

HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Panel:	Pension Fund Panel and Board
Date:	4 December 2020
Title:	Governance: Administration performance update
Report From:	Director of Corporate Resources

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Purpose of this Report

1. The purpose of this report is to update the Panel and Board on administration performance in the first six months of 2020/21, and to provide information about other administrative issues.
2. The report also seeks approval for the updated Communication Policy Statement, which is attached in Appendix 1.

Recommendation(s)

3. It is recommended that the Panel and Board:
 - note the strong performance of Pension Services and Scheme Employers so far in 2020/21
 - note the update on other administrative issues
 - approve the draft Communication Policy Statement

Executive Summary

4. In the first six months of 2020/21 Pensions have:
 - continued to meet service standards for all casework, as well as produce annual benefit statements for almost 100% of active and deferred members. Employers have also continued to improve the quality and timeliness of the data they provide to Pension Services.

- re-procured the pension administration system UPM for a further five year term.
 - demonstrated an improvement in both the common and conditional data scores which are reported annually to the Pension Regulator. Work has also started on tracing the addresses of approximately 8,000 members with whom the Fund has lost contact.
 - commenced development of a high level plan to implement the McCloud remedy, although most actions are dependent on MHCLG publishing the final details of how this will be administered in the LGPS. The project will place an administrative burden on both the Fund and Scheme Employers.
 - continued to develop the online tools available to members and employers and the draft Communication Policy Statement has been updated to reflect this new focus.
5. The LGPS regulations have been amended to allow greater employer flexibilities on exit but these cannot be acted on until statutory guidance has been published, which is expected to be in early 2021. This paper sets out further details.
6. The report also seeks approval for the updated Communication Policy Statement, which is attached in Appendix 1.

Administration performance

7. Administration performance against key service standards is measured each month, with a target of 100% achievement within the agreed standards. All casework is measured against a 15 day standard, with the exception of deferred benefits which have a 30 day standard.

Pension Services have continued to deliver 100% achievement against all standards. Performance for the first two quarters of 2020/21 is shown in the tables below.

Quarter 1: April – June 2020

Type of Case	Time to Complete						Total	% completed on time
	0 – 5 days	6 – 10 days	11 -15 days	16 – 20 days	21 – 30 days	31 + days		
Active Retirement	103	61	42	0	0	0	206	100.00%
Deferred Retirement	100	79	226	0	0	0	405	100.00%
Estimates	76	180	76	0	0	0	332	100.00%
Deferred Benefits	61	26	170	492	755	0	1,504	100.00%
Transfers In & Out	0	7	20	0	0	0	27	100.00%
Divorce	7	28	35	0	0	0	70	100.00%
Refunds	251	3	5	0	0	0	259	100.00%
Rejoinders	50	53	63	11	0	0	177	100.00%
Interfunds	17	25	44	0	0	0	86	100.00%
Death Benefits	189	33	44	0	0	0	266	100.00%
Grand Total	854	495	725	503	755	0	3,332	100.00%

Quarter 2: July – September 2020

Type of Case	Time to Complete						Total	% completed on time
	0 – 5 days	6 – 10 days	11 -15 days	16 – 20 days	21 – 30 days	31 + days		
Active Retirement	89	61	96	0	0	0	246	100.00%
Deferred Retirement	63	68	286	0	0	0	417	100.00%
Estimates	49	176	340	0	0	0	565	100.00%
Deferred Benefits	82	155	223	405	613	0	1,478	100.00%
Transfers In & Out	15	17	46	0	0	0	78	100.00%
Divorce	3	34	37	0	0	0	74	100.00%
Refunds	232	3	1	0	0	0	236	100.00%
Rejoinders	31	38	43	11	0	0	123	100.00%
Interfunds	44	27	46	0	0	0	117	100.00%
Death Benefits	134	55	46	0	0	0	235	100.00%
Grand Total	742	634	1,164	416	613	0	3,569	100.00%

End of year returns and employer performance

- Employers have to complete an annual return and submit it to Pensions by 30 April. This data is used to update pension records with current pay information and is subsequently used to produce annual benefit statements.

During the annual return process, employers are measured for timeliness, financial control and data quality. Any Scheme Employer who is highlighted as a concern, or who has a red rating for data quality, is required to complete

a data validation exercise to confirm that the membership data we hold for the current year is up to date and correct.

9. A breakdown of employer performance is shown below but in summary:
- 153/332 employers were assessed as meeting all 3 areas of requirement in our benchmarking. This has improved from 114/334 in 2019.
 - There were no employers who were marked as a major fail in all 3 areas (also none in 2019)
 - For those employers assessed as failing on 'Data Quality' the main area of failure was due to outstanding starter and leaver notifications.
 - Despite the increase in membership, the level of queries remained at 4%.
 - 66 employers (20%) had major data quality issues and will therefore be asked to undertake a data validation exercise (18.6% in 2019).

