

Pension Fund Committee

26 November 2020

Pensions Administration

For Decision

Portfolio Holder: Cllr G Suttle Choose an item.

Local Councillor(s): All Councillors

Executive Director: Aidan Dunn, Executive Director, Corporate Development

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Report Status: Public

Recommendation:

It is recommended that the Committee note and comment on the contents of the report and approve the content of the draft letter set out in Appendix 3 as interim advice to scheme employers. The letter will also need approval of the Pension Board.

Reason for Recommendation:

To update the Committee on aspects of Pensions Administration

1. Executive Summary

This report is the quarterly update for the Pension Fund Committee on all operational and administration matters relating to the Fund. It contains updates on the following:

- Key Performance Indicators
- Systems Procurement
- Exit Cap Update
- MHCLG consultation on reforming local government exit pay
- Public Service pension GMP indexation consultation
- September 2020 rate of CPI

2. Financial Implications

N/A

3. Well-being and Health Implications

None

4. Climate implications

None

5. Other Implications

N/A

6. Risk Assessment

Having considered the risks associated with this decision, the level of risk has been identified as:

Current Risk: N/A

Residual Risk: N/A

7. Equalities Impact Assessment

N/A

8. Appendices

- Appendix 1 – KPIs (August 2020 - October 2020)
- Appendix 2 - Letter from Luke Hall MP
- Appendix 3 - DCPF Interim Policy Statement

9. Background Papers

- [LGPS Regulations 2013](#)
- <https://www.legislation.gov.uk/ukxi/2020/893/introduction/made>
- <https://www.legislation.gov.uk/ukxi/2020/1122/introduction/made>
- <https://www.lgpsboard.org/index.php/structure-reform/public-sector-exit-payments>
- https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/927505/Local_Government_Pension_Scheme_Restriction_of_Exit_Payments_-_draft_regulations.pdf
- <https://www.gov.uk/government/consultations/public-service-pensions-guaranteed-minimum-pension-indexation-consultation>

10. Background

- 10.1. This report is the quarterly update for the Pension Fund Committee on all operational and administration matters relating to the Fund.

11. Key Performance Indicators and Homeworking

- 11.1 The key performance indicators for the period 1 August to 31 October are attached at Appendix 1.
- 11.2 The team continues to work from home in the main, and this is causing a slowdown in certain processes. This is due to post coming into the office, and for certain areas of work we need to post out letters to members. For bulk letters that are not personalised, we use an external posting company. Some staff members are struggling at home due to the high technical nature of the work, as they are used to having support around them. Confidence levels are low, and managers are spending considerable amounts of time supporting staff. Training is also impacted, and this is an essential part of our everyday work.
- 11.3 Despite these difficulties, the team continue to do an excellent job, and this is reflected in the KPIs attached. However, homeworking to the extent currently required, is proving to be a continued situation that is not ideal for the service.

12. Systems Procurement

- 12.1. I am pleased to report that the procurement for the Pensions Administration Software System is now complete, and successful provider is Civica. This means we will be leaving Aquilla Heywood after many years with this provider.
- 12.2. The new system will incorporate additional features, some of which will replace the add-on facilities we have been purchasing from the London Pensions Partnership (LPP) for the last six years, but which are shortly to be decommissioned. A summary of the system and what it will provide is detailed below.
- 12.3. **Core System** – known as UPM, this will replace the Altair system we currently use and is a fully integrated system reducing the need for multiple logins for additional software.
- 12.4. **Employer Access Service** - will replace our current employer portal, Your Fund, provided by LPP. There are some useful additional features, for example; the ability to customise our own forms.
- 12.5. **Customer Member Service** – will replace our current on-line portal, My Pension. Initially this will mean contacting all scheme members to register with the new portal.
- 12.6. **Workflow** - this will replace our current Case Management System provided by LPP (CMS), it will have similar functionality, plus some new functionality lending itself for the Pension Administration team to more easily adapt to the change.
- 12.7. **Integrated scanning system** - this will be new to the section providing us with the ability to scan documents in-house and attach to each member record. This new facility will enable better home working as documents will be scanned on

arrival to the department and will be attached to a workflow item triggering progression through each step in the process required. We will largely stop using our external scanning company; however, the database will remain for historical documents at no charge to the fund. This is a new and significant change to some of our processes and will be integrated over a period of time.

- 12.8. **Integrated Payroll System** - currently we do not have an integrated payroll system, instead the Dorset County Pension Fund pay Dorset Council to provide our pension payroll. However, this has caused numerous audit and data issues over many years. It creates an opportunity to address the issues caused by this, and to streamline processes and reduce risks in relation to manual input and separate systems. This change will not be happening initially but is planned for 2022/23.
- 12.9. A project manager has been appointed to oversee the entire project, together with project user groups to take responsibility for each main area, for example; Core System Configuration, Employer Portal, Member Portal, Calculations, Processes, and standard fund letters.
- 12.10. Despite the enormity of these changes, I feel confident that the system will be a positive change for the department, with newer and more efficient technologies, one integrated system, the ceasing of daily data extracts to an external provider, and the ceasing of external scanning for the bulk of our requirements. We also have the clear benefit of a superb team of capable and experienced managers to implement these changes.

