

Report for: Pensions Committee and Board 18 January 2018

Item number: 8

Title: Pensions Administration Arrangements

Report authorised by: Clive Heaphy, CFO and S151 Officer

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Ward(s) affected: N/A

**Report for Key/
Non Key Decision:** Non Key decision

1. Describe the issue under consideration

- 1.1. The Pensions service has completed a review of its current resourcing levels, including benchmarking of these against other London Boroughs. The results and recommendations arising from this are presented in this report.

2. Cabinet Member Introduction

- 2.1. Not applicable.

3. Recommendations

- 3.1. That the Pensions Committee and Board agree to the creation of two additional Pensions Officer posts within the pensions administration team, based on the findings of the review of resourcing presented in this report.

4. Reason for Decision

- 4.1. Under section 5 of the Public Service Pensions Act 2013, Haringey Pensions Committee and Board is responsible for assisting Haringey Council in its capacity as Administering Authority in relation to 'securing compliance with the scheme regulations and other legislation relating to the governance and administration of the scheme'.
- 4.2. In September 2017, the CIPFA Pensions Panel wrote to S151 Officers of Administering Authorities to remind them '*of their responsibilities regarding the resourcing requirement for Local Government Pension Scheme (LGPS) Funds*'. This letter noted that after the past seven

years of austerity, the CIPFA Pensions Panel has: *'become increasingly concerned that in some instances this may now be impacting on the effective administration of the scheme.'* The letter goes on to note that *'Following the 2016 Triennial Valuation the four actuarial firms identified major concerns with the quality of data being submitted by funds and this has been followed up recently by The Pensions Regulator'*. This letter is appended to this report as Appendix 1.

- 4.3. In light of this, and due to current staffing pressures, the Pensions Service has reviewed the resourcing levels in the team currently, via carrying out benchmarking exercises and assessing various metrics to identify where workloads have increased or decreased over time. The results of this work is presented later in this report.

5. Other options considered

- 5.1. Around half of Local Government Pension Schemes operate models where pensions administration is partially or fully outsourced to third parties. Benchmarking previously undertaken by officers has led to the conclusion that outsourcing would be less cost effective than managing the function through in house provision. Officers also must note that they have concerns about quality issues when it comes to outsourcing pensions administration, based on their experience and those of colleagues in other authorities. This is therefore not an option that is pursued.

6. Background information

Introduction

- 6.1. The pensions administration team operate within a complex legislative framework: there have been three separate LGPS schemes with completely different governing regulations and benefit entitlements, after major changes were made to the scheme nationally in both 2008 and 2014. The majority of members of Haringey Fund have service accrued in two of the schemes, and a significant proportion of members have benefits accrued under all three different schemes. It is the duty of the pensions administration team to interpret and apply the LGPS regulations as they are written to ensure that individuals who are members of the scheme receive the correct pensions benefits owed to them under statute.
- 6.2. Besides the change in legislation there have been a number of other significant new regulatory requirements which have impacted the team in recent years, such as the introduction of annual benefit statements, auto enrolment exercise, the Local Pension Boards created by the Public Service Pensions Act 2013, and increased reporting to the Pensions Regulator. One other change which has had a large impact on the team has been increasing numbers of new scheme employers

admitted to the pension fund, with the move towards Academy School creation, and increased levels of outsourcing within LGPS employers.

Reviews of Current Arrangements

- 6.3. Recent audits of the pensions administration team's work has not indicated any significant cause for concern with the team's current performance: internal and external audit reports have been generally positive with the exception of some fairly minor recommendations:
- In late 2016 the Pensions Administration Service received a substantial assurance rating from the Council's internal auditor: Mazars (this is the second highest rating).
 - In the most recent external audit for 2016/17 completed by the Council's auditor BDO, there were no issues raised regarding pension benefit payments after the auditor completed spot checks of these. However one issue was raised regarding the timeliness of payments of contributions from some of the fund employers. The Pensions Service has noted that this is an area of resource gap within the team. The number of employers in the Fund has increased by over 400% over the last 6 years, after the national move to academy conversions, and outsourcing exercises for school cleaning and catering services.
- 6.4. It is pleasing to note that no issues have been raised regarding Haringey Pension Fund's data quality in the above audit exercises, as this is a recurring problem in LGPS, and something which is addressed in the appended CIPFA letter to S151 Officers.

Benchmarking Work

- 6.5. Officers have sought to investigate the levels of resourcing within the team in two ways:
- Firstly, by comparing the numbers of administration team posts to other similar LGPS Funds.
 - Secondly, by comparing specific metrics or activities that the team has completed and how these have varied over a six year period.
- 6.6. All LGPS Funds complete a national statistical return for the Department of Communities and Local Government each year: 'The SF3 Return'. The results of this are published annually for all funds at the below website. Amongst other things within this return, all funds report their membership totals, and the numbers of staff they employ for pensions administration duties.
<https://www.gov.uk/government/collections/local-government-pension-scheme>
- 6.7. Officers have used the results from this return to examine what the average number of pensions administration Full Time Equivalents (FTE) are within London Boroughs who operate their pensions administration service in house. Those funds who have outsourced

their pensions administration functions will report that they employ no staff for pensions administration duties: therefore these funds are not meaningful comparators.

