

HAMPSHIRE COUNTY COUNCIL

Decision Report

| | |
|------------------------|---|
| Decision Panel: | Pension Fund Panel and Board |
| Date: | 27 July 2021 |
| Title: | Governance: Administration performance update |
| Report From: | Director of Corporate Operations |

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Purpose of this Report

1. The purpose of this report is to:
 - update the Panel and Board on administration performance for 2020/21,
 - seek approval for delegated authority to proceed with a re-tender for the actuarial services contract,
 - seek approval for the updated Communication Policy Statement,

Recommendation(s)

2. It is recommended that the Panel and Board:
 - note the strong performance of Pension Services in 2020/21
 - delegate authority to the Director of Corporate Operations to use the National LGPS Frameworks framework for Actuarial, Benefits and Governance Consultancy Services to procure actuarial services for the Fund
 - approve the updated Communication Policy statement for publication.

Executive Summary

3. Pension Services have performed well against the four key measures of good administration in 2020/21. The team has been able to maintain its service despite the continuing Covid-19 situation.
4. Employers have provided their annual returns to Pensions which provides information on active members and is used to produce annual benefit

statements. All these returns have been uploaded onto the pension administration system.

5. The work to trace the current addresses for around 6,000 members has resulted in over 4,300 addresses being updated on the system. A further full manual trace is being carried out on x members.
6. Employers were consulted on the Employer Flexibility policy which was approved in draft by the Pension Fund Panel and Board. Following the consultation period, no changes were made to the policy and it was published on 2 June 2021.
7. The National LGPS Frameworks framework for Actuarial, Benefits and Governance Consultancy Services is now live and the Panel and Board are asked to delegate authority to the Director of Corporate Operations to run a mini competition to re-procure actuarial services for the Fund from this framework.
8. The McCloud remedy project is underway with employers requested to provide data for their active members affected by the legislation.
9. The Pensions team has self-certified against the Pension Regulator's Pledge on Scams, committing to regularly warn members about pension scams and take appropriate actions to prevent scams taking place.
10. Work has started on a cyber security statement which sets out the controls in place to prevent an incident and the plans to respond should one occur. This will be presented to the Panel and Board in December 2021.
11. The Communication Policy Statement has been updated and the Panel and Board are asked to approve it for publication.

Administration performance

12. As at 31 March 2021, there were 337 active employers paying into the Hampshire Pension Fund, and a total of 183,410 members. The table below provides a detailed breakdown of the membership by employer type:

| Employer Type | Employers | Member type | | |
|---------------------------------|------------|----------------|------------------|-------------------|
| | | Active members | Deferred members | Pensioner members |
| Scheduled | 184 | 57,459 | 76,596 | 42,840 |
| Resolution | 59 | 291 | 207 | 223 |
| Admitted | 62 | 1,107 | 1,113 | 1,128 |
| Community admitted | 13 | 64 | 307 | 377 |
| Transferee admitted | 19 | 79 | 279 | 240 |
| Active employers total | 337 | 59,000 | 78,502 | 44,808 |
| Councillors (no active members) | 10 | 0 | 89 | 132 |
| Ceased (no active members) | 52 | 0 | 243 | 636 |
| Grand total | 399 | 58,913 | 78,834 | 45,576 |

13. Pensions Services administer the Hampshire LGPS and have performed well against the four key measures of good administration in 2020/21:

- 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.

Cost per member

14. One of the key external measures of administration performance is cost per member. The 2020/21 administration cost per member was £12.60 (the comparative cost per member for 2019/20 was £12.30).

15. 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 2019/20 on which Hampshire was the 4h largest Fund by membership and, at £16.34, had the second lowest combined administration and governance cost per member out of the 89 English and Welsh Funds. The average cost per member across all Funds was £35.70.

Audit reports

16. The annual internal audit opinion for Pensions has been presented to the Panel and Board in a separate report. Pensions have received good reports for the reviews completed during the year with substantial assurance given for the annual pensions payroll review and the triennial review of pension refunds. A new audit of UPM, the pensions system, is due to conclude shortly. This audit was requested as part of Pension Service's response to

the growing focus on cyber security which is discussed in paragraphs 45 and 46 below. At the close of audit meeting there were a number of areas raised which will require follow up actions, some of which have already been completed such as increasing the frequency of mandatory completion of the data protection training for all staff from every 2 years to every year.

