

Agenda Item	7
Report No	PC/9/23

HIGHLAND COUNCIL

Committee: Pensions Committee

Date: 21 September 2023

Report Title: **Pension Fund Contributions and Administration**

Report By: Head of Corporate Finance

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 Members are asked to:

- i. Consider the details of the report.

3 Implications

3.1 Resource – covered in report.

3.2 Legal – covered in report.

3.3 Community (Equality, Poverty, Rural and Island) – none.

3.4 Climate Change / Carbon Clever – none.

3.5 Health and Safety (risks arising from changes to plant, equipment, or people) – none.

3.6 Risk – covered in report.

3.7 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, 26 employers 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.
- 4.3 This report also provides an update on the Service Plan 2023/24 agreed in February 2023 and budget monitoring for the Fund to August 2023.

5 Update on Service Plan

- 5.1 The staffing structure reported to Pensions Committee in February 2023 whereby there would be dedicated finance resource and additional resource for the Pensions Administration for the Highland Council Pension Fund is in the process of being implemented.
- 5.2 The job description for the new and vacant post of Pension Manager has been finalised and is being reviewed by Council HR before progressing to recruitment. The implementation of other aspects of the structure change will take account of HR advice on appropriate process and timeline. Any vacancies arising meantime, are being progressed through the Council's recruitment processes. Pending the new structure being in place, the Pensions Team are managing workload and priorities within available resources. This has required use of overtime to manage workload at certain times.
- 5.2 In terms of other Service Plan key deliverables, the statutory deadlines for the Annual report and accounts (30 June 2023) and the Annual Benefit statements (31 August 2023) were achieved.

6 Member Self Service and Pensioner Payroll

- 6.1 The Member Self Service (MSS) and Pensioner Payroll are part of the integrated Altair Pensioner Benefits Administration system. The Altair Pensions Administration Benefits system provided by Heywood Limited has been used by Highland Council Pension Fund since July 2019.
- 6.2 The Pensions Committee approved the Service Plan in February 2023 which included costs for both the implementation of Member Self Service (MSS) and the Pensioner Payroll modules in financial years 2023/24 and 2024/25 respectively. In May 2023, the People and Finance Systems Programme Board approved the project, and the Procurement Approval Group approved the contract variation with Heywood Limited.

6.3 As background to this change, some of the reasons for implementing the MSS and payroll modules are below.

- the Pensions Industry is moving towards a self-service model, whereby individuals can readily access information on their pensions online, securely and all in one place and the implementation of MSS would be a step towards this objective.
- members in the Highland Council Pension Fund have increased from 31,609 in 2018/19 to 35,551 in 2022/23 (12%) which has increased service demand.
- significant increases in volumes of new entrants, early leavers and retirements to process as well as increased volume of pension benefits estimates has meant reduced performance against key performance indicators and requires process efficiencies to be implemented.
- increasing and complex demands on the pensions administration service include the implementation of McCloud/Goodwin resolution (age discrimination challenge to the transitional protections put in place when the LGPS benefit structure was reformed in 2015) which required process efficiencies to be implemented.
- The process of setting up pensioners on 2 separate systems and reconciling Zellis Resourcelink to Altair is inefficient with the increased risk of inaccuracies and incomplete data and requires considerable resource, which could otherwise be focussed on delivering a higher quality service.
- The People and Finance Systems Programme Board has already noted that the Tech One solution is being progressed on the basis that the pensioner payroll is not in scope for the Tech One project, instead the pensioner payroll will be covered by the Altair solution.

6.4 The benefits of using the fully integrated Altair MSS and pensioner payroll modules is that the modules interface with the Altair system, reducing the need for manual integration and the risks associated with cross-system reconciliation. Some key advantages are summarised below:

- Full integration - enhances efficiency, improves security and reduces costs.
- Single database - this reduces the risk of data discrepancy and processing errors and removes the need for reconciliation between different systems.
- Real-Time Information - payroll calculation results are automatically passed onto an RTI messaging maintenance facility for payroll reporting.
- Flexible processing - a range of payment methods can be efficiently employed, as demonstrated by the supplementary Altair Immediate Payments solution.
- Full audit trail - audit referencing is created upon processing, which augments accountability, supports data validation, and complies with external auditing requirements.
- Interaction – the payroll module connects to Member Self-Service, meaning enrolled payees can easily view and print payroll documentation, such as Pay Advice and P60s.

6.5 The key outcomes of the MSS and pensioner payroll projects are:

- MSS - Highland Council Pension Fund members have secure access to comprehensive and accurate information on their payroll and benefits in real time. This will enable pensioners to check and print payroll documentation such as Pay

Advice and P60s. Members will be able to generate benefit estimate statements and “what if” modelling and update details.

- Highland Council Pension Fund pensioner payroll and benefits payment are processed and paid securely, accurately and efficiently using a single integrated Pensions Administration system.

6.6 In terms of progress to date, there have been some delays to the Member Self Service project due to other work priorities. The design specification incorporating Highland Council logos and colours has been signed off and the test system is operational. The project is currently in the user acceptance testing phase and the project is still on schedule to begin roll out using a phased approach by the end of 2023.

6.7 The majority of work on the Pensioners’ payroll implementation will be progressed following the implementation of the Tech One Financial ledger in April 2024 and before the implementation of the Tech One payroll system. There are key dependencies between these projects with associated risks which are included in the Pension Fund risk register (Agenda Item 10).

