

<p>Non-Executive Report of the:</p> <p>Pensions Committee</p> <p>22 September 2020</p>	 <p>TOWER HAMLETS</p>
<p>Report of: Corporate Director, Resources</p>	<p>Classification: Open (Unrestricted)</p>
<p>Pensions Administration and LGPS Update</p>	

<p>Originating Officer(s)</p>	<p>Miriam Adams</p>
<p>Wards affected</p>	<p>All Wards</p>

Executive Summary

To provide Members with information relating to the administration and performance of the Fund since the July meeting and key recent LGPS issues and initiatives which impact the Fund.

Recommendations:

The Pensions Board is recommended to:

1. Note the report contents; and
2. Note that three employers are in the process of joining the scheme - Taylor Shaw Cleaning, Ridgecrest cleaning and Atlantic cleaning following successful joint tender process involving a number of primary and secondary schools including Ian Mikado Academy.

1. REASONS FOR THE DECISIONS

- 1.1 The report asks the Committee to note the content of this report which covers the activities relating to Pensions administration since July; and
- 1.2 Approve in principles the admitted body status requests following various successful group and individual tenders involving Taylor Shaw catering, Ridgecrest cleaning and Atlantic cleaning.

2. ALTERNATIVE OPTIONS

- 2.1 There are no alternative options to this report

3. ADMINISTRATION

3.1 A core part of the role of running the pension fund is the maintenance of scheme membership records that enable scheme benefits to be calculated in addition to dealing with new members joining and members leaving the scheme. This activity is carried out in-house. The team also deals with employer related issues, including new employers and cessation. Officers presented the June quarterly performance update during the July meeting. This paper covers administrative activity updates since July.

4. EMPLOYER DEVELOPMENTS – ADMISSIONS AND CESSATIONS

4.1 There are employers joining and leaving the scheme on a regular basis. A list of active employers was reported in July.

New Employers

4.2 Since the July meeting three employers are in the process of participating in the scheme.

Applications for Admitted Body status were received following several contract services tenders conducted by schools. The Committee is asked to note the admission requests pending the completion of the legal process with the Fund. Initial discussions between the Council and the Fund included clarification and agreement of the broad actuarial principles.

Secondary school catering group tender	Bow School	LBTH-maintained	Staff will transfer to Taylor Shaw
	Central Foundation Girls School	LBTH-maintained	
	Morpeth	LBTH-maintained	
	Stepney Green Maths & Computing College	Academy	
Primary school cleaning group tender	Bonner Mile End	LBTH-maintained	Staff will transfer to Ridgecrest Cleaning
	Cubitt Town Primary School	LBTH-maintained	
	Ian Mikardo High Academy School	Academy	
	Old Palace Primary School	LBTH-maintained	
	St Edmunds Primary School	Diocesan	
	St Elizabeth RC Primary School	Diocesan	
Cleaning - managing own tender	Noah's Ark Nursery LEYF	Private	Staff will transfer to Atlantic Cleaning

Employer Cessations

4.3 There have been no employer cessations since the last Committee meeting.

Report to the Pensions Regulator

- 4.4 There has been no reports to the Pensions Regulator in the period and no response from the regulator to the December report on the delay to the issue of Annual Allowance and Annual Benefit statements.

Internal Audit

- 4.5 An Internal audit report on the Pensions Administration system commenced at the end of June, the findings will be presented to Committee and Board at the earliest possible meeting once a report is received.

5. COVID -19 RESPONSE

- 5.1 Consistent with the guidance provided by the Government, most members of the team are working remotely with a few choosing to come to the office for convenience.
External post is only sent where necessary and the sorting of post has been on a voluntary basis for a single officer to attend to sort, scan and post such items.
A letter was issued to all scheme employers containing information to issue to their employees. This document was also made available on the Council's website.

6. LGPS UPDATES

Consultation on Reforming Local Government Exit Pay (£95k Cap)

- 6.1 The Ministry of Housing Communities and Local Government (MHCLG) on 7th September published a consultation on changes to pension and compensation regulations to introduce the £95k cap and elements of further reform of exit payments. A detailed consultation response will be presented to both the Pensions Committee and Board in November.
- 6.1.2 The early retirement strain payment is expected to still be included in the £95k cap calculation. This is often perceived as the costliest element which is ultimately funded by the taxpayer. The consultation seems to indicate that pension schemes, employment contracts and compensation schemes will be amended to reflect the introduction of the cap.
- 6.1.3 Although the Treasury have now acknowledged that the £95k figure should increase over time in their response, there is currently no further detail about how this will be achieved.
With no allowance for inflationary increases more individuals will inevitably be affected as a result.

- 6.1.4 The discretionary waiver system for exceptional circumstances is also welcomed in the LGPS community. Currently there is no further detail about how this would work in practice.
The Consultation now includes a list of affected public sector bodies proposed to be within the scope of the cap.
- 6.1.5 Due to the current economic climate, Public Sector employers in the LGPS are going through or might go through redundancy exercises so although the cap will not apply at the moment, and with no certainty around the implementation date, Funds are at risk if advice is given to scheme members or scheme employers.

On 27 August, MHCLG laid the regulations on employer contribution and exit payment flexibility which will come into force on 23rd September.

