

AGENDA ITEM 6
REPORT NO. PC/4/21

HIGHLAND COUNCIL

Committee: Pensions Committee

Date: 18 March 2021

Report Title: Service Plan 2021/22

Report By: Head of Corporate Finance and Commercialism

1. Purpose/Executive Summary

- 1.1 The Highland Council Pension Fund Service Plan 2021/22 details the Fund's priorities over the next year alongside the budget and performance targets for the year ahead.
- 1.2 Over the next year the Fund will face many challenges and opportunities from both external and internal sources. It is essential that these are identified in order to set out the key work priorities for the Administering Authority and the corresponding resourcing requirements.

2. Recommendations

- 2.1 It is recommended that Committee approve the following
 - the Pension Fund Service Plan 2021/22.
 - the Pension Fund staffing structure and budget for 2021/22.

3. Implications

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

4. Background

The Highland Council is the Administering Authority of the Highland Council Pension Fund covering local government employees and elected members in the Highland Council area and scheduled and admitted organisations that provide public or charitable services.

5. Fund Objectives

5.1 The Fund's key service objectives are:

- The correct amount of contributions are received from employees and employers and also any transfer payments are correctly made/received.
- Contributions are invested appropriately and in accordance with legislation with the aim that the Fund's assets grow over time with investment income and growth.
- Assets and income are used to accurately pay Fund benefits to its members and their dependants as defined in the LGPS Regulations.

5.2 This document sets out the proposed staffing structure in, work plan and budget for 2021/22, necessary to achieve the above service objectives.

6. Staffing structure – Pensions Administration section

6.1 The Fund has a dedicated Pensions Administration section which reports to the Payroll, Pensions and Creditors Manager. This section is responsible for administering pension benefits and ensuring that contributions are paid on time.

6.2 The current establishment of the Pension Administration team is as follows

Post	FTE
Operations Managers	2.0
Technical and Communications manager	1.0
Pension Officer	4.5
Pension Technician	5.0
Clerical Assistant	4.0
Total	16.5

6.3 Since April 2020 however the team has not been operating at full capacity at any of the above grades due to a combination of Maternity Leave, serious illness and resignations. A recruitment process is currently underway to bring staffing levels up to the establishment level.

6.4 These staffing shortfalls have resulted in a backlog of work mainly in respect of a change in legislation around aggregation of record where Government Actuarial

Guidance was applied retrospectively which although not affecting the payment of benefits requires to be addressed.

