REPORT OF THE GROUP DIRECTOR, FINANCE AND CORPORATE RESOURCES		
PENSION FUND ADMINISTRATION ANNUAL REPORT 2016/17 **Pensions Committee** **27 June 2017**	**Classification** **PUBLIC** **Ward(s) affected** **ALL**	**Enclosures:** **None**

1. INTRODUCTION

1.1 This report outlines the work undertaken by the London Borough of Hackney and the performance of the pension fund administrators, in regard to the administration of the LGPS Hackney Pension Scheme for the financial year 2016/17. The contract for pension administration, and pension payroll, is managed externally by the Fund's pension administrators, Equiniti Pensions Solutions, with the contract being overseen by the Financial Services Section based at London Borough of Hackney.

1.2 The contract with Equiniti commenced on 1 April 2009 for an initial period of 5 years, and approval was given on 1 April 2014 to extend for a further 3 years until 31 March 2017. A short term contract extension to 31 December 2017 was agreed with the Council's Legal department and Equiniti in order to allow sufficient time for an orderly transition to a new administrator if that had been necessary, and for the Council to complete the transition of the payroll contract to any new provider in July 2017 As agreed at the last Pensions Committee, however, Equiniti have been re-appointed as the pension fund administrators.

2. RECOMMENDATIONS

2.1 The Pensions Committee is recommended to note the report.

3. RELATED DECISIONS

- Pensions Committee (24 January 2017) - Procurement of Third Party Pension Administration Services - Update (Exempt)
- Pensions Committee (6 December 2016) - Procurement of Third Party Pension Administration Services (Exempt)
- Pensions Sub-Committee (17 January 2013) – Pensions Administration Contract, approval of 3 year extension
- Pensions Sub-Committee (9 December 2008) – Procurement of Pension Scheme Administrator and Pension Payroll Provider

4. COMMENTS OF THE GROUP DIRECTOR, FINANCE AND CORPORATE RESOURCES

4.1 The costs of administration as a whole for the Pension Fund are relatively small compared to the overall value for the Fund. The cost in 2016/17 was £539k, compared to £570k in 2015/16.

4.2 It is evident that having efficient administration is crucial to the effective management of the Pension Fund. The cost is made up of the cost of the third party administrators, including the administration of the pension payroll, and the internal costs of administering the Fund. This year the average cost of administering the Fund per member was £23.14, based on the current cost and membership at 31 March 2017, compared to £25.37 at 31 March 2016.

4.2 Good administration is key to ensuring that the Fund is able to meet its pension commitments in a timely manner and will avoid additional charges to the Fund from late payments and fines. The administration of the Pension Fund is closely monitored by officers of the Council to ensure efficient service delivery.

5. COMMENTS OF THE DIRECTOR, LEGAL

5.1 The Local Government Pension Scheme Regulations 2013 set out in detail the administration of the Pension Scheme and how the Scheme rules are to be applied. If these were to be applied incorrectly then this would pose a risk to the Pension Fund.

5.2 The Pensions Committee, acting in their capacity of the Trustees of the Pension Fund, have responsibilities to ensure that the Fund is managed in accordance with the regulations. Receiving regular updates on the performance of the administration function will assist the Committee in ensuring that it fulfils its regulatory obligations under the Local Government Pension Scheme Regulation.