Customer Service Excellence

17. Pensions Services comply with the requirements for the national standard for excellence in customer service (CSE), which considers how the service delivers against over 50 criteria in five key areas:

- Customer insight
- Culture of the organisation
- Information and access
- Delivery
- Timeliness and quality of service

18. Pensions Services have held the Customer Service Excellence (CSE) standard since 2009, and retained the award following a full triennial assessment in April 2021, with compliance plus passes in five areas:

- We can demonstrate how customer facing staff insights, and experiences are incorporated into internal processes, policy development and service planning.
- We make our services easily accessible to all customers through a provision of a range of alternative channels.
- We monitor and meet our standards, meet departmental and performance targets and we tell our customers about our performance.
- We have developed and learned from best practice identified within and outside our organisation, and we publish our examples externally where appropriate.
- We identify any dips in performance against our standards and explain these to customers, together with action we are taking to put things right and prevent further recurrence.

Performance against service standards (KPIs)

19. The KPIs for Pensions evidence the good performance in 2020/21 with 100% achievement against service standards for all key processes.

20. The tables below show the performance for the second two quarters of 2020/21. All casework was measured against a 15 day standard, apart from

re-joiners which have a 20 day standard, and deferred benefits which have a 30 day standard.

Q3

| Type of Case | Time to Complete (days) | | | | | | Total | % completed on time |
|---------------------|-------------------------|------------|--------------|------------|--------------|----------|--------------|---------------------|
| | 0 – 5 | 6 – 10 | 11 - 15 | 16 – 20 | 21 – 30 | 31 - 40 | | |
| Active Retirement | 84 | 79 | 65 | 0 | 0 | 0 | 228 | 100.00% |
| Deferred Retirement | 93 | 178 | 181 | 0 | 0 | 0 | 452 | 100.00% |
| Estimates | 120 | 187 | 357 | 0 | 0 | 0 | 664 | 100.00% |
| Deferred Benefits | 59 | 25 | 89 | 147 | 1948 | 0 | 2,268 | 100.00% |
| Transfers In & Out | 79 | 10 | 61 | 0 | 0 | 0 | 150 | 100.00% |
| Divorce | 40 | 47 | 37 | 0 | 0 | 0 | 124 | 100.00% |
| Refunds | 314 | 102 | 0 | 0 | 0 | 0 | 416 | 100.00% |
| Rejoiners | 18 | 41 | 76 | 33 | 0 | 0 | 168 | 100.00% |
| Interfunds | 31 | 15 | 89 | 0 | 4 | 6 | 145 | 93.10% |
| Death Benefits | 174 | 30 | 45 | 0 | 0 | 0 | 249 | 100.00% |
| Grand Total | 1,012 | 714 | 1,000 | 180 | 1,952 | 6 | 4,864 | 99.31% |

Q4

| Type of Case | Time to Complete (days) | | | | | | Total | % completed on time |
|---------------------|-------------------------|------------|------------|------------|--------------|----------|--------------|---------------------|
| | 0 – 5 | 6 – 10 | 11 - 15 | 16 – 20 | 21 – 30 | 31 - 40 | | |
| Active Retirement | 102 | 69 | 48 | 0 | 0 | 0 | 219 | 100.00% |
| Deferred Retirement | 75 | 84 | 146 | 0 | 0 | 0 | 305 | 100.00% |
| Estimates | 198 | 308 | 209 | 0 | 0 | 0 | 715 | 100.00% |
| Deferred Benefits | 50 | 17 | 78 | 209 | 1171 | 0 | 1,525 | 100.00% |
| Transfers In & Out | 51 | 24 | 29 | 0 | 0 | 0 | 104 | 100.00% |
| Divorce | 44 | 36 | 15 | 0 | 0 | 0 | 95 | 100.00% |
| Refunds | 248 | 27 | 8 | 0 | 0 | 0 | 283 | 100.00% |
| Rejoiners | 47 | 54 | 34 | 8 | 0 | 0 | 143 | 100.00% |
| Interfunds | 73 | 52 | 35 | 0 | 0 | 0 | 160 | 100.00% |
| Death Benefits | 195 | 35 | 59 | 0 | 0 | 0 | 289 | 100.00% |
| Grand Total | 1,083 | 706 | 661 | 217 | 1,171 | 0 | 3,838 | 100.00% |