Table of employer performance for 2019/20 year end

	Return received before deadline	Return received between 1 May and 31 May	Return received more than 1 month late
Timeliness	285 (86%)	35 (10%)	12 (4%)
	No reconciliation issues	Minor reconciliation issues/quickly resolved	Major reconciliation issues and/or slow/failed to respond
Financial control	284 (85%)	37 (11%)	11 (4%)
	Data quality good (less than 2% of membership)	Minor data quality issues (Between 2 and 5% of membership)/quickly resolved	Major data quality issues (more than 5% of membership) and/or slow/failed to respond
Data quality	199 (60%)	67 (20%)	66 (20%)

10. In the report to the Panel and Board in July 2020, concerns were raised about Southampton City Council who had failed to provide an end of year return for

the main council or its school employees by the deadline. Pension Services have been working closely with SCC and are pleased to be able to report that:

- SCC provided an acceptable annual return which was uploaded in time for annual benefit statements to be sent to their members, and for annual allowance letters to be produced, before the statutory deadlines
- all annual return queries have been resolved for both SCC and SCC schools
- there are now monthly meetings in place with both SCC and Capita with positive employer engagement
- representatives from SCC have attended all Employer training events held since the summer as well as the AEM in November
- SCC have provided unique reference numbers to resolve a long standing issue with multiple employments (i.e. if a person holds more than one post with SCC, Pension Services need to be able to allocate earnings to the correct record and so need a unique reference)
- SCC have provided a mid-year annual return which has been uploaded with the queries now back with SCC to resolve. Although there is still some work to do, the level of queries and issues from the mid year return were at a much improved level.

Annual benefit and pension saving statements

11. Annual benefit statements were produced for 99.73% of active members and for 100% of deferred members by the statutory deadline of 31 August 2020. Of the 161 members who did not have a statement by the deadline, only 80 are now still outstanding. 72 of these are waiting for information from employers before a statement can be produced.
12. Pension Savings Statements (PSS) were produced by the statutory deadline of 6 October for the 99 members who were identified as breaching the annual allowance limit in 2019/20. Of these 99 members, 34 have a tax charge which they will either pay directly or via the scheme pays facility.

Annual Employer Meeting 2020

13. Due to Covid-19, the Annual Employer Meeting (AEM) was held virtually via Teams Live on Monday 9 November. The event was attended by 121 people, representing over 100 employers and survey feedback shows that it was well received. 12 responses were received and the results were largely positive.
 - 92% of people who responded to the survey agreed that the AEM provided them with the information they needed

- No-one had any issues with the technology and everyone surveyed said they were clear on how to ask a question
- Updates on market trends as well as the actuarial update were judged to be the most interesting sessions
- Everyone felt the virtual event worked well for them and would be happy to attend future virtual events.

Pension administration software contract

14. The pension administration system, UPM, provided by Civica, was purchased in 2013 and the contract was due to expire in November 2020. UPM has now been re-procured for an initial five year term, with the option to extend for a further two years to 2027.
15. The new software licence allows access to all system enhancements which are currently available, as well as any which Civica develop over the five year contract, representing significant savings on purchasing these modules separately. The Hampshire share of the new licence represents a £4k reduction on the original contract.
16. As well as the licence cost, there is an annual charge which includes the costs of keeping the system updated in line with legislation. Hampshire's share of the new annual service charge is £18k more than the Fund has been paying (representing an additional 10p per member) but is fixed for the contract term (i.e. will not increase as further modules are implemented over the 5 year period). A number of pre-paid consultancy days were included with the new contract which allows Hampshire to benefit from a reduced day rate when new modules are implemented.

The Pension Regulator scheme return

17. The Pension Regulator (TPR) requires schemes to complete an annual return providing details of the contributing employers and governance arrangements. Since 2018, TPR has required schemes to report on the presence and accuracy of common data (information about the individual and basic retirement information) and conditional data (required to calculate specific scheme benefits) as part of the annual return.
18. The score is based on a pass/fail approach for each member against all data items. This means that if an individual has a single piece of data missing then the individual will count as a fail (even if all other data is present and accurate).

19. The conditional data score has been calculated as 95% (94% in 2019). A total of 8,039 records failed one or more of the 22 conditional data validations, with a significant majority failing in one of two areas; a deferred record missing a final pensionable pay element or a pensioner record missing crystallised benefit data. Neither of these elements affect the payment of benefits to members and are a result of historic data transfers between systems. Both of these elements are on the data improvement plan for resolution and discussions with Civica about bulk fixes are in progress.
20. The common data score for 2020 has been calculated as 93% (92% in 2019). The majority of fails are lost contact records and in July 2020, the Panel and Board approved the spend of up to £60,000 to trace the addresses of around 8,000 members who hold a deferred benefit or frozen refund. Work on this project started in September 2020 and the initial report shows that:
- 148 members were living at the address already held, so no further action is needed
 - 29 members have been found to be deceased so have been passed to Pension Services to process the death benefits
 - 2,463 have a high match at a new address, so will be contacted to be told that their new address will be given to Pension Services
 - 1,860 have a medium match to a new address, so further contact will be made to verify this before the address is confirmed to Pension Services
 - 1,773 require a manual trace, at a cost of £20 per successful trace.

