

# HAMPSHIRE COUNTY COUNCIL

## Decision Report

|                        |   |
|------------------------|---|
| <b>Decision Maker:</b> | Pension Fund Panel and Board              |
| <b>Date:</b>           | 22 June 2018                              |
| <b>Title:</b>          | Governance: Pension Administration update |
| <b>Report From:</b>    | Director of Corporate Resources           |

**Contact name:** Lois Downer

**Tel:** 01962 847600

**Email:** lois.downer@hants.gov.uk

### 1. Recommendation(s)

1.1. It is recommended that the Panel and Board:

- a) approve the addition of three funds to the Hampshire AVC portfolio with Prudential
- b) note the good performance of Pensions Services in 2017/18.

### 2. Executive Summary

- 2.1. The purpose of this paper is to provide the Panel and Board with an update on administration performance in the last six months of 2017/18, together with an analysis of employer performance for the same period.
- 2.2. Pensions Services have performed well against the four key indicators of good pensions administration. Over the next six months, Pensions need to complete the end of year processing to produce annual benefit statements and pension savings statements, against the background of complexity and increasing reporting requirements.
- 2.3. LGPS amendment regulations were issued on 19 April and Pensions will inform employers and members of the changes and their impact.
- 2.4. Prudential have created five new funds as part of their additional voluntary contribution (AVC) offer to the LGPS. It is recommended that three of these are added to the Hampshire AVC portfolio.
- 2.5. Work is continuing on ensuring compliance with the new data protection requirements and the reconciliation of GMP information with the HMRC system which is due to be closed in December 2018.

### 2. Administration performance

- 2.1. As at 31 March 2018, there were 333 employers paying into the Hampshire Pension Fund, and a total of 167,176 members. The table below provides a detailed breakdown of the scheme membership by employer type.

| Employer Type                          | Employers  | Member type   |               |               |
|--|------------|---------------|---------------|---------------|
|  |            | Actives       | Deferreds     | Pensioners    |
| Scheduled                              | 179        | 56,160        | 67,400        | 37,360        |
| Resolution                             | 59         | 300           | 169           | 182           |
| Admitted                               | 58         | 1,218         | 897           | 943           |
| Community admitted                     | 17         | 88            | 352           | 324           |
| Transferee admitted                    | 20         | 111           | 277           | 212           |
| <i>Councillors (no active members)</i> | <i>10</i>  | <i>0</i>      | <i>103</i>    | <i>120</i>    |
| <i>Ceased (no active members)</i>      | <i>53</i>  | <i>0</i>      | <i>305</i>    | <i>655</i>    |
| <b>Total</b>                           | <b>396</b> | <b>57,877</b> | <b>69,503</b> | <b>39,796</b> |

2.2. Pensions Services administer the Hampshire LGPS and have performed well against the four key measures of good administration in 2017/18:

- Cost per member
- Internal and external audit
- Customer Service Excellence
- Performance against service standards

These are covered in more detail in the following sections of this report.

### 3. Cost per member

3.1. One of the key external measures of administration performance is cost per member. The 2017/18 administration cost per member was £11.96 (£12.01 in 2016/17).

3.2. Comparative costs for all LGPS Funds are reported annually in the Sf3 return, and Hampshire is always reasonable for the size of the Fund. The latest available Sf3 data is for 2016/17 on which Hampshire was the 5th largest Fund by membership and, at £15.92, had the lowest combined administration and governance cost per member out of the 89 English and Welsh Funds.

### 4. Audit reports

4.1. The annual internal audit opinion for Pensions will be presented to the Panel and Board at the July meeting. Pensions have received good reports during the year with substantial assurance given for the 2 reviews covering LGPS administration (which were the annual pensions payroll and benefit calculations review and pension refunds). There were no formal action plans required for the administration of LGPS pensions.