- 6.8. London Borough Pension Funds vary significantly in size, therefore in order for this analysis to be meaningful, officers have compared the numbers of FTEs per 1,000 pension fund members. The results of this benchmarking are shown below:

Borough	Number of Admin FTEs reported on SF3 return	Fund Membership Total	Admin FTE per 1,000 members
Borough 1	4	17,796	0.225
Borough 2	5	17,653	0.283
Borough 3	4	12,985	0.308
Haringey	7	22,444	0.312
Borough 4	7	21,833	0.321
Borough 5	8	24,188	0.331
Borough 6	6	18,113	0.331
Borough 7	7	20,890	0.335
Borough 8	6	17,334	0.346
Borough 9	7	19,490	0.359
Borough 10	8	20,859	0.384
Borough 11	11	22,667	0.485
Borough 12	9	18,514	0.486
Borough 13	10	15,138	0.661
Borough 14	18	25,008	0.720
Borough 15	10	13,442	0.744
Average:			0.414

- 6.9. The table above demonstrates that Haringey has the fourth lowest ratio of administration staff to fund membership out of the London Boroughs who operate pensions administration in house. There are three boroughs who have more than double Haringey's ratio of administration staff to fund members.

- 6.10. The table above demonstrates that the average ratio of pensions administration staff to fund members is 0.414 FTEs for every 1,000 fund members. Haringey would have to have **9.3 FTEs** in the pensions administration team to be in line with the London average.

- 6.11. Since the statistical return above was completed there have been further changes in the pensions administration team, and the current staffing levels are **6.6 FTEs**.

- 6.12. Officers have further examined different metrics and activity levels and how these have changed over the period 2010/11 – 2016/17. These are presented in the table below:

Pension Fund Metric or Activity:	2010/11	2016/17	Increase or Decrease
Active Members	6,610	6,167	-6.7%

Deferred Members	6,939	8,769	26.4%
Pensioner/dependent Members	6,089	7,503	23.2%
Scheme employers	14	72	414.3%
Retirements	228	452	98.2%
Transfers in	111	46	-58.6%
Transfers out	86	47	-45.3%
Death Grants	73	68	-6.8%
Refunds	1	104	10300.0%
Capital Cost Payments	50	127	154.0%
Pension Admin FTEs	6.0	6.6	10.0%

6.13. The results shown above are as expected: active membership of the fund has fallen slightly following the period of local authority austerity measures, as have transfers in and out of the fund. The majority of indicators above have risen: the numbers of deferred and pensioner members of the fund, levels of retirements, and refunds have jumped significantly due to the auto enrolment exercises that are now mandated.

6.14. Numbers of employers participating in the scheme has grown from 14 employers in 2010/11 to 72 in 2016/17: an increase of 414%. This is one of the most significant changes that has occurred nationally in LGPS in the last decade. With each additional employer there comes a significant administration burden.

6.15. The level of staffing in the pensions administration team has increased 10% since 2010/11, however for most areas that the team are responsible for, activity levels have increased significantly in excess of 10%.

Conclusions

6.16. It is clearly a good practice to regularly review resourcing levels in all teams. Although the pensions administration team has had no major failings to date, this is not in itself a reason to maintain the status quo unquestioningly. As this report documents throughout, the workload of the team has increased significantly in recent years, and benchmarking clearly demonstrates that the Fund is operating with a smaller than average team. An inappropriately lean staffing structure exposes the Fund, (and its employers and members), to the risks of an under resourced team: reliance on an inappropriately small pool of key individuals, and succession planning risk. These risks should not be underestimated: one mistakenly overpaid pension could leave the fund with an additional liability stretching into the thousands of pounds over a member of the scheme's lifetime. When you extrapolate this type of error across a membership set of over 22,444 individuals, it is clear to see exactly how large the financial penalties could be, should standards begin to slip with the pensions administration team.

6.17. With this in mind, officers believe that additional resource for the team is necessary and appropriate. Officers are recommending that two

additional Pensions Officer posts are created within the team, taking the total headcount to **8.6 FTEs**. This would bring the headcount in the team to a level that is still below the London average, however officers are minded to implement this change initially, and to then review the situation going forward.

- 6.18. These posts would share the job description and grading of existing pensions officer posts and would have an initial anticipated annual cost of no more than £37,433 per annum for each post, this sum is based on the starting increment for a pensions officer post and includes basic pay, employers pension contributions and employers National Insurance. All costs will be funded by the pension fund, there will be no cost pressure created for the Council.
- 6.19. Further to this, officers are minded to consider filling one of the posts with an apprenticeship: this is thought to be a good option for succession planning within the team, and of course is highly beneficial for the individuals completing the apprenticeship.