Based on these initial results, the maximum cost of the exercise will be £48,500. It is anticipated that this project will be completed in early 2021 and will further improve the common data score for 2021/22.

McCloud

21. A response to the MHCLG consultation on implementing the McCloud remedy in the LGPS was submitted in October 2020. The response focussed on the huge administrative burden that the proposed approach will place on both Pension Services and Scheme Employers. However it is not anticipated that MHCLG will make any major changes to their proposals as a result of this input and planning has commenced on the basis of the likely work outlined in the consultation paper.
22. This means that over the next two years, there will be two significant exercises which will need to be carried out as well as the actual changes to calculations required for members affected by the remedy. The first of these is to collect historic service data for members so that an 'underpin' calculation can be carried out at various points comparing the benefits in the CARE scheme with what the member would have received had they stayed in the final salary scheme. The second is an exercise to contact all members with

separate periods of LGPS service to see if they want to aggregate them into a single record, so as to benefit from the underpin.

23. Although neither piece of work can start in earnest until MHCLG publishes the final regulations, employers have already been contacted with the draft data collection template which they will need to use and a further communication is planned for mid December to formally request the first part of the data by 31 March 2021.
24. Civica have provided the first part of the new software that will be required which allows Pension Services to identify affected members and provides the facility to upload the service data once it has been collected from employers.
25. Although it is not anticipated that the McCloud remedy will materially increase liabilities for the Fund, it is likely to require an increase in administrative resource and investment in additional software functionality. This cost will be shared between the Fund and the other partners for whom Pension Services provide pension administration services.

LGPS regulation changes

26. Amendments to the LGPS regulations came into effect on 23 September which provide for greater flexibility for Scheme Employers who leave the Fund. The new regulations introduce:
 - the ability to amend employer contributions between valuations if the liabilities or the employer covenant have changed significantly, or if the employer requests a review
 - the ability to enter into formal agreements to spread the payment of an exit payment
 - the concept of deferred employers and deferred debt agreements - allowing an exiting employer to pay secondary contributions over an agreed period rather than requiring an immediate exit payment
27. Before any of these new flexibilities can be used, the administering authority must have set out its policy on them in the Funding Strategy Statement. In forming that policy, the administering authority must have regard to the MHCLG statutory guidance and the SAB guidance on these flexibilities. However neither set of guidance has yet been published and therefore no further action can be taken at the moment.
28. It is anticipated that the guidance will be available in the new year following which a draft policy can be formulated for consultation and approval.

Online offer and draft Communication Policy Statement

29. Work on improving the online offer for members and employers has continued during 2020/21. It was reported to the Panel and Board in July that an estimate facility had been implemented, allowing members to run their own calculations via the Member Portal. This facility has now been used thousands of times in the last few months, and deferred members are now encouraged to use the Portal for an estimate when they claim their benefits instead of requesting one from the team.
30. Members can now also complete their retirement declaration form online rather than having to do this on paper and send it in with their certificates prior to receiving their pension.
31. The new Employer Hub has been installed into UPM and a plan is in place to roll this out to current employer users prior to the end of December 2020. New employers will then be added during 2021 with the aim of having the majority of employers using the Hub by the end of 2021/22.
32. The Communication Policy Statement has been updated to reflect the focus on the Member Portal and Employer Hub as key methods of communication. The main changes have been highlighted on pages 1,2,3, and 4 of the draft statement which is attached as Appendix 1 to this report. The Panel and Board are asked to approve the draft statement.

REQUIRED CORPORATE AND LEGAL INFORMATION:

Links to the Strategic Plan

Hampshire maintains strong and sustainable economic growth and prosperity:	yes/no
People in Hampshire live safe, healthy and independent lives:	yes/no
People in Hampshire enjoy a rich and diverse environment:	yes/no
People in Hampshire enjoy being part of strong, inclusive communities:	yes/no
OR	
This proposal does not link to the Strategic Plan but, nevertheless, requires a decision because the Pension Fund Panel and Board need to approve an statutory statement.	

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.)

Document

Location

None

EQUALITIES IMPACT ASSESSMENT:

1. Equality Duty

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 by or under the Act with regard to the protected characteristics as set out in section 4 of the Act (age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation);
- Advance equality of opportunity between persons who share a relevant protected characteristic within section 149(7) of the Act (age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex and sexual orientation) and those who do not share it;
- Foster good relations between persons who share a relevant protected characteristic within section 149(7) of the Act (see above) and persons who do not share it.

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

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

2. Equalities Impact Assessment:

Equality objectives are not considered to be adversely affected by the information in this report as it affects all scheme members.