5.3 There are no immediate legal implications arising from this report.

6. SUMMARY

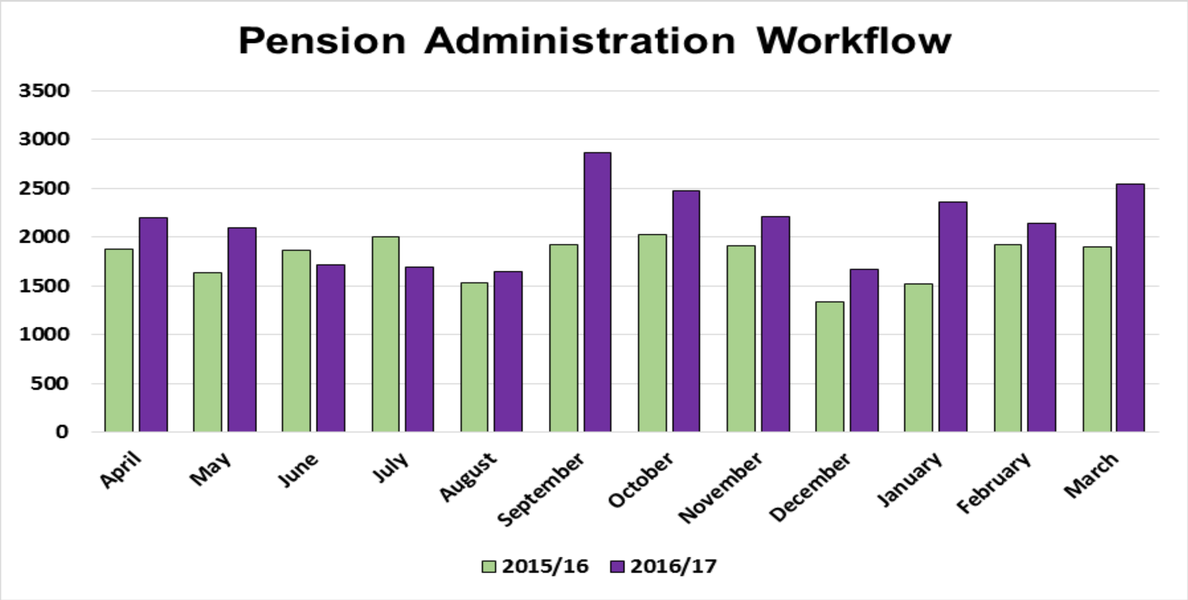
6.1 The pension administrators, Equiniti Pensions Solutions, have a dedicated team of qualified pension professionals who manage the day to day administration of the scheme on behalf of the London Borough of Hackney. The contract is monitored by the Financial Services Section of the London Borough of Hackney on a monthly basis and performance is measured against Service Level Agreements (SLA). Over the year the pension administrators handled 25,598 cases, an increase of 4,168 on the previous year of 21,430.

6.2 Overall performance against the SLA is slightly improved for 2016/17 at 97.1%, compared to 95.1% for 2015/16, which considering the increased workflow and the difficulties faced by the administrators, can be attributed to their hard work and dedication in ensuring that member records are up to date and correct. Equiniti have also successfully issued 6,447 annual benefit statements to active members, and 7,398 benefit statements to deferred members, including Councillors.

7. ADMINISTRATION PERFORMANCE

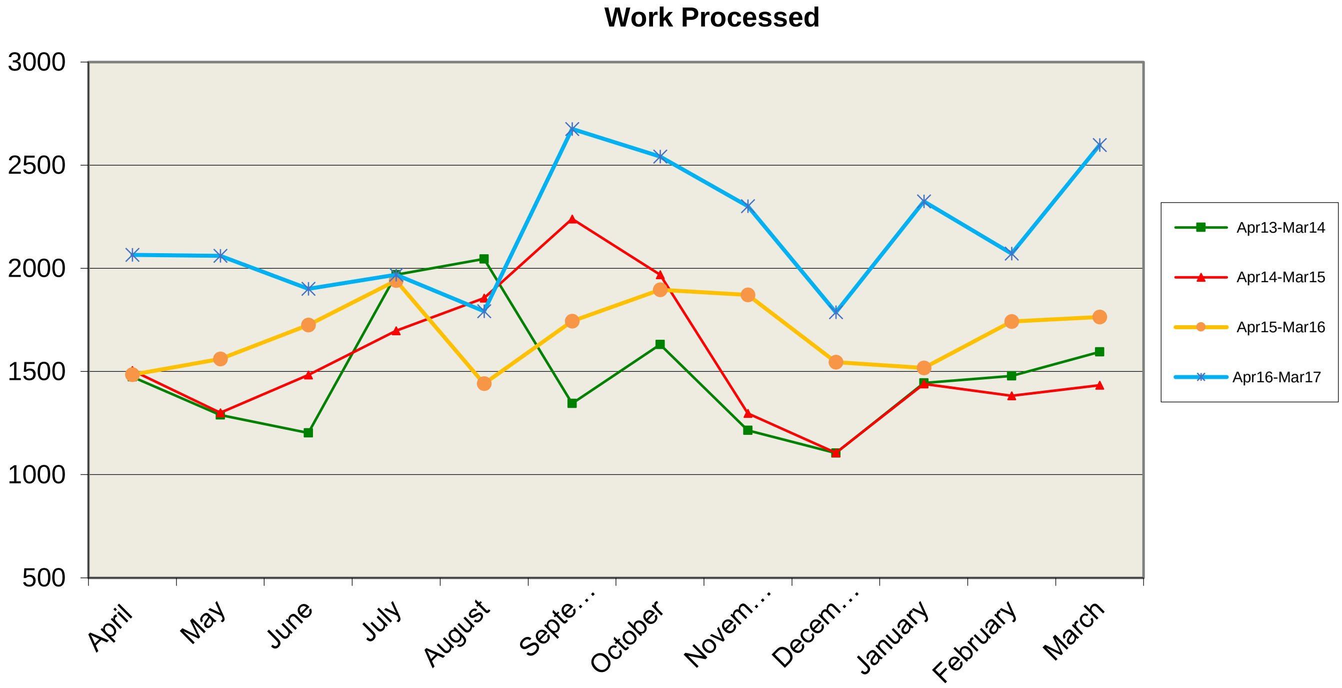
7.1 The performance of the pension fund administrators, Equiniti, is monitored by the Financial Services Section at Hackney Council. Meetings are held monthly to discuss performance against service level agreements, workflows, data cleanse issues and planning of future work projects. Meetings also include discussion of specific administration cases and recommendations for enhancements to the service provision both to Hackney and to members of the scheme.

