Pension Fund Committee
8 September 2021
Pensions Administration

Choose an item.

Portfolio Holder: 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.

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 Implementation Update
- Data Quality
- Cost Cap Review
- Delays to new Code of Practice
- Commons Committee Report on Public Sector Pensions
- LGPS Mortality Data

- Governance and Administration Survey 2020-21 results

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 – Dorset LGPS Common Data Report 2021
- Appendix 2 – Dorset LGPS Scheme Specific Data Quality report 2021

Background Papers

- LGPS Regulations 2013
- Cost control mechanism - Government Actuary's review - Final report - GOV.UK (www.gov.uk)
- Written statements - Written questions, answers and statements - UK Parliament
- Public sector pensions (parliament.uk)
- LGPS Scheme Advisory Board - Covid-19 Mortality (lgpsboard.org)
- Public service governance and administration survey 2020-21 (thepensionsregulator.gov.uk)

9. Background

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

10. Key Performance Indicators

10.1 Due to the change in our administration system, no KPIs are currently available for review. It is planned that the monthly and quarterly review of the key performance indicators (KPIs) will resume from September or October 2021.

11. Systems Implementation

11.1. The new Pensions Administration System (UPM), provided by Civica is now live, and the previously used systems provided by Aquila Heywood and the London Pensions Partnership have been decommissioned. UPM into live service on 26 July, a few days earlier than scheduled.

11.2. The system is working well, it provides additional functionality for the team, improved technologies, comprehensive audit measures, plus scope for further development and bespoke requirements. It incorporates a member and employer portal, excellent workflow and management tools, plus an integrated scanning and image functionality.

Work tasks are integrated into a series of processes. The development and testing of these processes have taken more time than anticipated by the team, and some are still being refined to meet our exact requirements. In addition, Civica have not yet fully delivered all the processes required by the tender, in part because of the restricted timescales of the project. This is one of the reasons why KPIs cannot yet be provided.

The migration of current work cases, totalling over 4000, has been successful, and I am pleased with how Civica has dealt with this critical area and transferred historic data. Unavoidably, this movement of workload required a lot of manual checks and changes to ensure processes remained at the right stage. A tremendous amount of work has been carried out by the pensions team, who have worked tirelessly to ensure as smooth a transition as possible. However more work remains to be done, and together with the delayed delivery of some processes, there has been a knock-on impact to the service which is to be expected when such a significant change occurs.

I would like to acknowledge the pensions administration team, who have shown dedication and positivity, despite the pressures upon them and the huge increase to work. They have done a remarkable and exemplary job in difficult circumstances in order to protect the service to members ensuring a successful implementation.

11.3. **The Employer Portal** – went live to employers on 30 July. This is an essential part of the service, enabling employers to transfer data securely direct to the team, which feed directly into the work processes. Had we remained with our previous software provider, we would not have been able to provide employers with anything near to what the portal offers.

Employers have received training and have been supported by the Employer Support team. The team has an excellent working relationship with all our employers, which is essential to assisting employers in carrying out their responsibilities within the LGPS including the provision of accurate and timely data. Further refinement and development of this portal will continue over time, including and financial data provided by all employers.

Employers face a difficult task in meeting these responsibilities and the Fund benefits greatly by providing them with a wide range of support, information, and technologies to make their job as easy as possible.

11.4. **The Member Portal** went live on 2 August. The change in portal requires members to re-register, information was provided to all members in their latest Annual Benefit Statement issued in June. The new portal is working, but requires further development, which is currently underway, in order to ensure the functionality provided is as good, as our previous member portal. There is increased functionality and scope for further development.

11.5. The new systems will continue to be developed to meet our requirements; I anticipate the impact of such a significant change will take some while to address. The change has resulted in some areas of backlogs, and there are significant amounts of back scanning to be completed by the team as a result of the transition. However, this is a short-term impact necessary to provide a better service for scheme members in the longer term

12. Data Quality

12.1. Each year, the quality of our data is reviewed and measured in accordance with the guidance set out by the Pensions Regulator. The serves two main purposes. Firstly, it feeds into the future year's Data Improvement Plan, and secondly it provides the Data Quality scores for the Dorset County Pension Fund which must be reported to The Pensions Regulator each year and recorded in the Fund's Annual Report.

12.2. The 2021 Data Quality reports, for both 'Common' and 'Scheme Specific' data, are attached at Appendix 1 and 2**.** This provides a summary of data integrity as at June 2021 and gives a comparison with the position in 2020.

- **Common Data** – this is the reporting items applicable to all pension schemes. The overall score of tests passed for common data held was 99.40%, which is the same as the 2020 results in this area.
- **Scheme Specific Data**, (also known as 'Conditional' data) is the data specific to the LGPS. The overall score for scheme specific data was 98.90%, an improvement over the 2020 score of 98.20%.

12.3. The information received feeds into our annual Data Improvement Plan and data cleaning programme. Following the change in system, there will be inevitable concerns over the transfer of data from the old to new system, and for the continuance of these excellent scores.

Checks identified some data issues following the transfer of our data, and we are currently working with Civica to analyse and remedy those issues found. Such incidences will occur where there are differences in systems and a transfer has occurred. The data issues known are not significant but are clearly of importance.

Because the Dorset Fund has reached a point where its data is of such a high standard, it is important to us to maintain this position. The UPM system gives us the ability to run our own data quality reports, and we have a useful tool provided by our actuaries to check data. This is especially important heading into a valuation year, and a working plan will be established in order to ensure the continuance of our data standards.

