

**Report to:** Pension Board

**Date:** 4 February 2019

**By:** Head of Pensions

**Title of report:** Officers' Report – Governance and Pensions Administration update

**Purpose of report:** To provide a general update to the Pension Board on matters related to the Board activity including pension administration

## RECOMMENDATION

The Board is recommended to note the update.

### 1. Background

1.1 This report provides an update on matters relating to the Pension Board and Committee activities, including matters relating to pension administration.

### 2. Report Overview

#### Cash Flow Forecast and Summary

2.1 The East Sussex Pension Fund invests any surplus cash with the Fund's custodian, Northern Trust. Over the past 6 years, the East Sussex fund has been broadly cash flow 'neutral'. The estimate for the fiscal year 2018/19 is that the fund will generate a surplus of £3.7m; the estimated cash flow position will be helped by higher employer pension contribution rates set at the last triennial valuation and payable since 1 April 2016. The current/quarter two projected outturn is a surplus of £2.6m, i.e., a variation from estimate of £1.1m. Table 1 below shows the cash projection to 31 December 2018.

<b>PENSION FUND DEALINGS WITH MEMBERS AND EMPLOYERS</b>	<b>Original 2018/19 £m</b>	<b>Projected Outturn 2018/19 £m</b>	<b>Variance £m</b>
Employees Contributions	29.3	31.0	1.7
Employers Contributions	82.6	87.0	4.4
Deficit Recovery	17.6	15.5	(2.1)
Transfers In	7.4	6.5	(0.9)
<b>TOTAL INCOME</b>	<b>136.9</b>	<b>140.0</b>	<b>3.1</b>
Pensions Benefits Paid	(105.0)	(108.5)	(3.5)
Pensions Lump Sum Paid	(22.7)	(23.9)	(1.2)
Administration expenses	(1.8)	(1.8)	0.0
Transfers Out (excluding College transfer)	(3.7)	(3.2)	0.5
<b>TOTAL EXPENDITURE</b>	<b>(133.2)</b>	<b>(137.4)</b>	<b>(4.2)</b>
<b>SURPLUS CASH</b>	<b>3.7</b>	<b>2.6</b>	<b>(1.1)</b>

### 3. National Development - updates

3.1. The ACCESS pool update has been provided through a separate report (Part 2) at this meeting. The Ministry of Housing, Communities and Local Government's (MHCLG) has issued an informal *consultation re guidance on LGPS asset pooling*, which sets out the requirements on administering authorities in relation to the pooling of LGPS assets, building on previous Ministerial communications and guidance on investment strategies, and taking account of the current state of

progress on pooling. It is made under the powers conferred on the Secretary of State by Regulation 7(1) of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (the 2016 Regulations). Administering authorities are required to act in accordance with it. The consultation closes on 28 March 2019.

#### **4. Pass-through arrangements**

4.1 The Pension Committee at its February 2019 meeting will consider an amendment to the Fund's policy on admitting new contractors using pass-through arrangements. Pass-through arrangements are now very common in the LGPS for new contractor admissions with traditional "full pension risk transfer" arrangements in the minority. Options on pass through will be offered within the Funding Strategy Statement with a preferred option of a fixed contribution rate, this is where the contractor pays fixed contribution rate for the term of the contract. This change in policy will not affect any outsourcing procurement exercises underway currently or existing contracts. The Fund is proposing an implementation date of 1<sup>st</sup> April 2019 and will share the Funding Strategy Statement with employers accordingly to communicate in more detail these changes.

#### **5. 2019 Actuarial Valuation**

5.1 The East Sussex Pension Fund (ESPF) is subject to a formal actuarial valuation every three years. The last valuation of the Fund was in 2016 with the next valuation to be undertaken as at 31 March 2019. The results of the valuation will determine employer contribution rates for the period from 1 April 2020 to 31 March 2023. As part of the contribution rate setting process, the Fund is preparing to engage with some employers to fully understand their circumstances, including the level of security they hold as a participating employer. This will be communicated by way of an employer risk questionnaire, and if appropriate, the Fund may commission further work from a financial covenant specialist to investigate the answers provided to the questions.

5.2 Work is underway regarding key financial assumptions affecting the valuation. The Fund actuary is preparing papers to help review and set two of the most significant financial assumptions, the discount rate and the rate of salary increases. The contribution strategy modelling had been scheduled to have been completed by December 2018 with results ready for discussion, which has now been put on hold until the member data quality has been improved. The data cleansing work is scheduled to be completed by March 2019.

5.3 The Fund actuary has confirmed that the preferred approach for modelling the contribution rates of the Councils, Colleges and Academies is to carry this out as soon as possible based on 31 March 2018 data. This is the approach taken by nearly all of the Funds Hymans advice as it allows more time for discussions with the various stakeholders and provides greater budgeting certainty for the employers. The draft 2019 valuation timetable/plan has been updated (attached as Appendix 1).