7.2 Over the last year the total cases received by the administrators has increased significantly from 21,430 cases in 2015/16 to 25,598 in 2016/17. The average number of cases received monthly has increased from 1,785 in the previous year, to 2,133 in 2016/17. The number of cases for 2016/17 in comparison to 2015/16 is shown in the chart below:-



7.3 The increase has been primarily due to the continued lack of a payroll monthly interface from the Council, the largest employer, which means all starters, leavers and change notifications having to be processed manually. The cases peaking in September 2016 was due to the extra data cleanse and verification needed to ensure member records were as accurate as possible before the remainder of the annual benefit statements were issued in December 2016.

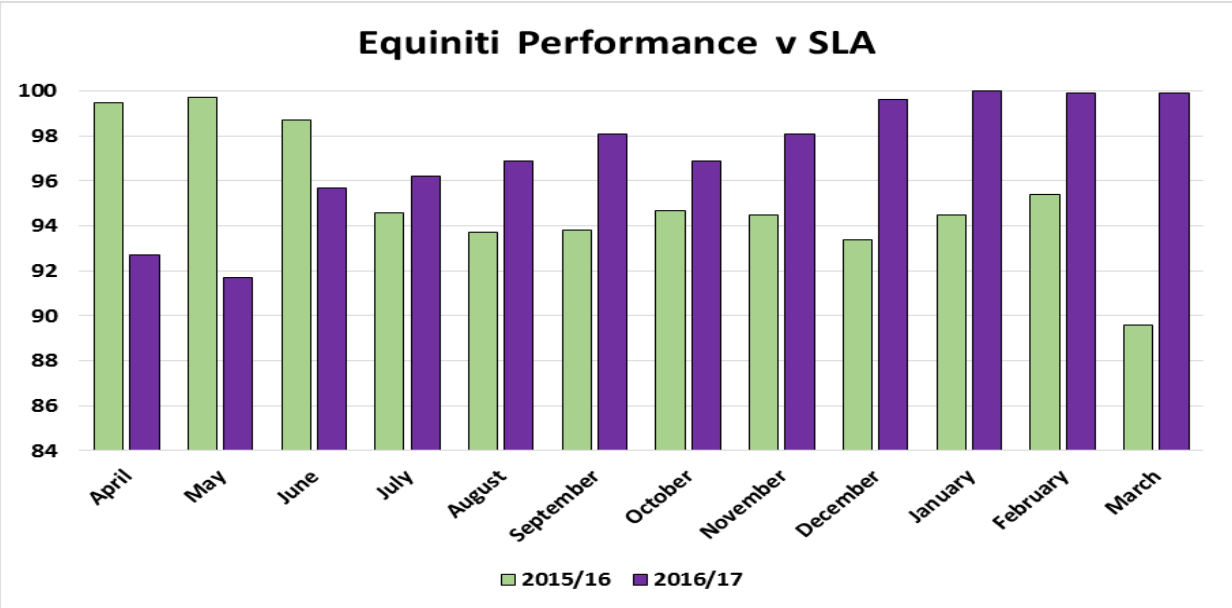
7.4 The number of work items completed on a monthly basis averages 2,139 over the year and a comparison of completed items from 2013/14 (green line) to 2016/2017 (blue line) date is shown in the chart below:



7.4 The lack in quality data received from employers, particularly the Council, and their payroll providers, continues to have a significant impact on workloads, with data cleansing and validation being a priority not only for the annual benefit statements but also the triennial valuation. Considerable problems still remain with the Council's payroll system and as a year-end file was not provided, extrapolated data from monthly returns was used to update member records sufficiently to produce annual benefit statements.