### 5. Customer Service Excellence

5.1. In April, Pensions had a full Customer Service Excellence assessment which happens every 3 years. This was conducted as a day's site visit by the assessor who also contacted employers for feedback on the service. Pensions

retained their accreditation and picked up two further compliance plus marks, bringing the total to five, for the following areas:

- the corporate commitment to putting the customer at the heart of service delivery
- empowering and encouraging all staff to promote and participate in the customer focused culture
- the commitment to customer focus in recruitment, training and development
- using staff insight and experiences to develop processes and policies
- telling customers about performance, and incorporating customer feedback into processes

5.2. Pensions will have a light touch CSE assessment in 2019 and 2020 before the next full review in 2021.

## **6. Performance against Service Standards (KPIs)**

6.1. The KPIs for Pensions evidence the strong performance in 2017/18. However, two cases relating to the payment of death benefits, and one letter to a member who had re-joined the scheme missed the target deadline in Quarter 4, due to an internal error. One further case relating to a transfer in also missed the deadline in April 2018. Controls have been put in place to prevent this happening again, and performance has been at 100% against service standards since this happened.

6.2. The tables below show the achievement against service standards for the last six months of the year.

Quarter 3

| Type of case        | Time to Complete |           |           |           |           |              | Total        | On target? |
|---------------------|------------------|-----------|-----------|-----------|-----------|--------------|--------------|------------|
|                     | 0-5 days         | 6-10 days | 11-15 day | 16-20 day | 20-40 day | 40 days plus |              |            |
| Retirement          | 213              | 22        | 1         | 0         | 0         | 0            | 236          | 100%       |
| Deferred Retirement | 312              | 18        | 0         | 0         | 0         | 0            | 330          | 100%       |
| Estimate            | 383              | 122       | 29        | 1         | 0         | 0            | 535          | 100%       |
| Deferred            | 1,181            | 762       | 178       | 76        | 668       | 0            | 2,865        | 100%       |
| Transfer out        | 32               | 67        | 46        | 1         | 0         | 0            | 146          | 100%       |
| Transfer In         | 54               | 25        | 16        | 0         | 0         | 0            | 95           | 100%       |
| Divorce             | 22               | 42        | 34        | 2         | 0         | 0            | 100          | 100%       |
| Refund              | 1,142            | 337       | 110       | 21        | 0         | 0            | 1,610        | 100%       |
| Rejoiners           | 134              | 48        | 16        | 3         | 0         | 0            | 201          | 100%       |
| Interfunds          | 93               | 63        | 22        | 3         | 0         | 0            | 181          | 100%       |
| Death               | 136              | 23        | 13        | 0         | 0         | 0            | 172          | 100%       |
| <b>Grand Total</b>  |                  |           |           |           |           |              | <b>6,471</b> |            |

Quarter 4

| Type of case        | Time to Complete |           |           |           |           |              | Total        | On target? |
|---------------------|------------------|-----------|-----------|-----------|-----------|--------------|--------------|------------|
|                     | 0-5 days         | 6-10 days | 11-15 day | 16-20 day | 20-40 day | 40 days plus |              |            |
| Retirement          | 159              | 19        | 9         | 0         | 0         | 0            | 187          | 100%       |
| Deferred Retirement | 165              | 48        | 3         | 0         | 0         | 0            | 216          | 100%       |
| Estimate            | 274              | 213       | 81        | 0         | 0         | 0            | 568          | 100%       |
| Deferred            | 271              | 407       | 883       | 160       | 116       | 0            | 1,837        | 100%       |
| Transfer out        | 12               | 29        | 134       | 0         | 0         | 0            | 175          | 100%       |
| Transfer In         | 70               | 33        | 17        | 0         | 0         | 0            | 120          | 100%       |
| Divorce             | 7                | 25        | 37        | 0         | 0         | 0            | 69           | 100%       |
| Refund              | 687              | 517       | 283       | 26        | 0         | 0            | 1,513        | 100%       |
| Rejoiners           | 81               | 58        | 29        | 58        | 1         | 0            | 227          | 99.56%     |
| Interfunds          | 26               | 21        | 58        | 0         | 0         | 0            | 105          | 100%       |
| Death               | 189              | 38        | 32        | 1         | 2         | 0            | 262          | 99.24%     |
| <b>Grand Total</b>  |                  |           |           |           |           |              | <b>5,279</b> |            |

6.3. Pensions have now started work on uploading annual returns from employers so that the CARE revaluation can be run on all active records. Annual benefit statements for all active and deferred members will be produced by the statutory deadline of 31 August, and following this, Pensions will write with details to any member who exceeded the HMRC annual allowance in 2017/18.