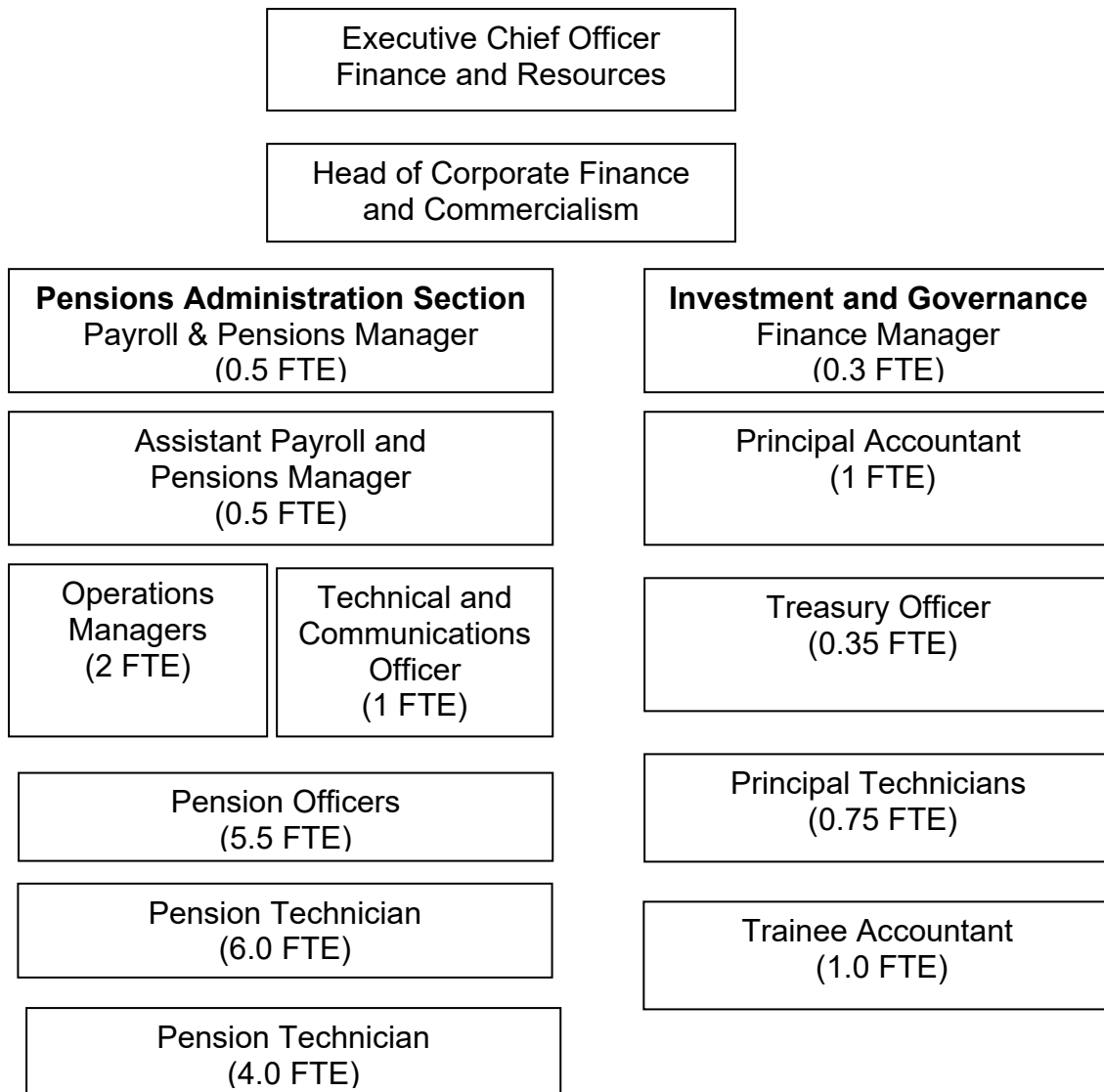
- 6.5 In addition, the team, in line with all Public sector funds, is faced with an increased workload as a direct result of the McCloud and Goodwin cases. An initial analysis of the Highland fund by The Actuaries has indicated 8,350 records to be reviewed as a result of the McCloud ruling. The resource for this part of the exercise alone has been estimated at 700 man-hours and takes no account of any remedial action that may be required.
- 6.6 There will be an ongoing administrative overhead as a result of both McCloud and aggregation. The final number of complex cases, in the Guaranteed Minimum Pension comparison exercise to be dealt with by the Fund, is still to be finalised
- 6.7 It is proposed that a small dedicated team be created to clear the above work over a fixed period of 15 months. The additional fixed term resource required will be at Pension Officer and Pension Technical level taking the establishment for that period to the following

Post	FTE
Operations Managers	2.0
Technical and Communications manager	1.0
Pension Officer	5.5
Pension Technician	6.0
Clerical Assistant	4.0
Total	18.5

7. Staffing structure – Investments team

- 7.1 The staff responsible for monitoring the Fund's investments, preparing the annual accounts and overseeing governance processes, training and risk do this alongside other, non-pension fund, responsibilities. Given the increasing workload on this team and to build resilience within the team it is proposed that extra investment is made in this staffing function. It is planned that a trainee accountant will be employed to help with succession issues and that the qualified component of the team is bolstered. The cost implication of these proposed changes can be seen in the increase in the proposed budget for 2021/22 on the budget line 'Central Support-Pensions Investment'.

7.2 The proposed staffing structure alongside the estimated FTE is as follows.



8. Work Plan 2021/22

8.1 The Highland Council Pension Fund Work Plan for 2021/22 is at **Appendix 1** and details the planned tasks for the Pensions Administration and the Investment and Governance teams.

8.2 The Work Plan may change depending on changes in the regulatory environment.

9. Performance Indicators

9.1 Performance indicators are reported in the Annual Report and Annual Accounts and these are detailed in **Appendix 2** alongside targets for 2020/21.

9.2 The CIPFA guidance Preparing the Annual report 2019, sets out new indicators for Pensions Administration. These have been developed by a CIPFA working group which is reviewing the reporting on scheme administration data on a consistent basis across all Funds. Going forward, the Pensions Administration section is looking at preparatory work required to collate these indicators.

10. Budget 2021/22

10.1 The Budget in **Appendix 3** set out the financial resources require to meet the service objectives and deliver the proposed work plan for 2021/22.

