to appoint external companies to provide home care services to residents. This will involve the transfer of 100+ Council staff who are members of the pension scheme. The Pensions team have been notified that seven entities have been appointed, with contract commencement anticipated to be during March 2017. These are:

Careworld London Ltd  
Unique Personnel UK Ltd  
Diversity Health and Social Care Ltd  
Apasenth  
Three Sisters Care Ltd  
Care Solution Bureau Ltd  
Excelcare Ltd

Details of the affected staff have been requested so that employers' contributions rates can be calculated by the Actuary. In addition, specimen admission agreements have been made available. It is likely all the new employers will join the Tower Hamlets scheme, although some may seek to utilise alternative arrangements.

It is regrettable, but unfortunately common, that pension issues are not identified prior to the contract award so that the Committee's consent to the employer's admission can be requested prior to the start of the contract. As mentioned in para 3.17 above, there are no grounds for refusing admission once the new employer has agreed to pay the contribution rates calculated by the Actuary, signed an admission agreement and provided a satisfactory bond or guarantor.

### Cleaning contract out-sourcing

The Council are retendering the contract for cleaning services in Council offices. Of the 135 individuals involved, only 15 are Council staff, the remainder working for the current contractor. Discussions continue with potential bidders and the Actuary has yet to be asked to calculate an employer's contribution rate.

### Tower Hamlets Youth Sports Foundation

THYSF is a registered charity which coordinates and supports PE and sport for young people in the London Borough of Tower Hamlets and parts of the City of London. It currently has a staff of 18 who are all employed by Langdon Park School and able to participate in the Tower Hamlets LGPS being classified as non-teaching staff. THYSF are working towards becoming independent with staff employed by the charity. Following independence, the hope is that THYSF will undertake work commissioned by LBTH. They are exploring pension options, including joining the LGPS. No decisions are required at this time.

### Employer Cessations

- 3.26 Recently four employers have ceased to participate in the fund and two others have indicated that they may cease later this year. A cessation occurs when either a contract to provide services has ended or because the staff who were members of the pension fund have left and been replaced by new staff who do not have the right to join the pension fund.
- 3.27 When an employer ceases to have active members in the pension fund, a cessation valuation is undertaken. The purpose of the cessation valuation is to calculate the funding position for that employer. In particular whether there is a surplus or deficit of assets at the date of cessation. This is a one off calculation that enables the employer to close their account with the pension fund.
- 3.28 Should a surplus exist at cessation, this is retained in the pension fund as there is no provision to return contributions to employers. Should there be a deficit, this is payable by the employer.
- 3.29 There are two ways to calculate a cessation deficit; on-going and gilt based. An ongoing basis would use similar assumptions to the triennial valuation, in particular a discount rate that assumed a level of asset returns in excess of Government gilts. A gilts basis valuation does not incorporate any assumed asset outperformance in excess of gilts and may also have greater prudence in the other assumptions. The gilt based valuation normally results in a considerably higher value being placed on the pension fund liabilities and can generate a significant cessation deficit even in cases where an ongoing surplus exists.
- 3.30 The basis of the cessation calculation; on-going or gilt, is determined by the employers admission agreement. In cases where a gilt basis would historically have been applied, there is flexibility for the Committee to allow an on-going basis with periodic reviews if the Committee are satisfied that the employer is sufficiently solvent to meet any future fund contributions.
- 3.31 The position of each of the employers who have recently ceased is discussed below.

### Capita

Capita ceased to be an active employer on 24th June 2015 when its last active member left service. The admission agreement provided for an ongoing basis to be used for the cessation deficit. On this basis there is a surplus of £24,000 that will be retained in the fund. Capita's share of assets and pension liabilities are £400,000 and £376,000 respectively. These have been included within the Council's share of the fund at the 2016 valuation.

### Ecovert

Ecovert ceased to be an active employer on 15th August 2015 when its last active member left service. The admission agreement provided for an ongoing basis to be used for the cessation deficit. On this basis there is a surplus of £125,000 that will be retained in the fund. Ecovert's share of assets and pension liabilities are £361,000 and £236,000 respectively. These have been included within the Council's share of the fund at the 2016 valuation.

### Circle Anglia

Circle Anglia ceased to be an active employer on 1st November 2016 when its last active member left service. The admission agreement does not specify the basis of the cessation valuation and the Actuary has used a gilt basis. On this basis there is a deficit of £1,175,000 payable by Circle Anglia with pension liabilities of £2,909,000 and assets of £1,734,000. This compares with an ongoing deficit of £181,000 as at March 2016.