7.5 As the year-end file was not provided, the Fund was not able to comply with its regulatory duty of providing annual benefit statements to all of its members by the end of August 2016. However, all deferred benefit statements were issued in time along with approx 4,000 active statements where data was accurate. Following further data cleansing, the remainder of the active statements, approx 3,200, were issued on 22 December 2016 with the addition of a 'health warning' requesting members check their statement for accuracy. The lack of year-end data from the Council, being the largest employer in the Fund, impacted on issuing the majority of the statements within the regulatory timescale and therefore the Fund breached the scheme regulations. In doing so, the Council was obliged to report itself to tPR, setting out what had happened and the steps it had taken to correct the issue. No further action was taken by tPR.

7.6 Performance under the pension administration contract when compared to the service level agreement (SLA), was 97.1% for 2016/17 as a whole, which is a slight increase on 95.1% in 2015/16. This in its self is an achievement considering the difficulties the administrators had to overcome again this year. The performance v SLA over 2016/17 in comparison to 2015/16 is shown in the chart below:-



7.7 In addition to dealing with the day to day administration cases, Equiniti have also undertaken a number of tasks on behalf of the Fund, some of which are listed below:

- The year end pension payroll process has been completed for both the monthly and annual payrolls including the application of the pension increase (PI), reconciliation of the payrolls, production of P60s and reporting to HMRC
- System year end update of pension increase; Lifetime Allowance and Annual Allowance earnings and contribution histories was completed

- Certificates of Continued Entitlement (life certificates) were issued to the total pensioner population of 6,309. This revealed 7 deaths that had not been previously notified to the administrators and 12 people who require power of attorney as they could no longer manage their own affairs.

- Data submissions:
    - FRS17 data submitted to the Actuary for 16 employers
    - Valuation extract submitted to the Actuary for the triennial valuation
    - Data submission for Club Vita longevity studies
    - 3 cessation valuation calculations for ceased employers
    - 5 bond and contribution valuations submitted to the Actuary
    - Monthly HEAT data capture report to the Actuary

- Overpayment of pensions - identified overpayments to a value of £28,876.05. These were as a result of late death notifications. To date £8,675.98 has been recovered.

7.8 Employers and schools administration performance has been monitored over the year, and assistance and additional training has been provided to help support them with administering the scheme to ensure more accurate data is provided to Equiniti. Additional administration charges have been issued to a number of employers where persistent failure to deliver accurate and timely information, despite support, has arisen. In most instances there was a 1 or 2 day delay in getting the contribution payment or supporting data to Equiniti, and employers have been reminded of the regulatory requirements to ensure payments due to the Fund are made by the 19th of the month.

8. OTHER WORK UNDERTAKEN IN 2016/17

8.1 In 2013, the Council undertook its initial mandatory Auto Enrolment duties, a process that must be repeated every 3 years, meaning the Council's re-staging date was 1 July 2016. As part of the Re-Enrolment Communications Plan, a poster was designed and distributed across the Hackney campus and to all schools. Pension updates by the Group Director, Finance and Corporate Resources were also made available on the Council's intranet and the pension administrators' website.

Following an assessment of all employees at the re-staging date, 799 employees were eligible to be automatically re-enrolled into a relevant qualifying pension scheme and a further 900 employees, although not eligible for automatic re-enrolment, can elect to join a scheme if they wish. A breakdown of the category and type of employees assessed is provided below:

Category of Worker	Hackney (LGPS)	Schools Support Staff (LGPS)	Hackney Teachers (TPS)	Total
Eligible Jobholders (automatically enrolled)	360	281	158	**799**
Non-Eligible Jobholders or Entitled Workers	441	442	17	**900**

(not auto enrolled but can elect to join)				
Total	**801**	**723**	**175**	**1,699**

A total of 1,699 enrolment letters were sent to staff across the Council, support staff and teaching staff in community and voluntary aided schools, together with AE guides for LGPS and TPS pension schemes.

