

HAMPSHIRE COUNTY COUNCIL

Decision Report

Panel:	Pension Fund
Date:	8 November 2013
Title:	Pensions administration performance update
Reference:	5353
Report From:	Nick Weaver – Head of Pensions Services

Contact name: Nick Weaver

Tel: 01962 847584

Email: nick.weaver@hants.gov.uk

1. Summary

- 1.1. The purpose of this paper is to update the Panel on administrative performance between April and September 2013, and highlight key activities planned for the remainder of the year.
- 1.2. An additional administration issue is raised in an exempt appendix.

2. Administration performance

- 2.1. Pensions Services provide the administration of pension entitlements for members of the Hampshire Pension Fund, as well as for members of the Police Pension Schemes and Firefighter's Pension Schemes.
- 2.2. Pension scheme regulations set out the requirements for providing members with information about their pension benefits. For most types of calculation or correspondence, the statutory service standard is 8 weeks.
- 2.3. Pensions Services' administration performance against statutory deadlines for key casework is measured each month. Due to their greater time sensitivity, retirements and estimates have always been given priority, and are measured against a service standard of 4 weeks.
- 2.4. For deferred benefits and notional transfers (changes of employer within the Hampshire Pension Fund), the service standard is 8 weeks because these cases are less time sensitive.
- 2.5. The processing times for casework in the first two quarters of 2013 / 14 is shown in the tables below.

Quarter 1 – completed work and time taken to process

Area of work	0-5d	6-10d	11-15d	16-20d	21-40d	41+d	number of completed cases	% comp on time
	1 Week	2 Weeks	3 Weeks	4 Weeks	5 - 8 weeks	8 weeks+		
Retirements	594	106	9	0	0	0	709	100%
Estimates	296	62	17	0	0	0	375	100%
Deferreds	280	262	390	328	50	0	1310	100%
Notionals	78	57	40	3	0	0	178	100%
Interfunds	147	4	0	0	1	0	152	100%
Transfers	401	19	2	0	0	0	422	100%
Divorce	109	0	0	0	0	0	109	100%
Other leavers	26	2	0	0	0	0	28	100%
Pension Payroll starters	693	16	3	12	0	0	724	100%
Total	2624	528	461	343	51	0	4007	

Quarter 2 – completed work and time taken to process

Area of work	0-5d	6-10d	11-15d	16-20d	21-40d	41+d	number of completed cases	% comp on time
	1 Week	2 Weeks	3 Weeks	4 Weeks	5 - 8 weeks	8 weeks+		
Retirements	537	123	21	0	0	0	681	100%
Estimates	204	98	51	4	0	0	357	100%
Deferreds	304	198	518	490	49	0	1559	100%
Notionals	131	56	29	4	0	0	220	100%
Interfunds	133	10	4	1	0	0	148	100%
Transfers	306	21	6	1	0	0	334	100%
Divorce	74	5	1	0	0	0	80	100%
Other leavers	24	0	0	0	0	0	24	100%
Pension Payroll starters	632	9	4	0	0	0	645	100%
Total	2345	520	634	500	49	0	4048	

2.6. Work in progress at the end of each month is also measured by age and processed in date order to ensure achievement of service standards. The table below shows the analysis of outstanding work for the key processes at the end of September.

Area of work	0-5d	6-10d	11-20d	21-40d	41+d	Total number of
	1 Week	2 Weeks	3 - 4 Weeks	5 - 8 Weeks	8 weeks+	
Retirements	25	1	3	0	0	29
Estimates	23	2	2	0	0	27
Deferreds	113	121	275	0	0	509
Notionals	12	7	9	0	0	28
Interfunds	4	3	0	0	0	7
Transfers	11	1	0	0	0	12
Divorce	1	0	0	0	0	1
Other leavers	0	0	0	0	0	0
Pension Payroll starters	0	0	1	0	0	1
Total	189	135	290	0	0	614

2.7. Total work in progress casework at the end of September represents just over two week's work.

3. End of year and valuation

- 3.1. End of year support sessions were delivered to employers to help them understand the requirements for the end of year submissions, due at the end of April. These were well received and it is planned to run them again in 2014.
- 3.2. Employers were aware that the end of year data was needed in order to provide the Fund actuary with data to feed into the triennial valuation. Out of 295 returns due, 208 were received by the deadline, with only 4 received more than a month after this. Two of these were received by the end of May, one in mid June and the latest was received on 4 July. In all of these cases, the employer had an issue with staffing and software changes in the year, which meant they struggled to complete the returns.
- 3.3. Despite the delay to these 4 returns, all returns were processed in time to allow the valuation data to be provided to the actuary by mid August, and queries raised by the actuary were quickly resolved.
- 3.4. Annual benefit statements were produced for all active members during August, allowing members to receive them by the deadline of 6 October (previously the deadline was 31 March the following year, but this has been brought forward in the regulations to allow members to use annual allowance information on their statement in their tax return).
Benefit statements for deferred members were sent out in June.