10.2 Actuarial and Investment Advisor fees have been increased due to the planned work during 2021/22.

Designation: Head of Corporate Finance and Commercialism

Date: 9 March 2021

Author: Edward Foster

Appendix 1 – Highland Council Pension Fund Work Plan 2021/22

PENSIONS ADMINISTRATION

Ref	Task	Deadline	Basis of requirement
1.1	Year-end info from employers Receive all pension data from fund employers.	11 May 2021	Admin strategy statement
1.2	Update Pension system with employer information Verify and load data onto system.	30 June 2021	Agreed with Actuaries
1.3	Pension increase (Payroll system) Update pension records on Payroll with Pension increase.	30 April 2021	Statutory
1.4	Pension increase (Pension system) Update pension records with Pension increase.	30 April 2021	Statutory
1.5	Pension Increase letter /Annual newsletter Electronic correspondence to pensioners informing them of annual increase and newsletter with general items of interest.	30 April 2021	Admin strategy statement
1.6	Accounting reports Delivering info to Actuaries for preparation of annual returns for employers.	Depends on Employers' year-end requirements	Admin strategy statement
1.7	Annual Pension Statements Details of pensions accrued to previous year end and projection. Published on line.	31 Aug 2021	Statutory
1.8	Quarterly returns to HMRC Government gateway return on specific payments.	Quarterly	Statutory
1.9	Annual return to HMRC Government gateway return on specific payments.	31 Jan 2022	Statutory
1.10	Annual return to the Pension Regulator Compliance statement.	30 Sept 2021	Statutory
1.11	Valuation Conclusion of fund valuation and contribution rate setting exercise	Ongoing	Statutory
1.12	GMP reconciliation Comparing scheme and HMRC GMP details.	Ongoing	Statutory
1.13	Shared Cost AVC Scheme Implementation of scheme from April 2021.	April 2021	

Appendix 1 – Highland Council Pension Fund Work Plan 2021/22

INVESTMENTS AND GOVERNANCE

Ref	Task	Deadline	Basis of requirement
2.1	Annual Report and Accounts Preparation of Draft Annual Report and Accounts.	30 June 2021	Statutory
2.2	Annual Report and Accounts Preparation of Final Annual Report and accounts which is subject to an External Audit review.	30 Sept 2021	Statutory
2.3	Local Finance return for the pensions fund.	31 Oct 2021	Required by Government
2.4	Statement of Investment Principles Update Statement of Investment Principles (SIP) alongside triennial valuation.	March 2021	Statutory
2.5	Monthly reconciliations of investment data Review of Fund manager transactions compared to Custodian and update financial ledger.	Monthly	Financial controls
2.6	Office of National Statistics returns Quarterly returns on Pension Fund investments and market values.	Quarterly	Required by Government
2.7	Preparation of Investment Sub Committee reports Regular update reports and ad hoc reports as required.	Quarterly	Financial controls
2.8	Governance policy Annual update prepared and approved by Pensions Committee	22 Sept 2021	Governance
2.9	Training policy Annual training plan updated and presented to Pensions Committee. Training organised as required.	22 Sept 2021	Governance
2.10	Risk management Risk register maintained and reported to Pensions Committee	Ongoing – reported to Pensions Committee	Governance
2.11	Compliance Monitor changes in regulations and legislation and ensure that the Fund is compliant.	Ongoing	Governance
2.12	Cost transparency system Scheme Advisory Board is rolling out the implementation of the Fund Manager cost database to all Scottish LGPS.	Ongoing	Required by SAB

Appendix 1 – Highland Council Pension Fund Work Plan 2021/22

INVESTMENTS AND GOVERNANCE

Ref	Task	Deadline	Basis of requirement
2.13	Cashflow Monitoring of cash flow position daily.	Daily	Financial controls
2.14	Absolute Return Fund Manager to be set up The multi asset absolute return fund investment will need to be set up and processes put in place for monitoring investment performance	March 2021	Governance
2.15	Multi Asset Credit Fund Manager to be set up The multi asset credit fund investment will need to be set up and processes put in place for monitoring investment performance.	June 2021	Governance
2.16	Fund Manager procurements Ongoing procurements as required to achieve strategic asset allocation.	Ongoing	Governance
2.17	Investment Advisor procurement Once the current asset strategy is implemented, a procurement exercise will be completed for the Investment Advisor	March 2022	Procurement
2.18	Climate Change Officers will continue to keep updated on Climate Change initiatives through membership of the Institutional Investors Group on Climate Change.	Ongoing	Potential legal change
2.19	Responsible investment Workshop to be held for Pension Committee members on ethical, social and governance issues for Pension Fund	September 2021	Governance

Appendix 2 – Performance Indicators

Pensions Administration service delivery

The performance of the administering authority will be measured as follows.