21. The performance for 2020/21 is summarised in the table below.

| Area of work | Service standard | Number of cases | % cases completed against service standard | | | |
|----------------------|------------------|-----------------|--|------------|------------|------------|
| | | | Q1 - 20/21 | Q2 - 20/21 | Q3 - 20/21 | Q4 - 20/21 |
| | | | % | % | % | % |
| Retirement | 15 days | 1,001 | 100 | 100 | 100 | 100 |
| Deferred Retirement | 15 days | 1,494 | 100 | 100 | 100 | 100 |
| Estimate | 15 days | 1,660 | 100 | 100 | 100 | 100 |
| Deferred | 30 days | 6,140 | 100 | 100 | 100 | 100 |
| Transfers In and Out | 15 days | 281 | 100 | 100 | 100 | 100 |
| Divorce | 15 days | 315 | 100 | 100 | 100 | 100 |
| Refund | 15 days | 1,037 | 100 | 100 | 100 | 100 |
| Rejoiners | 20 days | 562 | 100 | 100 | 100 | 100 |
| Interfunds | 15 days | 490 | 100 | 100 | 100 | 100 |
| Death benefits | 15 days | 946 | 100 | 100 | 100 | 100 |

22. A total of 2,514 Scheme members retired during 2020/21, with an average retirement age of 62 years. Of this number, 1,689 (or 67.2%) took some form of early retirement including 123 ill health retirements and 933 members choosing to take a reduced pension.
23. The average annual pension paid in 2019/20 was £5,042 (£5,038 in 2020/21).
24. The annual exercise to apply the statutory pensions increase to pensions in payment and deferred payments was completed as planned. Deferred annual benefit statements were produced for 100% of members by the end of June, ahead of the statutory deadline of 31 August.

Impact of Covid-19

25. All pensions staff have continued working remotely from home during 2020/21, and there has been no impact on performance against service standards.
26. Whilst a full service has been maintained, in terms of making contact with Pension Services, Members and Employers were asked to email where possible to leave lines clear for those without internet access. Consequently call volumes were below normal levels, however email volumes rose correspondingly meaning that total queries in 2020/21 equalled those in 2019/20 at around 85,000.
27. Processes have been changed to make use of electronic communications where possible (see paragraphs 47 and 48) and a new contract has been awarded to Xerox for any remaining external printing that is required. Incoming post is now opened and scanned by Hampshire Printing Services which has removed the need for any additional pension staff to attend the office. It is anticipated that all pensions staff will return to the office one day a week from September, in order to build on team relationships and more easily facilitate ongoing joint projects.

Timeliness of contributions

28. All employer contributions due for 2020/21 have been received. The last contribution payment was received on 10 May 2021.
29. A total of £0.591m was paid late (£3.845m in 2019/20) which was 0.12% of the total contributions received. The average delay on all late payments received during 2020/21 was 9 days (11 days in 2019/20). Receipt of

contributions is reviewed monthly to determine if any action is required. No late payment interest was charged for 2020/21.

National Fraud Initiative

30. Pension Services run a monthly mortality screen to ensure that all deaths are reported promptly to the Fund and to minimise overpayments of pension. Overpayments are recovered by the Fund by invoice to the estate, or, with permission from the beneficiary, from a death grant or dependant pension. The table below shows the breakdown of how overpayments were recovered by the Fund.

| Recovered From | Number | Total value |
|-----------------------|---------------|--------------------|
| Death Grant | 50 | £9,935.77 |
| Dependant Pension | 224 | £94,096.81 |
| Invoice | 357 | £142,252.80 |
| Write Off | 99 | £2,953.99 |
| Total | 730 | £249,239.37 |

31. The Fund also participates in the bi-annual National Fraud Initiative (NFI). The 2021 NFI exercise identified four deaths with a total potential recovery of £1,634.

Annual returns

32. Employers are required to provide an annual return by 30 April containing details of all employees who contributed during the year. The full detail of employer performance against the annual return process is reported to the Panel and Board as part of the December administration update, after the exercise has been completed.
33. 297/336 returns were received by the deadline, with the remaining 39 received by the end of May 2021. All returns have been uploaded and 1,648 queries have been raised with employers, of which 368 are still outstanding. Employers are given a fortnight to respond and the team keeps in close contact to ensure that replies to all queries are received.

Member Portal and address tracing

34. Work has continued in the year to improve the Member Portal, with the aim of this being the primary way in which members can engage with their pension

information. There were 54,216 members registered on the Member Portal by 30 June 2021 (48,805 by June 2020).