Circle Anglia has accepted the Actuary's report and has been billed for payment.

### Look Ahead Housing

Look Ahead Housing ceased to be an active employer on 22nd May 2014 when its last active member left service. The Actuary has used a gilt basis to calculate the cessation deficit. On this basis there is a deficit of £48,000 that will be retained in the fund. Look Ahead's share of assets and pension liabilities are £366,000 and £414,000 respectively. This compares with a surplus on an ongoing basis of £124,000 as at the same date. The deficit contribution has been received by the Fund.

### Future Cessations

3.32 Two employers have asked for indicative cessation deficits. These are One Housing Group (Tonybee Island Homes) who have a £774,000 ongoing

surplus as at March 2016 and Gateway Housing that has a £134,000 ongoing deficit as at that date. Both ongoing and deficit based cessation valuations have been requested for One Housing Group who has proposed consideration be given to a longer term funding arrangement as discussed in paragraph 3.30 above.

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

3.33 At the last Committee meeting a report was given as to the circumstances that resulted in the late issue of annual benefit statements to some scheme members. In accordance with Reporting Breaches Policy agreed June 2016, a formal report was made to the Pensions Regulator on 3rd January 2017. There has been no response from the regulator.

3.34 The use of spreadsheets in the preparation of the annual benefits statement was due to concern that the addresses held within the pension administration system (Altair) were out of date. We are currently ensuring that changes of addresses are promptly updated in Altair and checking that members addresses held are consistent with the Council's payroll system. This will enable benefit statement to be produced directly from Altair in 2017 and thereafter.

### **Internal Disputes Resolution Procedures**

3.35 Scheme members and relatives who are unhappy with decisions made in respect of the Scheme, normally in connection with the awarding of benefits, have the right to ask for the decision to be reviewed under the Scheme's formal complaints procedure, referred to as Internal Disputes Resolution Procedure (IDRP). The procedure is published on the Council's web site and sent to any scheme member or related parties who make a complaint.

3.36 The IDRP has two stages, with each stage the decision being reviewed by someone who was not involved in the original decision. If the complainant is not happy with the first stage decision they can request a second review. Complaints relating to decisions made by the Council are normally reviewed by the Head of HR (stage 1) and Corporate Director Law Probit and Governance (stage 2). Following stage two, the complainant is able to refer the dispute to the independent Pensions Ombudsman who can adjudicate on the reasonableness of the process followed in making the original decisions.

3.37 It is intended that in future a summary of current complaints received and the outcomes will be reported to the Committee.

3.38 Subsequent to the last Committee, five IDRP's have been received. In summary these are:

- Two appeals are stage one following a decision by a doctor appointed by the Council that the members were not entitled to ill-health retirement

benefits. The cases have been sent to an independent occupational health doctor for a second opinion.

- One stage one appeal relates to a pensioner diagnosed with a significant medical condition after resigning and taking early pension benefits. The stage one decision was that the member has no entitlement to ill-health benefits under the scheme rules.
- One stage one decision relates to the division of death grant following a death in service. The paperwork is being reviewed prior to deciding who should undertake the stage one review.
- One stage one decision related to an individual who claims that they did not receive a refund of contributions in 1980. As the available records indicate that a refund was made, the stage one decision is to uphold the original decision that a refund was paid

3.39 The details above are minimised to maintain Scheme member confidentiality. Outcomes for those cases still to be determined and new IDRPCs will be reported at subsequent meetings.

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

3.40 In this section, details are provided of recent reviews undertaken of the Pension Administration Function, the quality of the data held within Altair and the Regulators requirements for procedures are in place to ensure good data quality. Five reviews of the work of the Pension Administration team have been undertaken in the last five months. These are:

- Annual review of pension administration by internal audit.
- Additional review by Internal Audit of issues concerned with annual benefit statements.
- Review of working practices by the Local Government Association.
- The Actuary's feedback on the quality of the data provided to enable the triennial actuarial review.
- A health check of administration procedures by Aquila Heywood, the supplier of Altair.

3.41 The work undertaken and a summary of the findings are given below:

#### Annual Review by Internal Audit

3.42 Each year Internal Audit undertakes a review to provide assurance as to whether the system of control around pensions systems is sound, secure and adequate. The scope of the audit covers:

- Procedures and policies,
- Joiners and leavers
- Refunds of contributions
- Adjustments and amendments

3.43 The work was undertaken January / February 2017 and the report is due w/c 27<sup>th</sup> February 2017. A verbal report will be made on findings and the Auditor's conclusion as to the overall level of assurance provided.

