

Agenda Item	7
Report No	PC/5/20

HIGHLAND COUNCIL

Committee: Pensions Committee

Date: 23 September 2020

Report Title: Pension Fund Contributions and Administration

Report By: Head of Corporate Finance and Commercialism

1. Purpose/Executive Summary

- 1.1 The purpose of this periodic report is to update members on matters relating to the administration of the Highland Council Pension Fund.

2. Recommendations

- 2.1 There are no additional implications other than those highlighted in the report.

Members are asked to:

- i. Consider the details of the report

3. Implications

- 3.1 Resource – as described in the report.
3.2 Legal - none
3.3 Community (Equality, Poverty, Rural and Island) - none
3.4 Climate Change / Carbon Clever – none
3.5 Risk – none
3.6 Gaelic - none

4. Introduction

- 4.1 The Highland Council is the Administering Authority for the Highland Council Pension Fund. In addition to the Highland Council, 27 employers actively participate as admitted or scheduled Bodies in the Fund.
- 4.2 Participating employers are required to calculate and deduct the appropriate rate of pension contributions from salaries in addition to an employer's contribution in accordance with guidance issued by the Highland Council Pension Section. These contributions are remitted monthly to the Highland Council Pension Fund. The statutory deadline for payment to be made is the 19th of each month.

5. Scheme Employers Pension Contributions

- 5.1 Pension contributions received from employers are checked for accuracy against known parameters and the dates received are recorded and monitored.
- 5.2 Contact is made with an employer in instances where payments are received late or not to the expected value.
- 5.3 Contributions from scheme employers are all being received on time and all contributions are up to date and there has been no delay in payments as a result of Covid19.

6. Employers Leaving the Fund

- 6.1 No employers have left the Fund since the last report.

7. Employers joining the Fund

- 7.1 No employers have joined the Fund since the last report.

8. Pension Fund Costs

- 8.1 The Pension Fund Annual report for 2019/20 included a report on financial performance against budget. This is to comply with the CIPFA guidance, "Preparing the annual report guidance for Local Government Pension Scheme Funds" (April 2019).
- 8.2 The year to date pension costs from 1 April to 31 August 2020, are presented in the table on the next page against the budget for 2020/21 which was due to be approved by Pensions Committee in March 2020.
- 8.3 As at the end of August 2020, forecast year-end expenditure is anticipated to be in line with budget.

	Actual year to date £000	Annual budget £000	Year-end estimate £000	Year-end variance £000

<u>Administrative expenses</u>				
Medical exams (staff)	0	5	5	0
Conference & seminar expenses (includes subsistence)	0	1	1	0
Subscriptions to organisations	1	1	1	0
ICT charges	0	1	1	0
Bank charges	0	2	2	0
Other charges (pension levy, tax certification costs, debt collection)	0	3	3	0
<u>Pensions administration costs</u>				0
Pensions administration staff	275	684	684	0
GMP	16	100	100	0
Computer and ICT	195	261	261	0
Fares, travel, accommodation	0	1	1	0
Printing and stationery	0	4	4	0
Postages	0	11	11	0
Other pensions admin costs (phone, insurance, subscriptions)	0	8	8	0
Other central support costs (accommodation, finance support, IT, internal audit, business support)	0	200	200	0
Total	487	1,282	1,282	0
<u>Oversight and governance</u>				
Actuarial Fees	23	70	70	0
Audit Fees	0	30	30	0
Central Support - Pensions Investment	0	200	200	0
Training	0	5	5	0
Subsistence and travel	0	1	1	0
Investment Consultant Fees	21	80	80	0
Performance Management Fees	6	23	23	0
Legal Expenses	0	5	5	0
Total	44	414	414	0
<u>Management fees</u>				
Investment expenses	49	335	335	0
Custodian Fees	0	85	85	0
Transaction costs	0	330	330	0
<u>Fund Manager fees</u>				0
Unitised insurance policies	0	200	200	0
Equities	760	3,500	3,500	0
Bonds	70	300	300	0
Property	98	500	500	0
Private equity	0	3,500	3,500	0
Property debt	0	300	300	0
Total	977	9,050	9,050	0
Overall total	1,508	10,746	10,746	0

9. Guaranteed Minimum Pension Comparison Exercise

- 9.1 Pension schemes, including those in the public sector, are required to undertake a data reconciliation exercise with HMRC. This will ensure that both details of Guaranteed Minimum Pensions (GMP) and periods of contracted out service, which are used to determine entitlement to the new single state pension, are up to date and robust.
- 9.2 The reconciliation exercise for the Highland Council Pension Fund is now complete and identified around 1600 complex records that will require further investigation
- 9.3 The further investigation will
- 1) Analyse the remaining unmatched cases on an individual basis
 - 2) Understand and report the impact of the exercise on the fund and scheme members
 - 3) Agree a policy to deal with cases where GMP have been overpaid
- 9.4 Equiniti will undertake the final analysis on behalf of the Fund. The final cost of the exercise along with details of the final impact on the Fund and scheme members will be reported to a future Pension Committee/Board.