8.2 In anticipation of the annual benefit statements due to be issued in August 2016, Equiniti undertook a reconciliation exercise of member's records to ensure they have a complete postal address. Results of that exercise showed that 1,592 deferred members and 283 active members did not have addresses on record. The Hackney in-house pension team were able to interrogate the Council's payroll system to access up to date addresses for the 283 active members and the details were then passed to Equiniti to update the members' records.

For those 1,592 deferred members, further investigations resulted in 1,119 addresses being traced with the remainder 473 needing to be forensically traced, and work will commence on this in 2017/18.

8.3 In mid-December 2016, the in-house pension team launched their first quarterly Newsletter to employers (and schools) in the Fund. The newsletter covered the actuarial valuation, the proposed exit cap, details of up-coming poster campaigns, TUPE and relevant news updates on LGPS regulation changes. A further newsletter was published in March 2017 with the next one due in June 2017. Feedback on the newsletter has been positive and it is well received.

8.4 As previously reported, the Chief Executive announced a Voluntary Redundancy (VR) Scheme that launched on 1 October 2015, and all staff (apart from essential services) were eligible to apply. After completing their statutory notice period the majority of employees who accepted the VR terms, left the organisation by 31 March 2016 and a further 77 left from April 2016 to the end of March 2017.

8.5 The annual Employer Forum was held on 22 February 2017, and was attended by 8 of the Fund employers. The Forums agenda was varied and covered subjects from an outlook on the economy; employer roles and responsibilities; the triannual valuation results and individual employer rates; pension 'hot topics'; London CIV; and a presentation from the Prudential on AVCs.

8.6 In January 2017 the Fund issued a tender for the procurement of a new third party administrator, via the National LGPS Framework. Closing date for bids was 10 March 2017, with moderation and site visits taking place during mid/late March. Pensions Committee met in April 2017 and agreed the officer recommendation to award the contract to Equiniti for a further 5 years with p[otential for 3 year extension beyond that.

8.7 At the end of Q3 2016/17, the Funds Benefits & Governance Consultants, AON Hewitt were again asked to carry out a review the quality of data being supplied to the Pension Fund from its employers. During Q4, Equiniti and officers at the Council have been co-operating fully with AON in regard to data gathering and providing relevant evidence for the report. The results of the report and the findings will be reported to Pensions Committee in June 2017.

8.8 In the last year, the in-house Pensions team based at the Council, have presented at weekly induction sessions for 417 new employees, ensuring they are provided with information on the benefits of the Pension Scheme. Feedback from these sessions continues to be extremely positive with 98% of attendees ranking them informative and engaging and 94% leave the sessions having a better understanding of the scheme and its benefits.

9. THE PENSIONS REGULATOR (tPR)

9.1 Following the Pensions Regulator assuming responsibility for setting standards of governance and administration in public service pension schemes, a new Public Service Code of Practice was introduced to provide practical guidance and standards of conduct and practice, to help maintain and improve the governance and administration of pension schemes. The Code is directed at Scheme Managers (Funds) and the local Pension Boards. The role of each local Pension Board is to help ensure their scheme complies with governance and administration requirements as defined by the Code.

9.2 The Code requires Schemes to report breaches of the law to the Regulator where they have reasonable cause to believe that:

- a legal duty which is relevant to the administration of the scheme has not been, or is not being, complied with
- the failure to comply is likely to be of material significance to the Regulator in the exercise of any of its functions

9.3 Therefore as detailed in paragraph 7.5 of this report, the March 2016 annual benefit statements could not be issued to members within the regulatory timescales due to poor quality and the non-receipt of data from employers in the Fund. This resulted in the Council having to report itself to the tPR for non-compliance on 2 occasions:

- August 2016 - failing to issue all active and deferred benefit statements by 31 August. However, all statements for deferred members were issued by the deadline, along with approximately 4,000 statements for active members. The remaining 3,200 statements would be issued by 31 October.
    - tPR did not impose a fine providing statements issued by agreed extended deadline.

- October 2016 - failing to issue all active and deferred benefit statements by 31 October, after extended deadline had been agreed with the Regulator. Committed to issuing the outstanding statements by 31 December 2016.
    - tPR did not impose a fine providing statements issued by agreed deadline.

9.4 As reported, the remaining annual benefit statements for year end March 2016 were issued on 22 December 2016.

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