#### **6. Pensions Administration – updates**

##### **Guaranteed Minimum Pension (GMP) - update**

6.1 The Board at the 5th November 2018 meeting considered a report on the progress of the Guaranteed Minimum Pension (GMP) Reconciliation programme and received a presentation from the JLT consultants, where it was clarified that the 31 October deadline for submission of queries to HMRC was for queries that would be reviewed manually by an HMRC employee and that automatic queries would still be accepted up to 21 December. Following the deliberations, the Board resolved to request a further update before the deadline submissions to the HMRC.

6.2 The GMP analyses are still ongoing and HMRC has confirmed that they will now be providing a final data cut once the final queries have been responded to in April 2019 (this is a new element of the GMP reconciliation project). JLT will continue to undertake the final analysis of HMRC and Scheme data, in order to confirm the final position from a membership and GMP value perspective. This might potentially lead to an extension of the current JLT contract to complete the GMP Reconciliation project. A further update paper will be provided to the Board within the next few weeks.

## **Administration System Procurement Plan**

6.3 The Pension Committee at its meeting on 4 September 2017 considered a report on the timetable for procuring a system to deliver administration on behalf of the East Sussex Pension Fund. The committee resolved to request an additional report detailing the procurement process including the options appraisal of services offered by other administration system providers. This is to assist in reviewing alternative options for administration systems, in sufficient time to enable implementation at the earliest contractual break clause.

6.4 The administration service has recently received demonstrations from Civica for their UPM system, it is clear that the market for pension administration systems has become more competitive, and officers believed it would be prudent at this stage to begin a full requirements gathering project to review the stakeholders needs pending a tendering exercise.

6.5 With the contracts ending in 2021 with Heywood, the Project Manager and Project Support Officer will commence the system review from February 2019, and anticipate providing members with a report detailing the procurement process including options appraisal of services offered by other administration system providers

## **Annual Benefit Statements (ABS) - update**

6.6 The Board at the last meeting considered and note a summary of the circumstances which led to a breach of the deadline for issuing Annual Benefit Statements (ABS). To prevent future breaches, the service has embarked on issuing an initial communications to all employers to provide advanced notification of the data that will be required and the deadline for submitting data.

6.7 Emphasis were made on the importance of timely and accurate data for this year due to the Triennial Valuation and the possible impact on employer contribution rates if data were late or inaccurate. To ensure dedicated resource are available for this project and reduce the risk of missing the statutory deadlines, the Annual Benefit Statement processes will be managed solely by the Technical Team in Lewes rather than shared with the Technical Team in Kingston. The team will be chasing/escalating non-compliant employers much earlier this year to ensure all relevant data are received in time to avoid the risk of members not receiving an Annual Benefit Statement by the statutory deadline of 31 August 2019.

## **Membership Data Cleansing - update**

6.8 It was highlighted within the recent internal audit report that the Pensions Regulator (TPR) recommends that members' data should be reviewed and cleansed on an annual basis, and that the auditor has found data cleansing exercise carried out in December 2017 using the Fund's Actuary (Hymans Robertson LLP)'s data validation tool has resulted in a number of errors and warnings that need to be resolved.

6.9 All errors and/or warnings from the membership data cleansing exercise are currently being investigated and will be amended, if it is found to be incorrect. A project plan for the data cleanses exercise has been developed, which include a weekly highlight reports being provided to management. The Fund is committed to providing three additional temporary staff to support the data cleanse effort. An updates paper on the progress against the Internal Audit agreed actions will be presented to the Board at the June 2019 meeting.

## **7. Reporting Breaches Log**

7.1 The Fund maintains a log of all breaches of the law as applicable to the management and administration of the Fund. It is necessary that all incidents of breaches identified are recorded in the Fund's breaches log, and the log will be reviewed on an on-going basis to determine any trends in the breaches log that might indicate any serious failings or fraudulent behaviour on an ongoing basis.

7.2 The breaches log (Appendix 2) has been updated following the identification of an issue with the end of year admin process for 1 employer (Care Outlook Ltd) in 2017/18. The employer entered leave dates on the annual return and as a result the members under this employer were moved to leaver status on the pension's admin system. Therefore, they have not received an Annual Benefit Statement for 2017/18. A query was sent to the employer in question, however no response was ever received and this was never chased/escalated.

## **8. Pension Board Agenda – 10 June 2019**

8.1 The draft agenda for the February 2019 Pension Board meeting include the following

- LGPS Pooling – ACCESS Pool Update;
- Pension Committee Agenda
- Meeting the Training Requirements - Board Members
- Officers' Report - Business Operations
- Officers' Report - General Update
- Forward Plan
- Pension Fund – Risk Register
- Pension Fund 2018/19 Annual Report
- Polices of the administering Authority
- Draft Internal Audit Pension Fund Strategy and Internal Audit Reports

## **9. Conclusion and reasons for recommendations**

9.1 The Board is recommended to note the general update regarding the Pension Fund activities.

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