## 7. Employer performance

- 7.1. Pensions Services continues to monitor the timeliness of notifications from employers, for key activities. Appendix 1 shows the timeliness of all death notifications received in the period and lists the employers who did not meet the timescales for notifying retirements in the period. Employers who exceeded the timescales for notification were contacted and given the opportunity to provide an explanation. These comments are also included in Appendix 1.
- 7.2. Employers have to provide a return by 30 April each year containing details of all the people who have paid contributions in the year. This return is uploaded into the pension system and used to update records and produce annual benefit statements for members. It also provides a check that employers have kept Pensions up to date during the year with starter and leaver notifications.
- 7.3. Pensions contact employers who miss the deadline to ensure that the return is received as soon as possible, and to help any employers who are finding it difficult to provide the data. The table below shows the number of returns received by 31 May this year.

|                     | 31 May 2018 | 31 May 2017 |
|---------------------|-------------|-------------|
| Returns received    | 322         | 308         |
| Returns outstanding | 6           | 15          |

7.4. The timeliness of receipt of pension contributions is also measured monthly and employers who fail to pay over by the statutory date are written to and an explanation secured. A total of £1.298m was paid late (£2.636m in 2016/17) which was 0.47% of the total contributions received. The average delay on all late payments received during 2017/18 was 25 days (8 days in 2016/17). No late payment interest was charged for 2017/18.

## 8. Scheme changes

8.1. In April 2018, the Ministry of Housing, Communities and Local Government (MHCLG) introduced LGPS amendment regulations, following a consultation in 2016. The amendments did not include the widely anticipated update of the Fair Deal legislation, which governs the pension implications of TUPE transfers between public bodies. MHCLG is planning to issue a fresh consultation on this subject before the end of 2018.

8.2. Most of the new regulations took effect from 14 May 2018, although some were backdated to 1 April 2014. The key changes allow:

- early access to deferred benefits from age 55 for people who left the LGPS before 1 April 2014, without requiring employer consent
- any surplus on exit to be refunded to the exiting scheme employer
- employers to use a higher Assumed Pensionable Pay figure where the regulations would give a materially lower pay to the individual than they would have actually received

8.3. The Fund Actuary is providing further detail as to the impact of returning surpluses on exit to the scheme employer and changes to the Employer Policy and Funding Strategy Statement will be required once clarification has been received.

8.4. Employers were written to about the changes in the Spring newsletter which was sent on 30 May. Members will be told about the scheme changes via their annual benefit statement, with detailed information available on the Pensions' website.

8.5. The regulations have inadvertently created a transitional issue for a specific cohort of deferred members who were already over age 55 on 14 May. This group of members does not have the option to apply for early payment of their deferred benefits, but must wait until their normal retirement age. MHCLG have confirmed that although this was unintentional it can only be corrected by means of a further set of amending regulations. Whilst this group of members is no worse off than before the amendment regulations, they may feel aggrieved that they are not covered by the changes. Pensions will contact this group directly to make them aware of their options.

## **9. General Data Protection Regulation (GDPR)**

- 9.1. The GDPR came into effect on 25 May 2018, requiring all organisations to review their data protection policies. The LGA issued a template privacy notice for the LGPS which Legal Services have reviewed and approved for use by Pensions Services. The full notice will be held on the Pensions' website, with a paragraph in letters providing the basic information and a link to the full notice.
- 9.2. A memorandum of understanding (MOU) was also provided by the LGA for use between Funds and scheme employers. As both parties are data controllers, there is no requirement for there to be a formal data sharing agreement in place but the MOU provides clarity over responsibilities.

## **10. GMP reconciliation**

- 10.1. Pensions are continuing to make progress with the GMP reconciliation, which is required prior to the shutdown of HMRC databases in December 2018. The work is being carried out by a third party Intellica, through the pensions software supplier, Civica. Intellica has extensive experience of this work and can provide the capacity to handle the data queries, of which there were initially 77,000.

