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| Non-Executive Report of the: PENSIONS COMMITTEE 31st July 2017 |  |
| Report of: Zena Cooke, Corporate Director of Resources | Classification: |
| Pension Fund Administration Update | |

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| Originating Officer(s) | George Bruce, Interim Pensions Manager |
| Wards affected | All |

Introduction

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

Recommendations:

Members of the Pension Committee are asked 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 | 1 | 0 | 0 | 1 |

- 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, Ian 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)

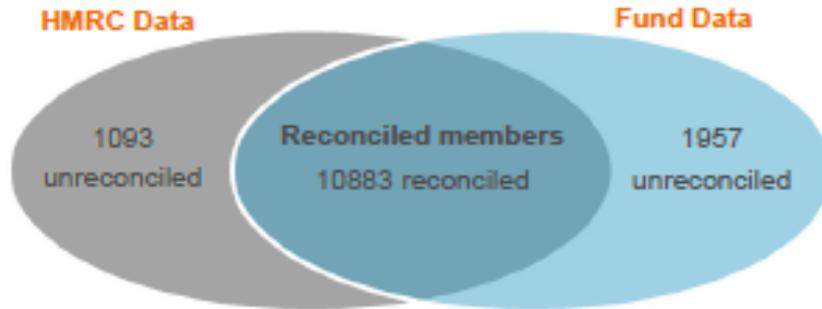
3.36 Considerable data is passed between employer payrolls and Altair each month. Forcing employers to use a standard format that verifies the earnings and employment data will result in considerable efficiency gains. To date, the supplier has delivered i-Connect screens, menus and system links. To ensure 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.

Linked Reports, Appendices and Background Documents

Linked Report

- NONE

Appendices

- Appendix 1- Activity and performance, quarter to 31st 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

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