7. Comments of the Independent Advisor to the Fund

- 7.1. This report proposes the establishment of two additional Pensions Officer posts within the Pensions Administration team. The Officer recommendation is based on both consideration of the legislative and regulatory framework and also analysis of workloads and comparisons with other London Boroughs.
- 7.2. Effective Pensions Administration is crucial. The LGPS exists to provide retirement (any other benefits as laid down in the LGPS Regulations) to individual employees and their dependents. Accurate records are key to ensuring that individual members receive the correct benefits at the correct time. Accurate records are also needed to ensure accurate Actuarial Valuations. Poor/inaccurate member data results in the Actuary having to make assumptions which will tend to increase Employer contributions compared with those which would be set in the light of quality member data.
- 7.3. The Officers comment, at Section 6.2, on the increasing number of Employers in the Pension Fund. This is a trend which is likely to continue. Continuing severe restrictions on public sector finances coupled with increasing demand for public services will further put pressure on Employers in the LGPS (from Councils to Further/Higher Education establishments to individual Academy schools) to set up arms length companies or contract out services both of which increase the number of Employers in a LGPS Fund thereby adding to the workload of the Pensions Administration team
- 7.4. From 25 May 2018, the General Data Protection Regulation (GDPR) will replace the Data Protection Act 1998. The GDPR requirements are more onerous than current legislation in many areas, including higher

finer for serious breaches. The introduction of the GDPR in 2018 will increase both the workload and responsibilities of the Pensions Administration team.

- 7.5. Significant additional scrutiny of LGPS Pensions Administration has been introduced since April 2015 when the Pensions Regulator became responsible for the oversight of Pensions Administration in the LGPS and other major public service pension schemes. In April 2015, the Pensions Regulator issued its Code of Practice No 14 "Governance and Administration of Public Service Pension Schemes." This brings together various relevant legislative and regulatory requirements and sets out the Pensions Regulator's expectations in respect of a number of key areas including internal controls, record keeping, maintaining/monitoring contributions and communication with members.
- 7.6. The Pensions Regulator began its involvement in Public Service Pension Schemes with an emphasis on education and enablement. The Pensions Regulator's approach has, however, now moved on to include active enforcement as shown by the recent fine issued to the London Borough of Barnet. In addition, the Pensions Regulator continues to engage with the London Borough of Barnet in respect of their Pension Fund's future governance and administration.
- 7.7. Having considered the Officer report together with relevant legislation, regulation and guidance; and applying my own knowledge and experience of Pensions Administration and Actuarial issues (obtained both as an Officer responsible for this function and as a Consultant who has undertaken reviews of Governance/Pensions Administration for a number of LGPS Funds) I am of the view that the proposed two additional posts is the minimum increase that could reasonably be proposed. I would also strongly endorse the comment in Section 6.17 that Officers review the workload/staffing situation going forward.
- 7.8. A Pensions Committee (acting in the role of the Administering authority) is responsible for decision making in respect of all aspects the activities of the pensions function including Pensions Administration. The Pensions Committee therefore has the function of facilitating and enabling effective Pensions Administration. A Pensions Board has amongst its roles (under Regulation 106 of the LGPS Regulations 2013 (as Amended)) that of "assisting " the Administering Authority *"to secure compliance with..... legislation relating to the governance and administration of the Scheme..... any requirements imposed by the Pensions Regulator in relation to the Scheme"* and *"to ensure the effective and efficient governance and administration of the Scheme."* Given that the Haringey Fund has been authorised by the Secretary of State to combine the Pensions Committee and Board this body is under a particular obligation to ensure that there is sufficient resourcing to enable the Pensions Administration team to provide an

effective service to all individual members and Employers in the Haringey Pension Fund.

8. Contribution to Strategic Outcomes

8.1. None.

9. Statutory Officers comments (Chief Finance Officer (including procurement), Assistant Director of Corporate Governance, Equalities)

Finance and Procurement

9.1. All pensions administration staffing costs are borne solely by the Pension Fund, therefore additional costs or savings made within this team has no direct impact upon the General Fund.

9.2. The Pension Fund liability is the single largest item on Haringey Council's balance sheet, as is the case for most Local Authorities. Haringey has a statutory duty as an LGPS administering authority to maintain records of individuals' membership of the scheme, including their pension benefit entitlements, and ensure that the correct pension benefits are paid once individuals do retire. By doing this, the Council ensures that this liability for future pensions benefits is properly managed, measured and controlled, hence the importance of having an appropriately sized and experienced set of staff in the pensions administration team. This is clearly vital activity, for reasons noted throughout this report. The recommendation to create two additional Pensions Officer posts is therefore supported.

Legal

9.3. The Assistant Director for Corporate Governance has been consulted on the content of this report and there are no legal issues.

Equalities

9.4 There are no equalities issues arising from this report

10. Use of Appendices

10.1. Appendix 1 – Letter from CIPFA

11. Local Government (Access to Information) Act 1985

11.1. Not applicable.