3.44 During the audit, the Auditors commented that the timeliness of the workload has improved over the last 12 months.

#### Additional Review by Internal Audit

3.45 Internal Audit undertook a review during October & November 2016 of the problems encountered in producing the 2016 annual benefit statements (see para 3.33 above). The purpose of the audit and the audit recommendations were discussed at the last Committee meeting. Subsequently, management actions have been agreed and these are included within the formal response to Internal Audit (appendix 3).

3.46 There were positive comments within the report, for example "Our testing showed that the quality of data on Altair with the exception of addresses was satisfactory". The auditor confirmed that the pension calculations they reviewed were correct.

3.47 The comments from the Internal Auditor have been accepted as can be seen from the responses to the recommendation. The submission of a quarterly administration report to management and the Committee is intended to address the comments on improving reporting. The one area in which the Auditor's recommendations have not been actioned to date is in the development of an effective risk management process centred on defined objectives and a risk register. This needs to be taken forward across all the activities of the scheme.

#### Review of Processes by Local Government Association

3.48 The Local Government Association was invited to review the operation of the Pension Administration Section and suggest areas for improvement. The work was undertaken during October 2016. A summary of the recommendation and action taken to address the weaknesses identified are attached (appendix 4).

3.49 In addition to the recommendations, the LGA recorded a number of positive comments arising from interviews with each team member:

- It's a good team to work in
- The service is good at paying pensions on time
- The service is good at providing the “personal touch”
- The team have good working relationships with payroll and HR
- The manager is very flexible – staff are trusted
- The team is stable and the staff are dedicated

3.50 Consideration will be given to inviting LGA to undertake a follow up visit once the various projects discussed below have been implemented.

#### Actuarial Feedback on Data Quality

3.51 [Report not yet received]

#### Aquila Heywood Health Check

3.52 Aquila Heywood is the supplier of the pension administration system, Altair. They spent a day reviewing our operating procedures with the aim of identifying areas in which the team are not making best use of Altair. The findings included 'housekeeping issues together with a number of more significant issues:

- Review of audit reports
- Clearing rejections on new starter interface files
- Users and password access
- Issuing statutory notices.
- Use of auto scheduling to increase efficiency
- Revising workflows (recording of tasks) to improve reporting

These issues are being investigated and procedures will be amended. It is intended to ask Aquila Heywood to undertake annual reviews in future to provide assurance that corrective action is effective.

#### Annual Assessment of Data Quality

3.53 The Pensions Regulator places great importance on schemes maintaining complete and accurate records and operating effective internal controls. Poor record-keeping can result in schemes failing to pay benefits in accordance with scheme regulations, processing incorrect transactions and ultimately paying members incorrect benefits. To avoid administration problems that Regulator requires that schemes should continually review their data and carry out a data review exercise at least annually. This should include an assessment of the accuracy and completeness of the member information data held. Where schemes identify poor quality or missing data, they should put a data improvement plan in place to address these issues.

3.54 The findings from the above reviews indicate that, addresses apart, the data held within the administration system is of good quality and sufficient for the purposes of calculating members' entitlement. We are tackling the issue of

addresses through recording changes in Altair and undertaking a match with the Council's payroll system. Within the pension administration system there are various reports that can be used to interrogate the database. This will be used to undertake a data quality review later in 2017 once the various projects discussed below have been completed and the updated version of Altair with the improved management tools installed.

### Conclusion

- 3.55 The various reviews undertaken indicate that the Pensions team has suffered a recent lack of co-ordination. However, the additional resources now available to the team will allow it to move forward and tackle the issues identified.

### **Projects**

- 3.56 For some time the Pensions team has been reviewing how to improve operational efficiency by increasing automation and reducing the volume of enquiries that require staff intervention. Two opportunities have been evaluated that are described below for which permission to proceed is requested.