4. New LGPS 2014

- 4.1. The regulations for the 2014 LGPS were published on 19 September. The transitional regulations are expected to be published by early November. The transitional regulations are key as they cover the treatment of existing members on issues such as the underpin protection arrangements, protections for final pay, added years contracts and ARC contracts. It is anticipated that these regulations will have changed since the consultation on the draft regulations closed in March.
- 4.2. No announcement has yet been made on the future of councillor's pensions. Ministers were delaying a response, following the consultation, until after the political party conference season. A decision is therefore expected shortly.
- 4.3. Pensions Services have set up a project team to deal with all the changes associated with the new scheme, both in terms of communication and internal processes. A series of employer workshops are planned for November, covering the impact of the new scheme on employers at a high level.
- 4.4. An employer focus group has been set up with representatives from employers across the fund. The purpose of this group is to ensure that the communication plan proposed by Pensions is suitable for employers and members. The group also provides an opportunity for employers to discuss the impact of the scheme changes and share best practice.

5. Further LGPS reform

5.1. The government launched a call for evidence into ways of significantly reducing the costs of the Local Government Pension Scheme. The document asked industry representatives to comment on solutions which would meet the outlined objectives:

High level objectives

- Dealing with deficits
- Improving investment returns

Secondary objectives

- To reduce investment fees
- To improve the flexibility of investment strategies
- To provide for greater investment in infrastructure
- To improve the cost effectiveness of administration
- To provide access to higher quality staffing resources

5.2. The call for evidence stated that the submissions received by the closing date of 27 September would be analysed by DCLG and the LGA, working with the Shadow Scheme Advisory Board. A formal consultation on the options would then follow in the autumn.

5.3. However, on 6 October, DCLG issued a tender for a commercial firm to conduct an options appraisal on three options for the LGPS.

- A common investment vehicle at England and Wales level, with asset allocation strategies still determined by the local pension funds;
- 5-10 common investment vehicles across England and Wales, for example based on aggregate fund size or geographical areas, again with asset allocation strategies decided by local governance structures;
- 5-10 merged funds across England and Wales, grouped on the same basis as the common investment vehicles above, but with decision making taken by new governance arrangements at the merged fund level.

5.4. These options were not put forward in the call for evidence. The commissioned report will be with DCLG for consideration by the end of November, and it is assumed that a formal consultation will follow shortly after. A copy of the specification is attached as Appendix 1.

6. Recommendations

6.1. It is recommended that:

- the Panel note the administration performance for 2012/13, and the information contained in the exempt appendix.

CORPORATE OR LEGAL INFORMATION:**Links to the Corporate Strategy**

Hampshire safer and more secure for all:	yes/no
Corporate Improvement plan link number (if appropriate):	
Maximising well-being:	yes/no
Corporate Improvement plan link number (if appropriate):	
Enhancing our quality of place:	yes/no
Corporate Improvement plan link number (if appropriate):	

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.)

DocumentLocation

None

IMPACT ASSESSMENTS:

1. Equalities Impact Assessment:

1.1. Equality objectives are not considered to be adversely affected by the proposals in this report.

2. Impact on Crime and Disorder:

2.1. The proposals in this report are not considered to have any direct impact on the prevention of crime.

3. Climate Change:

a) How does what is being proposed impact on our carbon footprint / energy consumption?

No specific impact

b) How does what is being proposed consider the need to adapt to climate change, and be resilient to its longer term impacts?

