

Agenda Item	4
Report No	PC/2/24

HIGHLAND COUNCIL

Committee: Pensions Committee

Date: 22 February 2024

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 in section 12.

3.2 Legal – the Fund must administer pensions and manage investments in accordance with the LGPS regulations and operate in accordance with The Pension Regulator Code of practice. Consideration of The Pension Regulator requirements are in section 7.

- 3.3 Community (Equality, Poverty, Rural and Island) – there are no specific community implications for this report.
- 3.4 Climate Change / Carbon Clever – there were no climate change / carbon clever implications to be considered in the report.
- 3.5 Health and Safety (risks arising from changes to plant, equipment, or people) – there were no Health and Safety (risks arising from changes to plant, equipment, or people) implications to be considered in the report.
- 3.6 Risk – there is a risk management update report included as a separate item on the Agenda with risks being considered in this report.
- 3.7 Gaelic – there were no Gaelic implications to be considered in the report.

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 January 2024.

5 Update on 2023/24 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 Pension Manager role was advertised with shortlisting to be completed in March 2024. Other vacancies, 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 continues to require the use of overtime to manage workloads.
- 5.3 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. The external audit is ongoing with a plan to present final accounts to the Pensions Committee meeting on 22 February.

- 5.4 In the 2023/24 Service Plan, reference was made to aggregation backlogs and one of the aims of the restructure was to have a specialist team trained in aggregations to address this complex area. Member aggregations exist where a member holds more than one LGPS account as a result of leaving a previous employment and returning to the scheme, or having more than one employment, and subsequently leaving one post and remaining active in the other, these pension accounts can be combined and are known as aggregations. The main impact of the aggregations backlog is that where members have held more than one post, only their active post pensionable service is included on the Annual Benefit statement or on the Member Self Service (MSS) (estimated to affect approximately 1,300 members). This results in high volume of scheme member's queries. The team prioritise aggregation calculations for retirements, retirement estimates, transfers and death in service benefits.
- 5.5 The Pensions Administration Team are currently establishing and training a dedicated team for processing new and backlog aggregations. The aim will be to resolve aggregation backlogs before the Pensions Dashboard connection date (all Pension providers and schemes must connect to the Pensions Dashboard by October 2025).
- 5.6 Following the introduction of the Local Government Pension Scheme (Remediable Service) (Scotland) Regulations 2023, there is a requirement for the Government Actuaries Department to review actuarial guidance to reflect the changes and provide guidance to Funds. Transfers for certain groups of members have been placed on hold whilst Funds await the revised guidance.

6 Operational updates

- 6.1 The Scottish Local Government (SJC) pay award 2023/24 was agreed and backdated to 1 April 2023. As a result, any scheme members who have left or retired since 1 April 2023 will need their benefits to be recalculated based on their revised pensionable pay. Back pay is treated as pensionable, and employers should provide the Pension Fund with a revised leaver form for each affected member. Pension Fund officers are completing these forms for Highland Council employees to assist the Highland Council payroll section. Following the Council's policy change to award backpay to all leavers, the team are in the process of reviewing the impact of the backdated pay award.
- 6.2 In November 2023 one of the employer bodies in the Fund, Comhairle nan Eilean Siar (CNES) was the victim of a criminal cyber-attack and the investigation by Police Scotland, Scottish Government and the National Cyber Security Centre is ongoing. CNES is responsible for providing information to the Fund for Western Isles Council, including Councillors and Hebridean Housing Partnership. Highland Council ICT took immediate steps to notify all staff of the cyber-attack and controls were put in place to quarantine all email correspondence from CNES.
- 6.3 CNES continued to make contribution payments to the Fund during this period based upon previous months information and the Fund provided estimate calculations to members based upon the latest verified year end data. Monthly I-connect reports

have now been submitted for the affected period and contributions reconciled. The Pension Fund is currently loading I-connect reports on behalf of CNES to provide support. Some retirement benefits are being impacted whilst a small backlog of leaver information is still to be submitted to the Fund and CNES are working through this.

7 The Pensions Regulator Code of Practice

7.1 The Pensions Regulator Code of Practice was approved by Parliament on 10 January 2024 and is expected to come into force on 27 March 2024.

<https://www.thepensionsregulator.gov.uk/-/media/thepensionsregulator/files/import/pdf/general-code-laid-january-2024.ashx>

7.2 The single code consolidates all existing codes which included code 14 (Public Service Pension Scheme) into a single document and include the following new modules.

Governing body section

- Meetings and decision-making
- Remuneration and fee policy*
- Managing advisers and service providers*
- Scheme continuity planning*
- Own risk assessment*

Administration

- Planning and maintaining administration
- Financial transactions
- Transfers out
- Record-keeping
- Data monitoring and Improvement
- Maintenance of IT systems
- Cyber controls*

Communications and disclosure

- General principles for member communications
- Scams

Funding and Investment section

- Investment governance*
- Investment monitoring*
- Climate change*

*areas of good practice which sit alongside core modules

7.3 Officers are in the process of assessing compliance with the code and will report to October Pensions Committee with an action plan to address any areas of non-compliance.

8 Member Self Service and Pensioner Payroll

8.1 The Member Self Service (MSS) part of the integrated Altair Pensioner Benefits Administration system is currently being implemented to enable scheme members to have secure access to comprehensive and accurate information on their payroll and pension benefits in real time. The portal will enable active and deferred members to check and update their personal information and beneficiary preferences, perform benefit calculations and access lifestyle planner tools and will provide a secure place to access pension information and submit requests. Pensioner members will be able

to check and print payroll documentation such as Pay Advice and P60s and update their personal information.

- 8.2 The key aims of the MSS project are to improve efficiencies in view of increased service demands and the development is in line with the Pensions Industry norms which are moving towards a self-service model, whereby individuals can readily access information on their pensions online, securely and all in one place.
- 8.3 The implementation approach was to roll out MSS on a phased basis to active, deferred and then pensioner members. Roll out to active members commenced during October 2023 and initially to the smaller employers in the Fund. By the beginning of February 2024, the project has been successfully rolled out to 20 employers and 1,166 active members with 454 members having registered for an account (take up rate of 39%). It is anticipated that there will be an initial increase in workload whilst the team deal with queries and issuing activation keys to members with no email, but the team have been managing the queries well so far.
- 8.4 The plan is that MSS will be fully rolled out to all active and deferred members (around 23,000 members) by August 2024. Pensioner members will begin rollout towards the end of 2024/25 which will align with the Altair Payroll project.
- 8.5 The other part of the integrated Pensions Benefits system to be implemented is the Altair payroll system with the key objective that payroll and benefits payment are processed and paid securely, accurately and efficiently using a single Pensions Administration system. As the payroll system is integrated with the current Benefits Administration this will remove the requirement for reconciliation between separate Administration and Payroll systems as all member and affiliated payee data is held within a single Altair database.
- 8.6 The majority of implementation work on the Pensioners' payroll implementation will be progressed following the Tech One Financial ledger implementation in April 2024 with a proposed "go live" date of November 2024.

9 Scheme Employers Pension Contributions

- 9.1 Pension contributions received from employers are checked for accuracy against known parameters and the dates received are recorded and monitored.
- 9.2 Contact is made with an employer in instances where payments are received late or not to the expected value.
- 9.3 Contributions from scheme employers are all being received on time and all contributions are up to date.

10 Employers Leaving the Fund

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

10.2 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.

11 Employers joining the Fund

11.1 No employers have joined the Fund since the last report.

12 Pension Fund Costs

12.1 As reported to Pensions Committee in September 2023, the external audit was delayed and the plan is for the Highland Council Pension Fund Annual report and accounts 2022/23 to be approved by Pensions Committee in February 2024, subject to completion of the audit.

12.2 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).

12.3 The following budget monitoring report to the 31 January 2024 forecasts underspends on staffing as the staffing structure is in the process of being implemented and forecast overspends and underspends on Fund Manager fees. These are based on market values that have fluctuated across the year.

	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	5	5	5	0
Bank charges	2	2	2	0
Other charges (pension levy, tax certification costs)	0	3	3	0
Pensions administration staff	695	946	834	-112
Central support charge (internal ICT support, property costs, payroll, business support)	0	150	150	0
Computer and ICT (external providers)	350	401	401	0
Fares, travel, accommodation	0	1	1	0
Printing and stationery	1	2	2	0
Postages	2	4	4	0
Other pensions admin costs	4	8	8	0
Total	1,059	1,528	1,416	-112
<u>Oversight and governance</u>				
Actuarial Fees	130	150	150	0
Audit Fees	12	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	27	50	50	0
Tax and Legal Expenses	13	10	10	0
Total	182	580	536	-44
<u>Management fees</u>				
Investment expenses	324	350	400	50
Custodian Fees	45	100	100	0
Transaction costs	0	350	350	0
<u>Fund Manager fees</u>				
Unitised insurance policies	220	206	440	234
Equities	1,877	4,900	4,000	-900
Bonds	331	309	500	191
Property	362	515	480	-35
Private equity	0	3,800	3,800	0
Property debt	0	309	309	0
Total	3,159	10,839	10,379	-460
Overall total	4,400	12,947	12,331	-616

13 Guaranteed Minimum Pension Comparison Exercise

- 13.1 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.
- 13.2 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.

14 Additional Voluntary Contribution (AVC's)

- 14.1 Prudential has been the appointed Additional Voluntary Contribution (AVC) provider to the Highland Council Pension Fund since 1989.
- 14.2 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.

15 The Pensions Regulator – Equality, diversity and inclusion survey

- 15.1 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 are still to be published and will be shared with members when available.

- 15.2 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: 9 February 2024

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Background Papers: LGPS regulations, Integra Financial reporting