### Member Self-Service

- 3.57 Currently information flowing to and from Scheme Members is via traditional communications channels (letter and telephone) and each enquiry requires the involvement of members of the Pensions Team. We have been discussing with Aquila Heywood, the acquisition of Altair's Member Self-Service (MSS). This allows Scheme Members to directly access their personalised pension data. All employees, past, present and future, are able to view all the details they need in real time and carry out 'What if...?' modelling on demand without needing to speak to the Pensions team. Members can amend their own contact information to keep it current, updating the administration system automatically and improving data accuracy. Pensions and pay documentation can be issued electronically, reducing the overheads and costs associated with printing and postage.
- 3.58 MSS functionality includes the ability for member requests to generate tasks within the Altair workflow system. This significantly lowers the administration time and costs for the Pension team in addition to improving the engagement experience of the members.
- 3.59 The annual cost of MSS is just under £6,000. It will operate in conjunction with a scheme web site, potentially the web scheme site being developed by Capita, although the functionality needs to be checked for compatibility.
- 3.60 To access the system, we will need to collect members email addresses and enable members to set up password controlled access to MSS. It is intended

that MSS will enable annual benefit statements and payslips to be phased out and for benefit estimates to be provided only through MSS.

3.61 Cost savings are always difficult to estimate, but other schemes who have implemented MSS have reported that it as a positive financial impact.

3.62 Recommendation 3, above seeks permission to purchase MSS.

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

3.63 Each month data is received from employer's payroll providers that require input into Altair. This includes starters, leavers, earnings and amendments (posts, hours of work, addresses etc). With the growth in the number of employers (academies and outsourced service providers) there is an increase in the number of payroll providers generating data using different formats. Information received from employers is often inaccurate and missing detail. Manually inputting payroll data has significant resource implications for the Scheme.

3.64 To reduce the administrative burden of dealing with payroll updates, we have developed in-house software that can be used with the Council's payroll system to transfer data into Altair. While this solution has generated administrative benefits it is not as fully developed a solution as that offered by Altair's i-Connect.

3.65 I-Connect is a data exchange system that enables the uploading of bulk payroll data to Altair. i-Connect validates the payroll data and manages the events generated by the payroll extract file through to Altair. I-Connect will be made mandatory for the provision of payroll data to the Scheme. It is already in use by the larger external payroll providers. Reducing manual processing of payroll data will mitigate against errors in data transfer and mean that the Scheme's records are up to data. At present when there are identification errors with payroll updates, the pension team is required to make the correction manually. With i-Connect, the external payroll provider will be required to correct any rejections before the data can be submitted.

3.66 The annual cost of i-Connect is £14,850, also covered by recommendation 3.

3.67 Both the above systems are provided by the supplier / developer of Altair. This will ensure that the systems are compatible and minimise implementation issues. Reference calls have been made to existing users (Redbridge, Southwark and Berkshire) who have reported successful implementations. There may be some implementation costs (max 13 days consultancy) associated with MSS and i-Connect. Until the project plans are fully scoped the extent of the external support required is uncertain. The contract with Aquila Heywood to operate Altair is on a rolling six month notice period. We are working with IT to renew the contract but due to the terms of

the Council's overall IT contract with Agilisys this cannot be progressed at the moment.

### GMP Reconciliations

- 3.68 Prior to April 1997 the minimum level of benefit the DB scheme had to provide was known as a Guaranteed Minimum Pension (or GMP), which still forms part of many members' benefits. The National Insurance Contributions Office (NICO) of HMRC maintains a record of GMPs held under each scheme. The GMP amount they hold is used to calculate the 'contracted-out deduction' they make from Additional State Pension so it is important this figure is correct and agrees with the amount the scheme holds.
- 3.69 When contracting-out ends in April 2016, HM Revenue and Customs (HMRC) will no longer track contracted-out rights and will issue closure schedules to schemes so they can compare these against GMP amounts held on scheme records. This is known as a GMP reconciliation. Following this, from December 2018 HMRC is planning to send individuals information about their contracting-out history. In particular details of which scheme will pay and the value of their GMPs entitlement.
- 3.70 Over time a number of factors may mean the payroll data supplied to HMRC and the scheme administrator differs. Thus the records that HMRC may hold of GMPs payable by Tower Hamlets Pension Fund may differ from our own records.
- 3.71 When HMRC notifies Scheme Members of their GMP entitlement after December 2018, this will be taken as the definitive record and the Scheme will be expected to pay the liabilities recorded by HMRC, be they correct or not. There is a limited window of opportunity to identify discrepancies between our records and those of HMRC and take corrective action, such as notify HMRC of transfers to other schemes, to avoid the scheme incurring additional liabilities.
- 3.72 Recognising the tight timescales involved HMRC has launched a Scheme Reconciliation Service (SRS) to enable schemes to start comparing their non-active GMP amounts (e.g. for deferred and pensioner members) in advance of the scheme ceasing to contract-out in April 2016. The Scheme has signed up to access the GMP data held by HMRC. Identifying and resolving GMP differences involves three stages;
- Matching of records at individual level and identification of mismatches.
  - Detailed investigation of each mismatch and where appropriate providing information to HMRC to amend their records.
  - Altering our records to record the GMP liability that the scheme has agreed to accept.