10. Fund Actuaries

- 10.1 Following a competitive tendering procurement exercise, Hyman's Robertson were awarded the contract for supplying Actuarial Services to the Fund.

11. Additional Voluntary Contributions.

- 11.1 Prudential has been the appointed Additional Voluntary Contribution (AVC) provider to the Highland Council Pension Fund since 1989.
- 11.2 AVCs are a popular method for members to pay extra via their salary to improve their pension benefits at retirement. During these last 30 years we have worked closely with Prudential to ensure that all administrative, communication and investment aspects of the arrangement have been met.
- 11.3 As well as Prudential having their own governance procedures with regards to fund choice and performance the pension fund has also kept these under review and reviewed this with Prudential at the annual review meeting. An example of changes being made where necessary is the closure of the Prudential Ethical Fund on 20 February 2020 and replaced with a fund more aligned to Environment, Social and Governance (ESG) principles, known as the Prudential Positive Impact Fund.
- 11.4 For information, as at 31 March 2020 the Fund has approximately 435 active members with an AVC fund as well 136 deferred members. Average contribution to the AVC facility during the year was £2,600 (£220 per month). Total funds under management with Prudential are £9.8m. During 2019, 58 members with an AVC fund retired with an average fund size of just under £23k with most opting to use this to boost the tax-free cash sum they received at retirement.
- 11.5 Highland Council in its role as a scheme employer is investigating the options around a Shared Cost AVC scheme through Salary Sacrifice to operate alongside the current arrangement.

12. Triennial Valuation

- 12.1 In line with other Local Authority Pension Funds the Highland Council Pension Fund will undergo a Statutory valuation exercise as at 31st March 2020. The exercise will be undertaken by the Fund Actuary.
- 12.2 Amongst other outcomes the Valuation Exercise will determine the funding level at that date and calculate employer contribution rates for the 3 financial years from 1 April 2021.
- 12.3 The fund has worked closely with the Actuaries and the data to start the calculation process has been submitted.

13. Performance Indicators

- 13.1 Performance Indicators for the 2019/20 Financial Year are reported in the Pension Fund Accounts and can be accessed via the following link.

https://www.highland.gov.uk/downloads/file/22881/audited_accounts_april_2019_to_march_2020

14. Covid-19 Governance Arrangements

- 14.1 The Pension Fund and administering authority implemented emergency Covid-19 governance arrangements whereby meetings of the Council and its committees were suspended unless there was an urgent business requirement. This resulted in the cancellation of the Pensions Committee scheduled for 19 March. The Investment Sub Committee (ISC) held a meeting on 13 March but a scheduled meeting on 12 June was cancelled. Officers have continued to engage with investment advisors and the fund managers and governance arrangements have been re-established with the Pensions Committee meeting on 23 September.
- 14.2 As the 12 June ISC meeting was cancelled, the ISC Chairperson instead met with the Head of Corporate Finance and Commercialisation, Finance Manager and Investment advisor on 19 June to discuss the Fund's performance report which would have been considered at ISC had the meeting taken place: no decisions were taken. Following this discussion an email was circulated to members of the ISC along with the (confidential) performance report and they were advised that the discussion on 19 June had concluded that the current asset strategy (approved at Pension Committee February 2018) was still considered to be appropriate in light of Covid-19 and the current economic outlook.

15. External Pressures

- 15.1 The administration of public pension schemes has become increasingly complex with regulations being subject to challenges in courts leading to retrospective changes to benefits. These pressures combined with greater expectations from stakeholders has increased the pressures on Pension Administration Teams making previous turnaround times for tasks extremely challenging.

It will be necessary to review staffing levels, working practices and training plans within the team to ensure that resources are sufficient to deliver a high quality pension service.

Designation: Head of Corporate Finance and Commercialism

Date: 19 August 2020

Author: Charlie MacCallum

Background Papers: