

HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Panel:	Pension Fund Panel and Board
Date:	12 December 2023
Title:	Governance: Administration performance update
Report From:	Director of Corporate Operations

Contact name: Lois Downer, Head of Pension Administration

Email: lois.downer@hants.gov.uk

Purpose of this Report

1. The purpose of this report for the Panel and Board to approve draft statutory statements for 2023 and to receive an update on administration performance in the first six months of 2023/24.

Recommendation(s)

2. That the Panel and Board approve the revised Administration Strategy in Appendix 1.
3. That the Panel and Board approve the revised Funding Strategy Statement (Appendix 2) and Employer Policy (Appendix 3).
4. That the Panel and Board note the rest of the information contained in the report and the exempt appendix.

Executive Summary

5. In the first six months of 2023/24 Pension Services have:
 - continued to meet service standards for all casework, as well as produce annual benefit statements for almost 100% of active and 100% of deferred members
 - consulted with Employers on the draft Administration Strategy, Funding Strategy Statement and Employer Policy
 - measured and submitted the common and conditional data scores to the Pensions Regulator

- continued to work on the McCloud remedy and work for the Pension Dashboard Program
- participated in external benchmarking which has confirmed HPS as high service and low cost.

Performance against service standards (KPIs)

6. The tables below show the performance for the first two quarters of 2022/23. All casework was measured against a 15 day standard, apart from re-joiners which have a 20 day standard, and deferred benefits which have a 30 day standard.

Q1 2023/24

Type of Case	Time to Complete						Total	% completed on time	Average days
	0 – 5 days	6 – 10 days	11 -15 days	16 – 20 days	21 – 30 days	31+ days			
Active Retirement	188	66	33	0	0	0	287	100.00%	5
Deferred Retirement	232	216	184	0	0	0	632	100.00%	8
Estimates	143	371	589	0	0	0	1,103	100.00%	10
Deferred Benefits	110	8	23	38	1,693	0	1,872	100.00%	25
Transfers In & Out	14	35	10	0	0	0	59	100.00%	8
Divorce	77	15	10	0	0	0	102	100.00%	4
Refunds	16	63	306	0	0	0	385	100.00%	11
Rejoinders	47	83	68	82	0	0	280	100.00%	11
Interfunds	91	56	26	0	0	0	173	100.00%	6
Death Benefits	223	50	64	0	0	0	337	100.00%	5
Grand Total	1,141	963	1,313	120	1,693	0	5,230	100.00%	

Q2 2023/24

Type of Case	Time to Complete						Total	% completed on time	Average days
	0 – 5 days	6 – 10 days	11 -15 days	16 – 20 days	21 – 30 days	31+ days			
Active Retirement	143	135	81	0	0	0	359	100.00%	7
Deferred Retirement	217	278	247	0	0	0	742	100.00%	8
Estimates	139	498	575	0	0	0	1,212	100.00%	10
Deferred Benefits	64	21	34	91	1,641	0	1,851	100.00%	25
Transfers In & Out	23	36	28	0	0	0	87	100.00%	8
Divorce	10	60	50	0	0	0	120	100.00%	9
Refunds	36	215	141	0	0	0	392	100.00%	9
Rejoinders	35	56	71	135	0	0	297	100.00%	13
Interfunds	63	101	126	0	0	0	290	100.00%	9
Death Benefits	196	60	46	0	0	0	302	100.00%	5
Grand Total	926	1,460	1,399	226	1,641	0	5,652	100.00%	

7. A table showing the banded value of pensions currently in payment is shown below, with an average annual amount of £5,560.

Value of annual pension	Members	Average age	Total annual amount
Less than £500	7,338	68	£1,654,977
£500 - £1,000	5,563	71	£4,122,233
£1,001 - £1,500	4,624	71	£5,776,453
£1,501 - £3,000	9,709	72	£21,249,899
£3,001 - £6,000	10,343	72	£44,751,107
£6,001 - £12,000	8,136	72	£68,577,042
£12,001 - £24,000	4,403	72	£72,879,806
£24,001 - £36,000	1,341	72	£39,032,819
£36,001 - £48,000	441	72	£17,993,998
More than £48,000	225	73	£13,771,355
Total	52,123	71.63	£289,809,689

8. The Panel and Board also requested information on the value of benefits which are due to members but have not yet been claimed. For most members, benefits can be taken at any age from 55 to 75. There is a group of members who left the scheme before 1 April 1998 whose benefits are payable without reductions at a specific age. HPS contact members three months before the age at which the benefits can be paid without reductions and again if the member has not taken their benefits by age 74.

The table below shows the Fund has 544 unclaimed pensions i.e. those where the member is now over 75 or those where the member left prior to 1 April 1998 and whose payment date has now passed (734 in December 2022). The total value of these pensions is £846,450 and the largest unclaimed pension is just under £14,000 per year. All those over 75 have been submitted for address tracing, along with deferred members with unclaimed pensions greater than £4,000 where no response has been received to the initial claim letter.

Value of annual pension	Number of members	Total amount
Less than £500	137	£24,924
£500 - £1,000	110	£83,331
£1,001 - £1,500	87	£110,808
£1,501 - £3,000	143	£308,680
£3,001 - £6,000	53	£205,924
More than £6,000	14	£112,783
Total	544	£846,450

End of year returns and employer performance

9. It was reported to the Panel and Board in July that there had been an overall decrease in the quality and timeliness of the annual returns provided by employers. The team has been working with employers to try understand any specific issues that may have arisen.

10. During the annual return process, employers are measured for timeliness, financial control and data quality. Any Scheme Employer who is highlighted as a concern, or who has a red rating for data quality, is required to complete a data validation exercise to confirm that the membership data we hold for the current year is up to date and correct. 80 employers have received a letter asking them to complete a data validation exercise by 31 December 2023.

11. A chart of employer performance for the 2023 annual return process is shown below but in summary:
 - Only 5 out of the 11 largest employers (more than 500 employees) were rated green for data quality
 - 81 employers were benchmarked with 'major data quality issues' (red rating)
 - 67 of these employers are schools (including academies)
 - 57 of these use an external payroll provider

- 43 employers received a red rating for data quality despite being rated amber or green in the previous year
- 25 employers improved their data quality rating this year



Annual benefit and pension savings statements

- Annual benefit statements were produced for 99.73% of active members and for 100% of deferred members by the statutory deadline of 31 August 2023, with over 148,500 produced in total. Of the 168 active members who did not have a statement by the deadline, 100 statements are still outstanding of which the majority relate to a large TUPE transfer by an employer meaning it is not possible to produce an active statement until the transfer is completed.
- Pension Savings Statements (PSS) were produced by the statutory deadline of 6 October for the 87 members who were identified as breaching the annual allowance limit in 2022/23. Of these 87 members, 28 have a tax charge which they will either pay directly or via the scheme pays facility.

Annual Employer Meeting 2023

- The Annual Employer meeting was held in person on 11 October with 43 representatives from 35 different employers (the rest of the attendees were internal staff, Panel and Board members and the external speakers). 23 confirmed attendees did not attend on the day.

15. Following the AEM attendees were asked for their feedback on the sessions, with 24 responses received to date. Of these,

- 96% thought the AEM was good or excellent
- 100% said it met their expectations in terms of providing information they had wanted to know.

A further link to an online survey has been sent via the latest employer newsletter and this feedback will be added to the initial responses received.

Administration Strategy

16. The Fund's Administration Strategy sets out the roles and responsibilities of the Fund and its employers including the performance measures used to evaluate the levels of service each provides to the other.

17. Proposed changes to the Administration Strategy seek to formalise the requirement for employers to provide a named contact to be responsible for LGPS data and also to be more explicit on the administrative charges the Fund will make for late submission or poor quality data on annual returns. These changes are set out on pages 4-5 and 11-12 of the draft Strategy included as Appendix 1 to this paper.

18. Following feedback from an internal audit, the timescales for the payment of death grants have been clarified on page 16 of the draft Strategy.

19. A minor change has been made to discretion 12 in Appendix C of the Strategy (page 19) to clarify that employers are expected to make a one off upfront payment for any early retirement strain charges which are due.

20. Employers were asked to feedback on these draft changes during a four week period of consultation. One employer fed back in agreement with the administrative charges for poor quality data. No other comments were received. The Panel and Board are therefore asked to approve the draft Administration Strategy in Appendix 1.

Funding Strategy Statement and Employer Policy

21. The Funding Strategy Statement (FSS) sets out the processes by which the administering authority establishes a clear and transparent funding strategy which best meets employer's pension liabilities. The Employer Policy provides more of the detail of how the Fund interacts with employers in line with the FSS.

22. Proposed changes have been made to the FSS and the Employer Policy in light of the Department for Education (DfE) policy paper on the guarantee for academy trusts. This paper confirmed that the DfE guarantee for academies (which ensures that in the event of a closure of an academy trust any outstanding LGPS liabilities will not fall on the Fund) extends to academy contractors provided the contractor and academy have a 'pass through' arrangement whereby the academy retains the pension risk. Consequently in this situation there is no greater risk to the Fund of a failure of an academy contractor than there is for an academy and the policy has been updated to allow:
- most academy contractors to be admitted to the Academy Group and receive a contribution rate based on the Secure Scheduled Bodies funding target
 - clarification that the Academy Group employers will share any surplus in proportion to their liabilities (not just their deficits).
23. These changes are shown on pages 9 ,11 and 30 of the FSS attached as Appendix 2 to this report and on pages 2-4 and 9-10 of the Employer Policy included as Appendix 3 to this report. Employers were consulted on these proposed changes during a four week consultation. Six responses were received in total with two academy trusts and one housing association agreeing with the changes. The three employers with responsibility for maintained schools responded to request that if a maintained school outsourced services on a pass through basis, those contractors could also benefit from a contribution rate based on the Secure Scheduled Bodies funding target. The Fund Actuary agreed that extending this arrangement to maintained schools does not introduce additional risk to the Fund and therefore the documents were updated to make this change.
24. No other feedback was received from employers during the four week consultation. The Panel and Board are therefore asked to approve the draft Funding Strategy Statement and Employer Policy as set out in Appendices 2 and 3 to this report.

The Pension Regulator scheme return

25. The Pension Regulator (TPR) requires schemes to complete an annual return providing details of the contributing employers and governance arrangements. Since 2018, TPR has required schemes to report on the presence and accuracy of common data (information about the individual and basic retirement information) and conditional data (required to calculate specific scheme benefits) as part of the annual return.
26. The score is based on a pass/fail approach for each member against all data items. This means that if an individual has a single piece of data missing

then the individual will count as a fail (even if all other data is present and accurate).

27. The common data score for 2023 has been calculated as 97% (the same as in 2022). Maintaining the score despite an increase of over 5,000 records shows that the processes in place to provide clean data are working in practice. The main reason for records failing the common data checks is that 4,419 records still have a 'lost contact' address status despite an exercise to trace records in 2021/22.

It is important to note that whilst it is a requirement to hold a valid home address, greater focus over the last year has been given to holding an email address and ensuring that members are aware of the need to update their personal data through the Member Portal.

28. The conditional data score has also stayed the same as in 2022 at 96%. There were two main reasons for records failing the conditional data checks:

- Pensionable pay information is not held in the correct field for ? active (reduced from 511 in 2022) and ? deferred members (2,472 in 2022)
- 3,280 records do not hold a 'crystallised benefit value'.

Pensionable pay information is not required for the deferred records because benefits already been calculated (the pay will be on the record, but just not in the expected field, and may only be on the documents due to the record having been migrated from previous administration systems). The pay for the active members will be cleansed as part of the annual end of year processes.

The records missing 'crystallised benefit value' check are all pensioner status and the data does not impact anything in terms of benefits payable or external reporting to HMRC. Consequently this is a low priority data cleanse item.

McCloud

29. The regulations required to amend the LGPS for the McCloud remedy came into force on 1 October 2023. All retirements for active and deferred members affected by the remedy now include the underpin test to check whether the member would be better off with final salary or CARE benefits for the remedy period (1 April 2014 to 31 March 2022). There has only been one case to date (an estimate with a significant increase in final salary pay) where the underpin would have an effect on the benefits.
30. DLUHC have issued guidance on prioritisation for reviewing casework for those affected by the remedy who have already left active membership (i.e.

retirements, deferreds, transfers out and deaths of eligible members which occurred from 1 April 2014 to 30 September 2023). This is to ensure that Funds are broadly working to the same timescales. The table below sets out the members who are eligible for remedy based on the information held by HPS (some members may be eligible due to their membership of other public pension schemes of which HPS is not yet aware).

Status	Number of members in scope
Active	14,614
Deferred	13,196
Pensioner (including Triv Comm)	6,015
Deceased (Beneficiaries to be contacted)	447
Transfers Out	994
Total	35,266

31. The team are still working on uploading data from employers to records in order that full service history is held so that the underpin calculation can be run (data is being entered on a case by case basis for retirements). This work needs to be completed before the annual benefit statement process at the end of 2024/2025 so that the underpin calculation can be included in statements in August 2025.

Pension Dashboard Programme

32. It was reported to the Panel and Board in July that due to the delay to the Pensions Dashboard Program (PDP) announced by the Department for Works and Pensions in March 2023, Civica do not yet have a formal date for when they will now be asked to connect to the dashboard.

Although no formal announcement has been made, it is now likely that public sector schemes will be required to connect in September 2025. HPS are ready to pick up this project once it recommences and in the meantime the team are attending the various relevant briefings and webinars.

GMP rectification

33. Intellica have continued to work on the calculations required for GMP rectification; correcting pension over and under payments which have arisen as a result of discrepancies in GMP values held by HMRC compared to those held by the Fund.
34. As agreed by the Panel and Board in July 2022, the Director of Corporate Operations has considered whether making these adjustments will cause financial hardship. For cases where the outcome of the GMP exercise would be a reduction in the LGPS pension payable, the Scottish Public

Pensions Agency introduced legislation for the LGPS in Scotland which allowed the GMP value to be corrected but for an additional balancing payment to be made so that the overall pension continues to be paid at the same rate rather than reducing any amounts in payment. Following a discussion with the Fund's actuary and legal advisers it has been agreed that the Director will send a letter to the Department for Levelling Up, Housing and Communities (DLUHC) requesting they introduce similar legislation into the LGPS for England and Wales. Without this legislation the Fund will have no option other than to reduce pensions in payment to their correct amount, although it has already been agreed that no recovery of previously overpaid amounts will be made. The table below shows a breakdown of the potential reductions in pensions. 24 pensioners would receive a reduction of more than £150 a month, ranging from 4% to 24% of their pension.

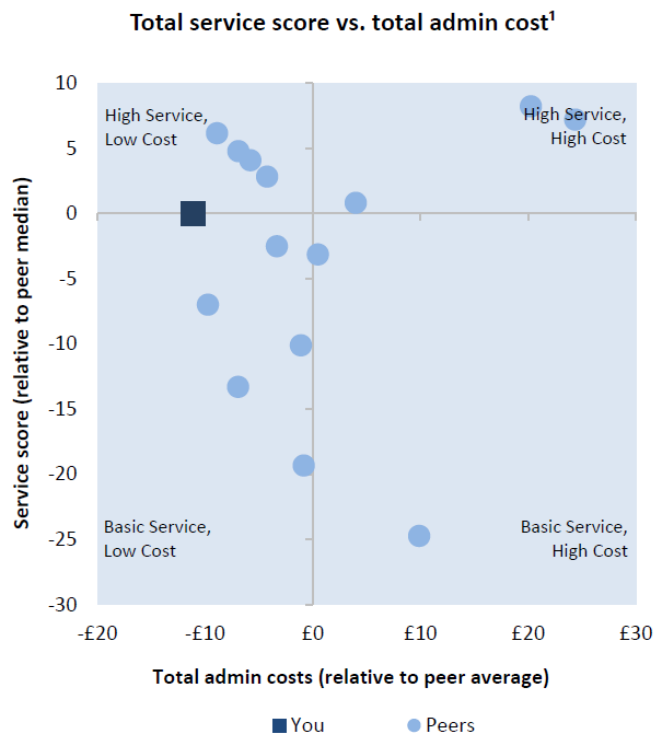
Change	Number affected	Average age	Oldest	Youngest	Average length of time in payment	Longest time in payment
Decrease between £1 and £5	452	75	88	70	13 years 3 months	28 years
Decrease between £5.01 and £15	323	77	91	70	15 years 8 months	35 years
Decrease between £15.01 and £50	232	76	91	70	16 years 7 months	41 years
Decrease greater than £50	203	78	92	70	18 years 6 months	38 years

35. Sending this letter to DLUHC will mean that no adjustments will be made to pensions in payment until after the application of the pensions increase in April 2024. If, following DLUHC's response, reductions in payments are required then pensioners will be given suitable notice of the change with at least three month's notice being given to those with the greatest reduction.

CEM administration benchmarking

36. Hampshire Pension Services have participated for the first time in a benchmarking exercise for pension administration. The company involved, CEM benchmarking, work with over 400 funds worldwide to provide benchmarking insight into how to maximise value for money services.
37. For the purposes of this exercise, CEM compared HPS costs and service to members with that of 14 peer group schemes of between 94,000 and 656,500 members. 11 of the peer group were LGPS; the other three were large UK 'public sector like' defined benefit schemes.
38. The data provided to CEM included the administration provided by HPS for Hampshire, West Sussex, the London Borough of Hillingdon, the City of Westminster, Hampshire and IOW Fire and Rescue and Hampshire and IOW Constabulary.

39. CEM summarise each Fund's relative position on a cost effectiveness graph which measures total service score against total administration cost. HPS have a median score for service and an administration cost £11.07 lower than the adjusted peer average, positioning HPS in the high service / low cost quadrant shown below.



Employer exits

40. Details of three employer exits are contained in an exempt appendix to this report.

Climate Change Impact Assessments

41. Hampshire County Council utilises two decision-making tools to assess the carbon emissions and resilience of its projects and decisions. These tools provide a clear, robust, and transparent way of assessing how projects, policies and initiatives contribute towards the County Council's climate change targets of being carbon neutral and resilient to the impacts of a 2°C temperature rise by 2050. This process ensures that climate change considerations are built into everything the Authority does.
42. The climate change and carbon control mitigation tools were not applicable for this report because the decisions in this report relate to the in-house

management of the administration of the pension scheme and therefore have a neutral impact on climate change.

REQUIRED CORPORATE AND LEGAL INFORMATION:

Links to the Strategic Plan

Hampshire maintains strong and sustainable economic growth and prosperity:	yes/no
People in Hampshire live safe, healthy and independent lives:	yes/no
People in Hampshire enjoy a rich and diverse environment:	yes/no
People in Hampshire enjoy being part of strong, inclusive communities:	yes/no
OR	
This proposal does not link to the Strategic Plan but, nevertheless, requires a decision because the Pension Fund Panel and Board need to approve the draft Funding Strategy Statement, Employer Policy and Communication Policy.	

Section 100 D - Local Government Act 1972 - background documents

The following documents discuss facts or matters on which this report, or an important part of it, is based and have been relied upon to a material extent in the preparation of this report. (NB: the list excludes published works and any documents which disclose exempt or confidential information as defined in the Act.)

Document

Location

None

EQUALITIES IMPACT ASSESSMENT:

43. Equality Duty

The County Council has a duty under Section 149 of the Equality Act 2010 ('the Act') to have due regard in the exercise of its functions to the need to:

- Eliminate discrimination, harassment and victimisation and any other conduct prohibited by or under the Act with regard to the protected characteristics as set out in section 4 of the Act (age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation);
- Advance equality of opportunity between persons who share a relevant protected characteristic within section 149(7) of the Act (age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex and sexual orientation) and those who do not share it;
- Foster good relations between persons who share a relevant protected characteristic within section 149(7) of the Act (see above) and persons who do not share it.

Due regard in this context involves having due regard in particular to:

- The need to remove or minimise disadvantages suffered by persons sharing a relevant protected characteristic that are connected to that characteristic;
- Take steps to meet the needs of persons sharing a relevant protected characteristic that are different from the needs of persons who do not share it;
- Encourage persons sharing a relevant protected characteristic to participate in public life or in any other activity in which participation by such persons is disproportionately low.

44. Equalities Impact Assessment:

Equality objectives are not considered to be adversely affected by the information in this report as it affects all scheme members.