- 3.73 Stage one, the comparison, of Scheme and HMRC records is a relatively straightforward data match. The Scheme's Actuary has been asked to undertake this match and to quantify the extent and impact of the mismatches. The initial cost of the review is £4,000. Results from stage one are anticipated by mid-March.
- 3.74 Once we have identified the differences at individual member level, the time consuming second stage can commence to identify the source of the discrepancy and determine what action should be taken. Hymans having undertaken numerous similar reviews has indicated that they will be able to identify common themes and suggest practical steps to inefficiently tackle the discrepancies. One consultancy has estimated a timescale of 1-2 years for a 1,000 member scheme to resolve the discrepancies.
- 3.75 It will probably not be efficient to investigate very small GMPs that HMRC have allocated to the Scheme. This suggests we identify a tolerance level below which we will accept HMRCs records as being correct. This tolerance level can range from a few pence per week to a couple of pounds per week depending on what the Committee feel comfortable accepting based on the financial consequence. This will be considered when we have the stage one results.
- 3.76 HMRC has stated that they will deal with enquires from scheme up until December 2018. Many schemes have been slow to start the process and HMRC are likely to be deluged with enquires as we approach the cut-off date. They have already indicated that the response time has increased from 3 to 8 months, thus it is imperative that the project is commenced immediately.
- 3.77 Further reports will be brought to the Committee as the reconciliation process progresses.

#### **Administration Strategy Statement**

- 3.78 The Local Government Pension Scheme Regulations 2013 provide for schemes to issue a pension administration strategy statement (ASS). The potential contents of the ASS are set out in the Regulations (see appendix 5).
- 3.79 The purpose of the ASS is to promote good working relationships, improve efficiency and ensure agreed standards of quality in delivery of the pension administration service amongst the employers and the Fund. It does so by clearing setting out 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. The ASS should be implemented following consultation with scheme employers.
- 3.80 Although the preparation of an ASS is optional, it does reflect best practice in that it clarifies the interaction between the administration authority and all the

employers. As the number of employers grows, it becomes more important that there are clear procedures, including timescales, governing this interaction. The administration authority is required to provide a service to scheme members in line with the deadlines set out in the Scheme Regulations. It can only do this with the co-operation of scheme employers. The ability through the levying of charges for non-compliance with the deadline and processes set out in the ASS provides incentive to employers to follow agreed procedures.

- 3.81 The draft ASS reflects current working practices and KPIs and looks forward to increased automation in the transfer of information from employers to the Pensions team. The ASS will be kept under review and revised where appropriate. Changes will be subject to consultation with employers.
- 3.82 Should the Committee be content with the drafting of the ASS (appendix 6) the next stage is to circulate to all scheme employers for consultation.
- 3.83 Once the ASS is finalised, we will be using this and the funding strategy statement to develop an admission policy statement that will provide clear guidance to Scheme Employers on how their liabilities to the Scheme will be determined.

### **Review of Actuarial Data Processes**

- 3.84 This section discusses two initiatives that have the prospect of providing more accurate and timely information for the Committee and the Scheme Actuary. One concerns the frequency of information provision to the Actuary and the second the process of allocating assets to individual employers. Both are linked in that they will enable actuarial calculations to be made quickly and accurately and are prerequisites for employer level investment strategies, a potential future development from the increasing number of employers in the pension scheme.
- 3.85 The first initiative, the timing of information flows to the Actuary has no cost implication and is mentioned for information only. The Scheme provides accounting data to the actuary to enable contribution rates and funding levels to be calculated. The current timing on providing data is on an 'as required' basis. Thus data will be submitted when it is time to undertake specific calculations e.g. immediately before an employer's year end or triennial valuation. The Actuary is then required to upload this information and validate for reasonableness, which means that calculations take longer. We are looking to move to providing data on a regular cycle, monthly or quarterly updating directly via an interface with the Actuary's systems. This will mean that there are no sudden rushes to prepare and transfer data and that the Actuary is able to verify data as received, thus reducing data queries at a time when reports are being requested. Ad-hoc enquires will not require data

to be provided so will be answered quickly and actuarial timescales will be reduced. The aim is to work with the Actuary over the next 12 months as resources are freed by the projects discussed earlier.