7 Scheme Employers Pension Contributions

7.1 Pension contributions received from employers are checked for accuracy against known parameters and the dates received are recorded and monitored.

7.2 Contact is made with an employer in instances where payments are received late or not to the expected value.

7.3 Contributions from scheme employers are all being received on time and all contributions are up to date.

8 Employers Leaving the Fund

8.1 No employers have left the Fund since the last report.

8.2 The Fund continues to work with WIPRO to manage the cessation of the admission agreement as part of the transfer of service back to the Council. One pension scheme member remains an employee of WIPRO until the end of the contract and then will revert to Highland Council.

9 Employers joining the Fund

9.1 The admission agreement for West Highland College was signed in March 2023.

9.2 Since the admission of West Highland College, there was a merger of West Highland College, North Highland College and Lews Castle effective from 1 August 2023, with the new organisation now known as UHI (University of the Highlands and Islands) North, West and Hebrides. North Highland College was the host and is an existing statutory body so no admission agreement was required.

10 Pension Fund Costs

- 10.1 The Pension Fund Annual report for 2022/23 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).
- 10.2 As covered by Agenda Item 4, the external audit of the Highland Council Pension Fund Annual report and accounts 2022/23 has been delayed due to Audit Scotland resourcing issues. Accounts were presented to The Highland Council on 29 June and a link to the draft unaudited Highland Council Pension Fund Annual report and accounts 2022/23 https://www.highland.gov.uk/downloads/download/714/pension_fund_accounts
- 10.3 The plan is for the Highland Council Pension Fund Annual report and accounts 2022/23 to be approved by Pensions Committee in early 2024, subject to completion of the audit.
- 10.4 The following budget monitoring report to the 31 August 2023 forecasts underspends on staffing as the staffing structure is in the process of being implemented.

	Actual year to date 23/24 £000	Annual Budget 23/24 £000	Year-end estimate 23/24 £000	Year-end variance 23/24 £000
<u>Administrative expenses</u>				
Medical exams (staff)	0	5	5	0
Conference & seminar (includes subsistence)	0	1	1	0
Subscriptions to organisations	2	5	5	0
Bank charges	0	2	2	0
Other charges (pension levy, tax certification costs)	0	3	3	0
Pensions administration staff	332	946	800	(146)
Central support charge (internal ICT support, property costs, payroll, business support)	0	150	150	0
Computer and ICT (external providers)	331	401	401	0
Fares, travel, accommodation	0	1	1	0
Printing and stationery	0	2	2	0
Postages	0	4	4	0
Other pensions admin costs	4	8	8	0
Total	669	1,528	1,382	(146)
<u>Oversight and governance</u>				
Actuarial Fees	22	150	150	0
Audit Fees	0	36	36	0
Pension Investments and Accounting staff	0	234	190	(44)
Central support charge (internal ICT support, internal audit, payroll, business support)	0	20	20	0
Training	0	5	5	0
Subsistence and travel	0	0	0	0
Investment Consultant Fees	0	75	75	0
Performance Management Fees	15	50	50	0
Tax and Legal Expenses	0	10	10	0
Total	37	580	536	(44)
<u>Management fees</u>				
Investment expenses	165	350	350	0
Custodian Fees	29	100	100	0
Transaction costs	0	350	350	0
<u>Fund Manager fees</u>				
Unitised insurance policies	0	206	206	0
Equities	622	4,900	4,900	0
Bonds	0	309	309	0
Property	122	515	515	0
Private equity	0	3,800	3,800	0
Property debt	0	309	309	0
Total	938	10,839	10,839	0
Overall total	1,644	12,947	12,757	(190)

11 Guaranteed Minimum Pension Comparison Exercise

- 11.1 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.
- 11.2 The reconciliation exercise for the Highland Council Pension Fund is complete and final reviews are being undertaken of 118 cases. The remedy is that any negatively affected pensioners have received arrears payments with interest; and any incomplete GMP details for active and deferred members will be uploaded, in the near future. It has not been possible to progress this work due to other work priorities and staff resource.

12 Additional Voluntary Contribution (AVC's)

- 12.1 Prudential has been the appointed Additional Voluntary Contribution (AVC) provider to the Highland Council Pension Fund since 1989.
- 12.2 To maximise the range of benefits offered to employees, Highland Council has entered into an agreement with AVC wise (a company specialised in this discipline) to provide a Shared Cost AVC scheme to qualifying scheme members.
- 12.3 The Highland Council was working with Prudential to resolve administration issues with the new AVC scheme with the majority of any outstanding issues resolved. There is no financial impact to participants. In addition to the Highland Council, Highlife Highland have now joined the shared cost AVC scheme.

13 The Pensions Regulator – Equality, diversity and inclusion survey

- 13.1 During the summer of 2023, the Pensions Regulator issued a survey to Pension Board and Committee members across all UK occupational pension funds on equality diversity and inclusion (EDI) which was circulated to Pension Board and Pension Committee members.

<https://www.thepensionsregulator.gov.uk/en/media-hub/press-releases/2023-press-releases/first-trustee-diversity-and-inclusion-survey-launched-by-tpr>

The results of the EDI survey will be available the end of 2023 and will be shared with members when available.

- 13.2 Meantime it is proposed that Officers consider further the issues raised within the survey, to develop a report and any recommendations, for consideration at a future Pensions Committee alongside the regulator's survey output.

Designation: Head of Corporate Finance

Date: 8 September 2023

Author: Brian Porter, Head of Corporate Finance

Background Papers: LGPS regulations, Integra Financial reporting