Task	Target	Actual 2019/20 % on target	Target 2021/22 % on target
New Entrants (includes re- employments)	Issue Statutory Notice within 14 days of receipt of a new start notice.	79%	85%
Early Leavers	The standard issue date is 10 days from receipt of leavers forms and 15 days for deferred benefit entitlement. (Legal requirement 2 months)	79%	85%
Retirements- process and pay benefits including deferred benefits coming into payment	Process and pay lump sum retirement grant and set up payment of benefits (include all retirements types: normal, ill health, early, late etc. is 10 days on receipt of leave option forms. (Legal requirement 2 months)	92%	100%
Deaths in Service	Contact next of kin within 5 days of notification being received. (Legal requirement 2 months)	97%	100%
Transfers in from out with Fund	The standard is to issue statutory notice within 10 days of receipt of payment.	88%	90%
Transfers of pension rights out with Fund	Case to be finalised & payment made within 10 days of receipt of election payment.	94%	90%
Estimate of benefits	Issue within 10 days of request for all requests (both active and deferred members)	84%	90%
Proportion of Annual Benefits statement issued by statutory deadline		100%	100%

Appendix 2 – Performance Indicators

Employer performance

The performance of the Employer bodies will be measured as follows. Targets are as specified by regulation.

Standard	Actual 2019/20 % on target	Target 2021/22 % on target
New Start Notification – within 30 days of joining (or 10 days from first deduction if later).	95%	100%
Retirement information – to allow benefits to be paid on time.	90%	100%
Early leaver notification – within 30 days of leaving (or 10 days after last deduction if later).	93%	100%
Death in Service notification – within 7 days of death.	100%	100%
Year End Queries issued to employers, responses – within 14 days.	100%	100%

Investments and Governance

Standard	Actual 2019/20	Target 2021/22
Long term objective is to achieve a real rate of return of 3-4% per annum on average.	Achieved	<i>Achieve</i>
Achieve performance benchmark over a 5-year rolling period.	Achieved	<i>Achieve</i>
Audit of annual accounts	Unqualified Audit opinion	<i>Unqualified Audit opinion</i>
Governance policy updated annually	Achieved	<i>Achieve</i>
Training policy updated annually	Achieved	<i>Achieve</i>
Funding position at triennial valuation	101%	<i>100%</i>
Risk policy updated annually	Achieved	<i>Achieve</i>
All staff to complete 2 days training annually	Achieved	<i>Achieve</i>
All Pensions Committee and Pensions Board member to complete 2 days training annually.	TBC	<i>Achieve</i>

Appendix 3 Budget 2021/22

	Annual Budget 2020/21	Forecast Year End 2020/21	Proposed Annual Budget 2021/22
<u>Administrative expenses</u>	£000	£000	£000
Medical exams (staff)	5	5	5
Conference & seminar expenses (includes subsistence)	1	0	1
Subscriptions to organisations	1	5	5
ICT charges	1	1	1
Bank charges	2	2	2
Other charges (pension levy, tax certification costs)	3	3	3
<u>Pensions administration costs</u>			
Pensions administration staff	684	629	774
GMP	100	37	100
Computer and ICT	261	277	261
Fares, travel, accommodation	1	0	1
Printing and stationery	4	0	4
Postages	11	1	11
Other Pension Admin costs (subscriptions, insurance)	8	12	8
Total	1,082	972	1,176
<u>Oversight and governance</u>			
Actuarial Fees	80	150	100
Audit Fees	30	30	30
Central Support - Pensions Investment	200	160	230
Training	5	0	5
Subsistence and travel	1	0	0
Investment Consultant Fees	80	100	100
Performance Management Fees (custodian)	23	23	23
Legal Expenses	5	15	5
Total	424	478	493
<u>Management fees</u>			
Investment expenses	335	335	335
Custodian Fees	85	85	85
Transaction costs	330	330	330
<u>Fund Manager fees</u>			
Unitised insurance policies	200	200	200
Equities	3,500	3,460	3,500
Bonds	300	287	300
Property	500	395	400
Private equity	3,500	3,500	3,500
Property debt	300	300	300
Total	9,050	8,892	8,950
Overall total	10,556	10,342	10,619