35. Work has continued to trace the 6,273 deferred members with no current address held on their record. Over 4,300 addresses have now been confirmed and uploaded onto UPM. Around 690 of the remaining lost contacts will now be moved onto a full trace, at a cost of £20 per successful trace. This work will have a positive impact on the Fund's data quality scores which will be reported to the Pensions Regulator in November.

Update on the Employer Flexibilities policy

36. At the meeting on 26 March 2021, the Panel and Board agreed a draft policy on the employer flexibility regulations for consultation with employers. The consultation ran from 29 March to 21 May 2021 and two employers provided feedback. Both employers commented that the policy appeared to discourage the use of a Deferred Debt Agreement (DDA) for smaller employers. The wording of the policy was reviewed by officers for this feedback but was left unchanged. Whilst the policy states that the Fund is unlikely to consider that the costs of a DDA are appropriate for employers with small exit deficits, the overriding message in the policy is that each case will be considered on its own merits.
37. The Panel and Board delegated authority to the Director of Corporate Resources to approve the final version of the new policy, subject to their being no material changes required as part of the employer consultation. Therefore the revised Funding Strategy Statement and Administration Strategy were published on the Fund's website on 2 June 2021.

Re-tender for actuarial services

38. In 2014 the Pension Fund let a contract for Actuarial Services to Aon via the LGPS National Framework. The original contract ran to 31 December 2018 and the option to extend for a further 2 years was exercised. The intention was that in advance of the expiry of the current contract in December 2020 a new contract would be let through the next iteration of the LGPS National Framework for Actuarial Services, which was due to be let in June 2020. Unfortunately due to the pandemic, the new framework was delayed by a year and the existing contract was extended for a further year to 31 December 2021.
39. The new LGPS National Framework for Actuarial, Benefits and Governance Consultancy Services is now live and the Panel and Board are asked to delegate authority to the Director of Corporate Operations to use this framework to procure actuarial services for the Fund by way of a mini competition between the four providers for Lot 1 on the framework.

McCloud

40. In May 2021, the Local Government Minister made a Written Ministerial Statement on McCloud and the LGPS. The statement confirms the key changes to scheme regulations that will be made to remove age discrimination from the LGPS. The statement confirms that:

- The age requirement for underpin protection will be removed
- A member will not need to leave with an immediate entitlement to benefits to qualify for underpin protection
- The remedy period will end on 31 March 2022
- The underpin calculation will be based on final pay at the underpin date, even if this is after 31 March 2022
- There will be two stages to the underpin calculation: the first on the underpin date which is the date of leaving or age 65, if earlier, the second when the benefits are paid
- The regulations will be retrospective to 1 April 2014.

MHCLG are expected to issue a full response to the consultation and to publish draft regulations later this year, with final regulations published by 1 April 2023.

41. In the meantime, the focus of the internal project team has been on gathering the required service data from all employers in the Fund. Employers were requested to provide service data for the period 1 April 2014 to 31 March 2020 by 31 March 2021, but with the normal end of year return remaining the priority. A number of employers have requested extensions to providing the McCloud data and revised dates have been mutually agreed. Where data has not been received and no extension requested, the team has been in contact to discuss the issues on an individual basis with the employer.

42. The table below shows the status of the LGPS bulk service data collection to the end of June 2021.

| | | |
|--|-----|-----|
| Number of employers requested to provide data | | 340 |
| Number of completed Data Collection templates received | | 288 |
| Number of initial checks completed on templates received | 122 | |
| Number of employers ready for upload | 41 | |
| Number of Data Collection templates outstanding | | 52 |

43. Initial checks are being performed on the data collection templates from employers with around 90% so far being returned to employers to make

changes to their data. This is mostly a formatting issue and no significant issues have been identified at this stage. The team is currently testing a revised bulk loading tool which will allow the data to be imported into UPM.

44. The costs of the McCloud project team are being split across the LGPS funds administered by Hampshire Pension Services. The current estimate for this work in 2021/22 is £75,000, and this will be recharged separately to the Fund in addition to the approved administration charge. This will be reviewed on an ongoing basis.