12.4. The excellent results illustrated by these reports demonstrate the continued work of the Fund to ensure high-quality data, and the close working relationship with employers to support them in providing accurate data in such a complex pension scheme is essential to this. These results give confidence that the right benefits are being paid to members.

13. Cost Cap Review

13.1. On 15 June 2021, following a request from HM Treasury, the Government's Actuary Department (GAD) published its final report of its findings and recommendations of the cost control mechanism in the reformed public service pension schemes.

13.2. The report's aim was to assess whether, and to what extent, the mechanism is working in line with the original policy objectives, and to make any

recommendations to any changes that might be deemed necessary to meet these aims.

13.3. GAD have concluded that the existing method is flawed, and has fallen short of meeting its original objectives. The report provides details as well as suggested possible changes. HM Treasury have published a statement following the reports publication.

13.4. The cost cap was principally introduced to ensure fairness between taxpayers and members of public service pensions schemes, at a time when such costs were increasing. The cost control mechanism assesses certain elements of the costs of public sector schemes, and where costs have increased or decreased by more than 2% of pensionable pay, member benefits are to be increased or reduced to bring the overall costs back to within the required parameters.

13.5. However, the outcome of the 2016 process suggested that the cost to taxpayers had gone down, and therefore benefit improvements would need to be made. This was clearly not the expected conclusion, hence the review. The 2016 cost cap review was paused until July 2020 when the consultations relating to the remedy for the McCloud judgement were released, we now await revised HMT directions on the 2016 process. Because of this delay, the 2020 cost cap review has not yet started, but will follow the 2016 process in due course and use the new methodology once agreed

13.6. The impact to us is that there could be a need for retrospective benefit changes, an unwelcome thought when we are already facing the huge impact of McCloud.

The report explores alternative approaches to the mechanism, though concludes it is still a good idea, assuming some improvements are made to it. Suggestions include that the cost envelope in increase to +/- 3% to allow for volatility of the mechanism, plus an affordability check and an additional layer of qualitative review.

With the McCloud benefit changes not yet implemented, and both the 2016 and 2020 review incomplete, and any potential scheme changes unclear, there arises a difficulty for Funds and actuaries ahead of the 2022 valuation.

14. Delays to new Code of Practice

14.1. On 24 August the Pensions Regulator published an interim response to the consultation on the new combined Code of Practice which had closed on 26 May 2021. The draft Code combined ten Codes into one, including

encompassing the dedicated Code of Practice 14 with those covering private sector schemes.

14.2. The TPR received over 100 responses to its consultation which included over 10,000 individual answers. In order to work through and fully consider its responses, together with an opportunity to further develop their policy positions, a delay to the implementation of the new Code is confirmed.

14.3. The TPR do not expect to lay the new Code before Parliament before Spring 2022, and so it is unlikely to become effective before summer 2022. No date has been given for when a full consultation response will be issued. This confirms TPR's commitment to clarifying key issues of concern raised in the consultation.

15. Commons Committee Report on Public Sector Pensions

15.1. On 21 June 2021, the House of Commons Committee of Public Accounts published a report on public sector pensions, after taking advice earlier this year from HM Treasury and the Government Actuary's Department.

15.2. The report conclusions are interesting, and are summarised as follows;

- HM Treasury focuses on affordability to the taxpayer, but this is often at the expense of its other objectives, such as ensuring a decent income in retirement and supporting employers in recruiting and retaining staff
- Public service pensions are affecting the delivery of frontline services in some areas, due to increased employer contributions
- HM Treasury has not done enough to ensure people understand the value of their pensions
- HM Treasury has done little to identify and manage the stark differences in average pensions between genders and other groups
- HM Treasury has had to revisit key elements of the 2014/15 reforms due to McCloud judgment and the cost control process not working as intended. These issues may take decades to resolve fully
- HM Treasury has not yet performed an evaluation of the 2014/15 reforms and the Committee is not convinced that it is on track to meet its objectives.

16. LGPS Mortality Data

16.1. On 15 June 2021, the Scheme Advisory Board (SAB) in England and Wales updated its LGPS mortality data to the end of March 2021. The data covers all

LGPS administering authorities in England, Wales, Scotland and Northern Ireland.

16.2. On the same day, the SAB published updated reports from Aon and Barnett Waddingham. Each report sets out analysis of the mortality data of a single LGPS fund during the pandemic. You can see the data and the reports on the SAB COVID-19 Mortality page.

17. Governance and Administration Survey 2020-21 Results

17.1. TPR published the results from the Public Service Pension Scheme Governance and Administration Survey 2020-21 on 1 July 2021. The survey, which included a response from the Dorset Fund, was conducted online between January and March 2021 and aims to track governance and administration practices among public service pension schemes. The 2020-21 survey also included new questions on response to the pandemic, pensions dashboards and, for LGPS respondents, action taken in relation to climate-related risks and opportunities.

17.2. The survey found little change since 2019 for the key processes that TPR monitors as indicators of performance. Two-thirds of LGPS administering authorities who responded to the survey had all six processes in place. The six key processes are:

- have a documented policy to manage board members' conflicts of interest
- have access to the knowledge, understanding and skills needed to properly run the scheme
- have documented procedures for assessing and managing risk
- have processes to monitor records for accuracy and completeness
- have a process for resolving contribution payment issues
- have procedures to identify, assess and report breaches of the law

17.3. The results also show improvements in risk management processes, cyber controls and the proportion of members receiving their annual benefit statement on time. Unsurprisingly, most schemes identified implementing the McCloud remedy as a significant risk. Governance has generally stood up well given the unique challenges the last year has presented

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.