No specific impact



Department for
Communities and
Local Government

Structural reform of funded public service pension schemes

SPECIFICATION

Contract number: CDP/004/106/057

1. Introduction

- 1.1 In 2010, the Government commissioned Lord Hutton to chair the Independent Public Service Pensions Commission. The Commission was tasked to review public service pensions and to make recommendations as to how they could be made sustainable and affordable in the long term, whilst being fair to both taxpayers and public sector workers. Lord Hutton's final report was published on 10 March 2011 and included a recommendation to investigate further the benefits of co-operative working between local government pension scheme funds. The report stated:
- 1.2 ***Recommendation 23:*** *Central and local government should closely monitor the benefits associated with the current co-operative projects within the LGPS, with a view to encouraging the extension of this approach, if appropriate, across all local authorities. Government should also examine closely the potential for the unfunded public service schemes to realise greater efficiencies in the administration of pensions by sharing contracts and combining support services, including considering outsourcing.*
- 1.3 Recognising that efficiencies and savings could be made, the Department for Communities and Local Government (DCLG) launched a call for evidence on 21 June asking respondents to consider how structural reform of the Local Government Pension Scheme (the Scheme) might improve investment returns and deliver administration savings.
- 1.4 Building on this initial call for evidence, and in response to Lord Hutton's recommendation to consider the benefits of co-operative working across all public funded pension schemes, the Cabinet Office and DCLG would like to commission further advice to explore the savings that might be realised by collaboration.
- 1.5 With an asset value of £148 billion, the Local Government Pension Scheme is the largest of the funded public service pension schemes by some way. Using this Scheme as a case study, the Government wishes to evaluate the potential savings that might be achieved through reform of the funded public service pension schemes, for example through greater use of common investment vehicles or fund mergers. The Departments would also like to determine the extent to which any identified savings and efficiencies might be adopted by the other funded public service schemes.



2. Background

- 2.1 As part of his wider review of public service pension schemes, Lord Hutton recognised that some local authorities had already begun to work together across their pension funds to deliver economies of scale. His final report recommended that Government explore how joint-working in funded public service pension schemes might be expanded to deliver further savings for the taxpayer. The Government accepted this recommendation and is currently reviewing the options for reform in order to establish the efficiencies that might be achieved.
- 2.2 Although when combined the Local Government Pension Scheme is the largest pension fund by assets in the UK, the Scheme is not managed as one entity, but is instead comprised of 89 locally managed funds across England and Wales. Although the majority of the Scheme's 4.2 million members currently work, or have worked for local authorities and other public sector organisations, the membership also includes private sector and civil society employees. Given the size and complexity of the Scheme, the Government wishes to first determine how savings might be found within the Local Government Pension Scheme, before quickly turning to how identified best practice might be shared with other funded public service schemes.
- 2.3 As the Department responsible for oversight of the Local Government Pension Scheme, DCLG is keen to engage with Scheme interests in the development of any proposals for reform. It therefore held a joint roundtable event with the Local Government Association in May to begin to explore the options for reform. Attended by a wide range of organisations including pension fund authorities, actuaries and fund administrators, the group found that:
1. Although a wide range of data is collected on the Scheme, it would benefit from enhancement, collation and further analysis in order to develop a meaningful and comparable measure of fund performance.
 2. The primary objectives of reform ought to be improved investment returns and reduced pension fund deficits.
 3. The secondary objectives of reform should be focused on finding investment fee and administration cost savings, increasing the flexibility of investment strategies and infrastructure investment, and developing better in-house investment resources.
- 2.4 These objectives formed the basis of the call for evidence that closed on 27 September 2013. The call asked respondents to consider how the options for structural reform might address these primary and secondary objectives. It also asked interested parties to identify the data that would be needed to develop a clear, comparable measure for assessing Local Government Pension Scheme fund performance.
- 2.5 For a copy of the call for evidence please visit the Government's website: <https://www.gov.uk/government/consultations/call-for-evidence-on-the-future-structure-of-the-local-government-pension-scheme>.



Department for
Communities and
Local Government

2.6 The Government wishes to procure policy advice that builds on the information received through the call for evidence and considers how the options for reform might be implemented. To facilitate this, except where we are required to treat a response as confidential, information submitted as part of the call for evidence will be made available to the successful tenderer on the same confidential basis that it is available to officials within DCLG.

2.7 The Department also publishes annual statistical information about the Local Government Pension Scheme, including details of income, expenditure and investment returns by fund authority. This information is also available on the Government's website: <https://www.gov.uk/government/publications/local-government-pension-scheme-funds-for-england-2011-to-2012>

3. Objectives

3.1 The purpose of this research is to provide Government with robust analysis of the costs and benefits associated with structural reform of the Local Government Pension Scheme, to develop a roadmap to implementation, and to consider how that reform might be applied to the smaller funded public service pension schemes.

3.2 The analysis will form part of the body of evidence presented to Ministers to enable them to make an informed decision about the Government's preferred option for structural reform, especially for the Local Government Pension Scheme. It should provide clear evidence of the benefits and costs associated with the use of common investment vehicles and fund mergers compared to the current system and provide an assessment of the value for money offered by each option.