## **11. AVC funds review**

- 11.1. LGPS members can choose to increase their pension contributions by paying into an in-house AVC scheme. The Hampshire Pension Fund has two providers, Zurich and Prudential, and aims to ensure that the range of funds available to members is sufficiently large to give members a choice of types of investment and levels of risk, whilst not being overwhelming for the vast majority of contributors who want a straightforward, low risk option.
- 11.2. At a recent review meeting with Prudential, officers were reassured that the current Hampshire AVC offer is comparable with that offered by other LGPS funds. In line with other Funds, Hampshire does not specify a default fund, instead requiring the member to make an active decision about their own investments. The current list of funds available through Prudential is shown in Appendix 2.
- 11.3. Prudential have recently introduced a new type of fund called dynamic growth funds. These are multi asset funds which offer diversification through active asset allocation in UK and global bond and equity markets.
- 11.4. Prudential offers five of these dynamic growth funds across the risk spectrum, with the lowest risk offering a 0-30% equity range and the highest risk with a 60-100% equity range. These funds allow members to diversify their investments through a single fund based on their risk tolerance and age profile.
- 11.5. To keep the overall number of available funds at a reasonable level, it is recommended that the Panel approve three of the dynamic growth funds (the low, medium and high risk options) to be added to the Hampshire AVC portfolio and made available to members.

## **12. Pensions administration service to West Sussex**

- 12.1. West Sussex County Council have taken a decision to move their pension administration service provision from Capita to Hampshire County Council with effect from March 2019.
- 12.2. The introduction to Hampshire's Pension Administration Service came through the ACCESS investment pooling partnership and this decision will build on the existing partnership arrangements in place with West Sussex, for whom Hampshire already provide an Internal Audit Service, and will also add an additional partner to Hampshire's existing partnership arrangements for pensions administration, which already includes Hampshire Constabulary and Hampshire Fire and Rescue Service.
- 12.3. The same processes and service standards will be delivered for West Sussex as for Hampshire, ensuring efficient and effective administration is achieved for all members and employers. Pensions Services will ensure the appropriate staffing levels are in place to meet the increased workload and to maintain the existing agreed service standards in line with the administration strategy.

**CORPORATE OR LEGAL INFORMATION:****Links to the Corporate Strategy**

|   |    |
|---|----|
| <b>Hampshire safer and more secure for all:</b>   | no |
| <b>Maximising well-being:</b>   | no |
| <b>Enhancing our quality of place:</b>  | no |
| <b>OR</b>   |    |
| <b>This proposal does not link to the Corporate Strategy but, nevertheless, requires a decision as an action is required by the Pension Fund Panel and Board as the Administering Authority for the Hampshire Pension Fund.</b> |    |

**Section 100 D - Local Government Act 1972 - background documents**

**The following documents discuss facts or matters on which this report, or an important part of it, is based and have been relied upon to a material extent in the preparation of this report. (NB: the list excludes published works and any documents which disclose exempt or confidential information as defined in the Act.)**

DocumentLocation

None

## **IMPACT ASSESSMENTS:**

### **13. Equality Duty**

13.1. The County Council has a duty under Section 149 of the Equality Act 2010 ('the Act') to have due regard in the exercise of its functions to the need to:

- Eliminate discrimination, harassment and victimisation and any other conduct prohibited under the Act;
- Advance equality of opportunity between persons who share a relevant protected characteristic (age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, gender and sexual orientation) and those who do not share it;
- Foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

**Due regard in this context involves having due regard in particular to:**

- a. The need to remove or minimise disadvantages suffered by persons sharing a relevant characteristic connected to that characteristic;
- b. Take steps to meet the needs of persons sharing a relevant protected characteristic different from the needs of persons who do not share it;
- c. Encourage persons sharing a relevant protected characteristic to participate in public life or in any other activity which participation by such persons is disproportionately low.

### **13.2. Equalities Impact Assessment:**

13.3. Equality objectives are not considered to be adversely affected by the proposals in this report.

### **14. Impact on Crime and Disorder:**

14.1. The proposals in this report are not considered to have any direct impact on the prevention of crime.

### **15. Climate Change:**

15.1. How does what is being proposed impact on our carbon footprint / energy consumption?

No specific impact.

15.2. How does what is being proposed consider the need to adapt to climate change, and be resilient to its longer term impacts?

No specific impact.