Pension scams

45. In March 2021, the self certification process was completed for the Pension Regulator's Pledge on Scams. This means that staff have completed the scams module in the TPR's toolkit and certified that the required actions have been taken such as committing to:

- regularly warn members about pension scams
- encourage members asking for cash drawdown to get impartial guidance from one of the services offered by the Money and Pensions Service
- get to know the warning signs of a scam and best practice for transfers by completing the scams module in the Trustee Toolkit and encouraging all relevant staff or trustees to do so; studying and using the resources on the Financial Conduct Authority (FCA) ScamSmart website, our scams information and the PSIG code; considering becoming a member of the Pension Scams Industry Forum by contacting PSIG
- take appropriate due diligence measures by carrying out checks on pension transfers and documenting pension transfer procedures
- clearly warning members if they insist on high-risk transfers being paid
- report concerns about a scam to the authorities and communicate this to the scheme member

Transfer letters now show the Pledge logo to provide members with assurance about the security of their benefit held within the Fund. Work is ongoing to ensure that processes are updated as further guidance is published, to ensure the ongoing security of benefits.

Cyber security

46. With all member records held on an electronic database, and online access becoming the main route for communicating with members and employers, cyber security is vital for the Fund. The administration system is hosted by Hampshire IT Services and is therefore subject to all the controls which are in place to protect the County Council's systems from a cyber incident. However the Pensions Regulator (tPR) requires Funds to take a more pro-

active approach to cyber security than just a reliance on the host council's processes. A cyber statement is therefore being drafted which will document the ways in which the Fund protects its IT systems and online presence. This will be brought to the Panel and Board for approval at their December meeting.

47. The statement will cover each of the elements of the tPR recommended risk assessment cycle, namely:

- an assessment and understanding of the risks
- the controls in place
- monitoring and reporting

The statement will highlight where additional work is needed and link to the Fund's Business Plan as necessary.

Communication Policy Statement

48. Following several years of promoting the Member Portal to pensioners, they have now given a year's notice that pensioners will no longer be automatically sent a paper payslip and P60 in March/April each year. This change is part of the overall move towards increasing online communications – there has been really good take up for those parts of the membership where an opt out rather than opt in approach is already in place.

49. Our response to Covid has meant that we have accelerated our move to electronic communication where possible to minimise staff having to go into offices and to ensure that we continue to deliver our excellent service standards whilst we work remotely. As part of this we have continued to invest in our Member Portal to improve the user experience and promote this as the main route into our service.

50. Although it was clear in the newsletter that pensioners can continue to receive paper copies of their annual payslip and P60s by opting out of electronic communication, the announcement understandably has generated some concern. These concerns have been responded to on an individual basis, either through supporting the pensioner to access the Portal or accepting a request to opt out of electronic communications. A quarter of pensioners have made a choice with 11,099 pensioners registered for the Portal by 30 June and a further 459 pensioners choosing to opt out. An exercise to write to any pensioner who has not either registered or opted out is planned to start in January 2022, to ensure that all pensioners will be able to access their end of year payslips and P60s in 2022 either electronically or by receiving a paper copy.

51. In view of these changes, and other work which has been ongoing to improve our communications (see agenda Item 9), the Communication Policy Statement has been updated to more accurately reflect the ways in which Pension Services communicate with stakeholders. The draft document is shown as Appendix 1 to this report.

The key changes in the Statement are:

- to place more emphasis on the Member Portal and Employer Hub while acknowledging the alternatives provided in terms of accessibility issues.
- a new section about the Pension Fund Panel and Board (page 3)
- updated information about the way in which the helpdesk works (page 3)
- reference to increased information on the website regarding Fund Governance (page 4)
- a clearer statement about using the Member Portal and the ability of members to opt out of electronic communications (page 5)
- expanded sections on employer communications and communications with external bodies (pages 8 and 11).

The Pension Fund Panel and Board are asked to approve the amended Communication Policy Statement for publication on the Fund's website.

Climate Change Impact Assessments

52. Hampshire County Council utilises two decision-making tools to assess the carbon emissions and resilience of its projects and decisions. These tools provide a clear, robust, and transparent way of assessing how projects, policies and initiatives contribute towards the County Council's climate change targets of being carbon neutral and resilient to the impacts of a 2°C temperature rise by 2050. This process ensures that climate change considerations are built into everything the Authority does.

53. The climate change and carbon control mitigation tools were not applicable for this report because the decisions in this report relate to the in-house management of the administration of the pension scheme and therefore have a neutral impact on climate change.

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 a statutory document and delegate authority to the Director of Corporate Operations to carry out a mini competition to re-procure actuarial services for the Fund. | |

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.