6.2 **Review of Employer Contributions and Flexibility on Exit Payments**

Following the receipt of consultation responses, MHCLG published a partial response to last year's consultation on proposed changes in the valuation cycle and management of employer risk. The responses are expected to be followed by regulations which are likely to come into force in early autumn. The response includes the review of employer contributions between valuations, spreading exit payments and deferred debt arrangements. The regulation (The LGPS (Amendment) (No2) Regulations 2020) will be accompanied by guidance on the necessary revisions to Funding Strategy Statements.

The Government will work with the Scheme Advisory Board (SAB) and CIPFA to amend the regulations/guidance so that there will now effectively be three options for an existing employer (subject to agreement from the Administering Authority).

- As currently, calculate and recover an exit payment for employers ready and able to leave and make a clean break;
- Agree a repayment schedule for an exit payment with employers who wish to leave the scheme but need to be able to spread the payment; and
- Agree a Deferred Debt Agreement (DDA) with employers to enable them to continue paying deficit contributions without any active members where the administering authority is confident that the employer would fully meet its obligations.

The DDA option is expected to have a profound shift in the way exiting employer's responsibilities will be the same as for employers of active members but excluding the requirement to pay primary contributions.

6.3 **Preparing for McCloud**

On March 25 2020, the Minister of State made a statement regarding the progress in responding to the McCloud ruling. The statement confirmed that no qualifying scheme member will need to make a claim for the McCloud remedy to apply to them. The LGPS has only one CARE scheme with a final salary underpin for protected members and so no claim would be required unlike other Public Service Pensions like Teachers, Police and Fire.

To facilitate successful delivery, the Fund will need to commence preliminary work to ensure successful processing for the implementation of McCloud i.e. identification of affected members, understanding the underpin, processing of arrears and interest as well as adjusting of records of affected members once final legislation is received.

Preliminary work will include:

- Understanding of technical requirements
- Establish data which will be required and analyse membership in scope
- Engage with employers to ensure receipt of member data when required
- Identify scheme members who may be affected
- Establish delivery format
- Set up McCloud project plan and identify project team
- Identify stakeholders
- Member communication
- Identify workstream for McCloud
- Start planning early

6.4 **SAB statement on Local Pension Board meeting cancellations during covid-19**

The SAB issued a statement on 27 July following concerns raised at a recent Local Pension Board workshop. The statement clarified that the SAB was satisfied that arranging a virtual meeting of a local pension board would facilitate the discharging of its duty to conduct business during the emergency.

7. **SCHEME UPDATES**

7.1 **Annual Benefit Statement (ABS) 2019/20**

The ABS process is carried out annually and its purpose is to actively manage and monitor all employers associated with the Fund. The employers are required to submit their end of year pay information by the set deadline. This

requirement to submit end of year pay information is not required for employers who submit payroll data via i-Connect. The ABS statement to all active and deferred members is required be produced by the regulatory deadline of August 31. Statement for deferred members were dispatched in July 2020 while active members are expected to be dispatched on 21 September.

7.2 i-Connect

Although the Council is the pre-eminent employer within the Scheme, there are 34 employers in the scheme. The Fund commenced the use of i-Connect in April 2017. The Majority of employers including the council continue to rely on pension fund staff to upload their monthly payroll data on the portal. A drive to get employers signed up and using the portal for data submission will commence in September.

Report on Breaches

- 7.3 The Fund is required to report on breaches of policies. Other than the slight delay to the issuing of active members ABS referenced above, there were no known breaches since the last reporting period.

Employers Forum

- 7.4 An online employer's forum via teams is scheduled for 22nd October and is expected to last around 4 hours. Hymans Robertson the Fund Actuary will be the key note speaker addressing employers on a range of topics while Heywood iConnect will be presenting on how to use iConnect, its benefits and signing up of employers for training.

- Date – October 22nd (max 3 to 4 hours)
- Meeting – via Teams call
- Theme – Collaboration and Partnership (Past, Present and Future)
- Key issues – Data and best practice administration procedures
- Goals –
 - Get 90% of employers signed up and using iConnect for payroll data submission
 - Systems and procedures are used properly
 - Clear delineation between employer admin responsibility and fund officer admin responsibility

- Employers understand impact of poor data (Resource (for them and the Fund), administration performance and pension funding impact)
- Get them in place to deal with McCloud expectations

8. RISK MANAGEMENT IMPLICATIONS

- 8.1 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.

9. COMMENTS OF THE CHIEF FINANCE OFFICER

- 9.1 There are no direct financial implications arising from the contents of this report.

10. COMMENTS OF LEGAL SERVICES

- 10.1 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 functions of the pension fund. The report also provides the Committee with updates on various other matters relevant to the administration of the Pension Fund. There are no immediate legal implications arising from the report.

- 10.2 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).

11. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

- 11.1 There are no Sustainable Action for A Greener Environment implication arising from this report.

12. CRIME AND DISORDER REDUCTION IMPLICATIONS

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

Linked Reports, Appendices and Background Documents

Linked Report

NONE

Appendices

None

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:

Miriam Adams – Pensions & Investments Manager Ext. 4248

3rd Floor Mulberry Place, 5 Clove Crescent E14 2BG

Email: Miriam.adams@towerhamlets.gov.uk