4. Scope

4.1 The contract should evaluate the cost of implementing the three options for reform set out in section 5 and quantify the savings that could be realised. It should also set out how these options might be implemented and determine the barriers to implementation, including legal and practical restrictions; the cost of implementation and the effect on on-going costs and fees; and when the costs and benefits are likely to arise. The analysis should be focused on the Local Government Pension Scheme in England and Wales. All three of the models could be carried out using either a shared administration or locally delegated system. As such, this study should focus on the effect of changing the investment structure only, rather than on the benefits of shared administration. The supplier should also set out how the savings might be replicated within the other funded public service schemes.

4.2 As set out above, it is anticipated that the successful tenderer will have access to the responses to the call for evidence on the same confidential basis as officials within DCLG. The contractor will not own any data arising from the call for evidence. Prospective bidders should consider whether any conflict of interest is likely to arise in undertaking this analysis and set out in their response how that conflict will be mitigated.



- 4.3 The Departments are looking for a supplier whose delivery team contains the broad range of skills necessary to undertake this work, including actuarial and pensions investment expertise. As such, bidders are welcome to consider a partnership approach should they feel a broader collaboration and skill set, or wider links with the sector, may help them to fulfil the contract.

5. Deliverables/Outputs and Performance Measures

- 5.1 There are two main elements to the research, which should be presented as a report with the underlying data and analysis provided as annexes. The first is concerned with the structural reform of the Local Government Pension Scheme in England and Wales. The second considers how the findings of the initial analysis might be shared with other funded public service schemes. A draft report should also be submitted by Thursday 14 November.
- 5.2 All intellectual property rights arising out of the performance of this contract by the tenderer including all reports, both publishable and non-publishable, will be assigned to and vest in the Department for Communities and Local Government.

Stage 1: Local Government Pension Scheme Case Study

- 5.3 Three potential collaborative models should be considered:
- A common investment vehicle at England and Wales level, with asset allocation strategies still determined by the local pension funds;
 - 5-10 common investment vehicles across England and Wales, for example based on aggregate fund size or geographical areas, again with asset allocation strategies decided by local governance structures;
 - 5-10 merged funds across England and Wales, grouped on the same basis as the common investment vehicles above, but with decision making taken by new governance arrangements at the merged fund level.
- 5.4 For each of these models, the analysis should determine and assess:
- The financial and wider benefits of structural reform including:
 - A full assessment of costs, explicit, implicit and hidden (including for example, all costs of underlying portfolio turnover)
 - A full assessment of costs and benefits of active and passive strategies at the level of the aggregate Scheme
 - A comparison of aggregate Scheme market data with market index benchmarks, including return performance and correlation by individual asset classes
 - Potential impact on contribution rates
 - The barriers to implementation, including legal and practical restrictions, and how they might be overcome
 - The cost of implementation and the effect on on-going costs and fees



Department for
Communities and
Local Government

- An implementation programme, recognising when the costs and benefits are likely to arise.
- A Net Present Value assessment over ten years or until the administration reaches a steady state.

Stage 2: Sharing best practice

5.5 The second part of the report should consider the extent to which the efficiencies identified for the Local Government Pension Scheme might be adopted by other funded public service pension schemes. It should provide an initial assessment of the feasibility of applying identified best practice to other funded public service schemes and set out the next steps for Government should they wish to take this forward. A brief summary of the structure and investment strategies adopted by the smaller funded public service pension schemes should also be provided as background and context

6. Approach

- 6.1 A draft report should be submitted and discussed with the Cabinet Office and DCLG by Tuesday 19th November.
- 6.2 The final report should be submitted by Wednesday 27th November and must be signed off by a partner, director or senior member of staff with the appropriate industry experience.

7. Key Dates

7.1 Subject to bid appraisal and contracting, the following timetable is anticipated:

Milestone	Date
Issue invitation to tender	Monday 7 October 2013
Deadline for receipt of tenders	09.00 Monday 21 October 2013
Award of contract	Wednesday 30 October
Contract commencement	Thursday 31 October
Draft report submitted	Tuesday 19 November
Contract concludes	Wednesday 27 November

- 7.2 The report should be delivered within 4 weeks of the contract start date. However, DCLG reserves the right to amend these milestones as necessary.
- 7.3 Payment will be made upon completion and acceptance of the final milestone and a full written report.



Department for
Communities and
Local Government

8. Contract Management Arrangements

- 8.1 DCLG will let and manage the contract, as well as make payment to the contractor. Cabinet Office will also be a named party on the contract.
- 8.2 Progress reports will be held with both departments. Unless otherwise agreed with DCLG, as a minimum there will be a weekly phone conference or meeting between the contractor, Cabinet Office and DCLG, at which an update on progress against high level project plan should be provided.

9. Glossary

LGPS/Scheme	Local Government Pension Scheme
DCLG	Department for Communities and Local Government