13. Exit Cap Update

- 13.1. Following the Government's consultation in April 2019, the [Restriction of Public Exit Payments Regulations 2020](#) came into force on 4 November 2020. This limits the value of exit payments, resulting from redundancy or efficiency of the service retirements for members over the age of 55, made from the public sector to £95,000.
- 13.2. This new legislation is now in conflict with the Local Government Pension Scheme (LGPS) regulations which currently require the immediate payment of an unreduced pension for any member leaving their employment on the grounds of redundancy or efficiency of the service and who is aged 55 or over. This conflict only occurs where the £95k cap is breached. The largest, and most common payments to be included in the cap are the redundancy/severance payment.
- 13.3. These render a difficult position for administering authorities and employers who are undergoing consultation exercises for restructuring and/or who have staff

facing redundancy in the period between 4 November 2020 and the date upon which the LGPS regulations are amended, which is currently unknown.

- 13.4. This interim period will only present a difficulty for exits in breach of the cap, i.e. those in excess of £95k, and to employers in scope of the cap which are listed in the [Schedule to the Restriction of Public Sector Exit Payment regulations 2020](#). For the DCPF, this includes councils, the Police Authority, and academies.
- 13.5. The Government Actuary's Department has produced new draft guidance for the calculation of the strain cost due following the cessation of an employment on the grounds of redundancy for members over age 55. Currently funds use factors agreed with their fund actuary, the new guidance will ensure that all administering authorities use the same factors to calculate these costs. These new factors will not be used until the new LGPS Compensation Regulations come into force. Please note that these are likely to result in higher costs to employers than the current methodology used.
- 13.6. The proposals in the MHCLG consultation to limit discretionary compensation payments and reduce strain cost by the value of statutory redundancy pay are not yet in force.
- 13.7. The DCPF and its employers affected by the interim conflict in legislation, now find themselves in a difficult position, and guidance has been required. Luke Hall MP wrote to Chief Executives of Councils and LGPS administering authorities concerning the implementation of the cap ahead of the regulatory amendments to the LGPS. This letter is attached at Appendix 2. The Minister's recommended course of action in cases where exit costs exceed the cap is;
"LGPS members in that position should be able to elect to receive an immediate but fully reduced pension or, if they do not so elect, a deferred pension plus a lump sum equal to the capped strain cost"
- 13.8. The Scheme Advisory Board (SAB) has obtained legal advice on the conflict between the LGPS and the exit cap regulations. A commentary on that advice was published on 30 October on the [Public Sector Exit Payments](#) page of the <http://www.lgpsboard.org/>. It suggested that Administering Authorities and LGPS employers should take their own view and may wish to seek their own legal advice.

The commentary sets out the SAB's opinion on the course of action that presents the lowest risk when the cap is breached, which are;

- the LGPS administering authority offers the member a choice between deferred benefits or a fully reduced pension

- the LGPS employer delays payment of a cash alternative under regulation 8 of The Restriction of Public Sector Exit Payments Regulations 2020

This approach would allow the maximum flexibility for the administering authority and employer to minimise the financial risks associated with a legal challenge from the scheme member.

- 13.9. The LGPS have published an information note for [employers](#) and [administering authorities](#) on the exit payment cap. These helpful documents set out suggested processes to follow and policy considerations for administering authorities in respect of redundancy and efficiency exits for members aged 55 or over that occur from 4 November 2020.
- 13.10. In consideration of this, the DCPF has set out its policy decision for paying pensions during this interim period where there is a regulatory impact, for members leaving their employment who are in breach of the cap. This is in line with the recommended actions set out in the information from the LGPS and the advice provided by the SAB. This is attached at Appendix 3.

14. MHCLG consultation on reforming local government exit pay

- 14.1. On 14 October 2020, MHCLG have published draft regulations; [The Local Government Pension Scheme \(Restriction of Exit Payments\) \(Early Termination of Employment\) \(Discretionary Compensation and Exit Payments\) \(England and Wales\) Regulations 2020](#),

The purpose of these new regulations is to amend the LGPS regulations and compensation regulations to accommodate the exit payment cap and to introduce wider exit payment reforms.

Comments are invited on these draft regulations, which must be submitted by 18 December 2020. The DCPF will be responding and this response will be shared at the next meeting.

15. Public Service pension GMP indexation consultation

- 15.1 On 7 October 2020, HM Treasury published [Public Service Pensions: Guaranteed Minimum Pension Indexation consultation](#).
- 15.2 Prior to 6 April 2016, the payment of public service pensions and the earnings-related State Additional Pension (AP) worked together to provide a mechanism that fully indexed most public service pensions.

The introduction of the new State Pension on 6 April 2016 removed the payment of AP. This meant that members who reached State Pension age (SPA) on and after that date would not have their pension payments fully indexed. To compensate for the removal of AP, the Government introduced an interim solution on 1 March 2016, which ends on 5 April 2021. This ensured that

public service pensioners who reach SPA after 5 April 2016 continued to receive a fully indexed pension from their public service pension scheme.

The consultation sets out how the Government proposes to ensure it continues to meet its commitments to the full indexation of public service pensions, including any Guaranteed Minimum Pension (GMP) element.

The 12-week consultation will close on 30 December 2020. The DCPF will be responding and this response will be shared at the next meeting.

16. September 2020 rate of CPI

16.1 The Office for National Statistics announced the Consumer Prices Index (CPI) rate of inflation for September 2020 as 0.50%.

It is therefore likely, but government confirmation will be required, that this will be the rate that will apply to the increase of active member pension accounts, deferred pensions and pensions in payment in the LGPS in April 2021.

Footnote:

Issues relating to financial, legal, environmental, economic and equalities implications have been considered and any information relevant to the decision is included within the report.