3.86 The second initiative concerns the basis on which each employer within the pension scheme is allocated a share of the fund's assets, being required to calculate the funding level and the required contribution rate. Actuaries have not traditionally discussed in detail the method of calculating the share of assets for each employer, but when they do it is far from being as precise as would be expected. The current method for asset tracking (known as the "analysis of surplus" method) focuses on using changes in the actuarial funding position to allocate assets to individual employers. The calculations are only undertaken at triennial valuations and calculations at intervening points are based on rolling forwards from the previous triennial valuation. Even the Actuary acknowledges that the calculations are not precise. In particular the Actuary has listed the following deficiencies in the current approach:

- It is not possible to accurately analyse at employer level all the items which are required to carry out a complete "analysis of surplus" due to data constraints, and the number of employers which would result in additional costs. This approach does lead to some cross-subsidies between employers.
- The "analysis of surplus" method uses fund averages for some experience items (e.g. allocating investment return on monthly cash flows), leading to cross-subsidies since there are large differences in membership profile between fund employers.
- Manual intervention is required to ensure asset allocation reflects certain inter-valuation events not captured by the "analysis of surplus" method e.g. share of deficit transfers for academy schools.
- Accurate employer assets are only available every three years when a formal valuation is carried out.

3.87 So far the process used is common practice across the industry, particular when there are relatively few employers within the scheme. To date no employers within the Tower Hamlets scheme has questioned the allocation of assets. However, some schemes are moving to a more robust 'unitised' process to record asset movements as explained in the attached report from the Actuary. Unitisation means that wherever possible cashflows e.g. contributions, benefits, expenses are allocated to individual employers, sometimes using precise formula e.g. expenses. Investment returns are allocated based on units held each month, thus providing a robust process

to calculate individual employers share of assets. This approach is referred to as Hymans Employer Asset Tracker [HEAT]. A one page summary of its features is attached (appendix 7).

- 3.88 Looking forward a single investment strategy for all employers in the fund is less likely to be accepted by all. Employers may increasingly take a differing view to pension risk and look for asset strategies that reflect their risk tolerance. Only by having monthly employer level asset information will it be possible to operate bespoke investment policies.
- 3.89 Moving to HEAT does have cost implications. Costs are quoted by Hymans as £1,500 per month (£18,000 a year) plus £10,000 set up costs. The savings in ongoing actuarial costs are unlikely to be significant. As the topic is somewhat academic it is probably best explained by an actuary. It is proposed that any decision is deferred until the Committee is able to hear directly from the Actuary.

#### **Extension of the transfer-in deadline**

- 3.90 New employees are able to transfer in past service with other pension schemes in order to consolidate their pension entitlements. The Regulations set a time limit of 12 months or such longer period as the employer and administering authority agree. Historically, not all new starters were notified of their right to transfer in past service and as a consequence the 12 month time limit has been waived in some cases. As it is not known those who did not receive notification of their transfer rights, It is proposed to extent an opportunity to all active employees to transfer in past service in order that the Fund can revert to the standard 12 month time limit. The Pension team will write to all active staff offering to accept transfers in provided that the appropriate form is completed within three months. It is not expected that take up will be significant. The Committee will be informed of the number of scheme members who accept the offer.

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

- 4.1 The cost of the Pensions team detailed under section 3.5 is budgeted at £312k per annum and is funded through recharges to the Pensions fund.
- 4.2 The additional annual cost of £21k referred to under sections 3.59 and 3.66 above for member self-service and i-connect software and the one off actuarial cost of £4k for GMP reconciliations referred to in 3.73 will also need to be met through charges to the Pensions fund.

#### **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 As detailed in Appendix 5 to the report, 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. The draft 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 Article 3.3.10 sets out the functions of the Pensions Committee. It does not allow for delegations of any of its functions to officers. As such the Committee does not have the ability to delegate to the section 151 officer the function of agreeing admissions of new members to the pension fund.
- 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> December 2016
- Appendix 2 - Annual Internal Audit Report (to follow)
- Appendix 3 - Recommendation and actions from Annual Benefit Statement Review
- Appendix 4 - Recommendations and actions from LGA review.
- Appendix 5 - Extract from Pensions Regulations – Pension Administration Strategy
- Appendix 6 - Draft Administration Strategy Statement
- Appendix 7 - Hymans Employer Asset Tracker [HEAT]

#### **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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