



Committee report

Committee	IW PENSION BOARD
Date	23 OCTOBER 2018
Title	PENSION ADMINISTRATION STRATEGY
Report of	TECHNICAL FINANCE MANAGER

EXECUTIVE SUMMARY

1. This report presents to the Pension Board the Isle of Wight Pension Fund's Administration Strategy. Members are asked to consider the strategy, in light of statutory and regulatory requirements, and to recommend the strategy for adoption by the Pension Fund Committee in November 2018.
2. The report contains reference to external resources setting out regulatory guidance and best practice standards, which members are expected to have read before the board meeting, to inform discussion and understanding of the strategy.

BACKGROUND

3. The Isle of Wight Council is the administering authority for the Local Government Pension Scheme (LGPS) on behalf of the employers participating in the LGPS through the Isle of Wight Pension Fund (the fund). The LGPS is governed by statutory regulations.
4. The fund provides a high-quality pension service to members and employers, to ensure members receive their correct entitlements when they fall due. This is best achieved where the fund and the employers are clear about their roles and responsibilities and work in partnership.
5. Regulation 59 of the Local Government Pension Scheme (LGPS) Regulations 2013 (the regulations) makes provision for an administering authority to prepare and publish a pension administration strategy. However, this is not, as yet, a legal requirement.

6. The Isle of Wight Pension Fund (the fund) has not previously produced a pension administration strategy which, when the fund had only a small number of long-standing external employers, did not have a significant impact on administration standards.
7. Since 2010, with the council's transition to a commissioning authority, the introduction of academies, and the transfer of school payroll provision to external providers, the number of employers engaging with the fund has more than doubled, and the number of data queries has increased significantly, resulting in a deterioration of administration standards, particularly in respect of data quality.
8. The fund's governance review, completed in May 2018, identified 11 recommendations, one of which was in respect of an administration strategy: *Ensure that the Fund puts in place and publishes an Administration Strategy, in accordance with the requirements of the LGPS Regulations, to include all of the matters set out in regulation 59(2) of those Regulations. A strategy should also be agreed to launch the Administration Strategy and to ensure Administering Authority and employer compliance with the requirements of the Strategy.*
9. Officers have drafted a pension administration strategy based on that of a neighbouring pension fund, adapted to reflect local practices and requirements. The draft has been discussed with finance and pension administration team colleagues, and has been reviewed by the fund's governance consultants, Hymans Robertson LLP, to draw on their experience of best practice in other LGPS pension funds.
10. The proposed draft strategy sets out a framework outlining the policies and performance standards to be achieved when providing a cost-effective inclusive and high-quality pensions administration service. In particular, it sets out:
 - the roles and responsibilities of both the fund and the employers within the fund.
 - the level of services the fund and the employers will provide to each other.
 - the performance measures used to evaluate the level of service.
11. Mention was made of the proposal to introduce an administration strategy at the employer forum held on 13 July 2018, to improve the understanding of the respective responsibilities of both fund and employers. These employers who attended that forum welcomed the proposal.
12. It is intended that the administration strategy statement will form an agreement between the fund and the employers.

13. The strategy also includes provision for reporting the respective performance of employers and the fund's administration team against standards set out in the policy.

STRATEGIC CONTEXT

14. Good governance arrangements are essential to the delivery of the council's services. Having an appropriate governance framework in place will improve the standards of governance for the pension schemes for which the council has responsibility.
15. It will also contribute to the first outcome of the latest [Corporate Plan 2017-20](#): a financially balanced and stable council.

UNDERSTANDING THE REQUIREMENTS

16. The Pensions Regulator (TPR) Code of Practice 14 *Governance and administration of public service pension schemes* sets out in paragraph 42 the areas of pension scheme administration which Pension Board members should be 'conversant' with.
Being 'conversant' means having a working knowledge of the scheme regulations and policies.
17. While the LGPS regulations do not currently require an administering authority to publish a pension administration strategy, regulation 59 sets out the requirements of such a policy, should the administering authority choose to adopt such a policy.
18. TPR has also published materials on its website to support those charged with governance in understanding the requirements and best practice for the administration of pension schemes. These guides are primarily aimed at trustees of defined contribution schemes, but equally relevant for public sector schemes like the LGPS.
19. Additionally, the trustee toolkit from TPR (mainstream rather than specifically public service schemes) includes a tutorial on scheme administration and member data, which provides some useful guidance on the responsibilities of employers in providing accurate information to the fund.
20. Information is also made available through TPR's 21st Century Trusteeship campaign, designed to improve standards of governance in all pension schemes, including the LGPS.
21. Links to all resources listed above are provided under Background Papers below. Members are asked to have read some of these resources in advance of the board meeting, to ensure a good understanding of the requirements of an administration strategy and ensure that the proposed strategy for the Isle of Wight Pension Fund is fit for purpose.

CONSULTATION

22. Regulation 59 of the Local Government Pension Scheme Regulations 2013 states that in preparing or reviewing and making revisions to its pension administration strategy, an administering authority must consult its scheme employers and such other persons as it considers appropriate.
23. Having introduced the proposal for an administration strategy at the employer forum on 13 July 2018, the draft strategy was circulated to all employers within the fund, including schools with outsourced payroll providers, on 3 October 2018. At the same time, it was circulated internally to committee and board members, as well as officers within the council's finance, legal, communications and pension teams.
24. Consultees were offered a two-week period in which to provide comments on the draft strategy, closing on 19 October 2018. A summary of responses and any resulting amendments to the draft strategy will be presented at the board meeting.

FINANCIAL / BUDGET IMPLICATIONS

25. The costs incurred in the preparation of this strategy, including the review by the fund's governance consultants, Hymans Robertson LLP, have been borne by the pension fund directly, with no direct impact on the council's budget.
26. Implementing the standards of administration set out in the strategy, including enforcement, should not incur significant additional costs for the pension administration team, as it is a formalisation of existing practice.
27. Improvements arising from the adoption of the service standards within the policy, particularly around the timeliness of the receipt of data and contribution payments, and the accuracy of data received, will not produce direct cashable savings but should contribute to increased efficiency in the operation of the team.

LEGAL IMPLICATIONS

28. Regulation 59 of the Local Government Pension Scheme Regulations 2013 makes provision for an administering authority to prepare and publish a pension administration strategy. However, this is not, as yet, a legal requirement.
29. If an authority decides to prepare a strategy, it should include:
 - procedures for communicating and liaising with employing authorities
 - levels of performance the administering authority and its employing authorities are expected to achieve in carrying out their functions in administering the fund
 - procedures to ensure statutory requirements are met
 - procedures to improve communications between the administering authority and other employing authorities

- conditions under which the administering authority can give notice under Regulation 43 (2) of the Local Government Pension Scheme (Administration) Regulations 2008 to a relevant employer about that employer's unsatisfactory performance
 - publication of an annual report on how far performance levels have been achieved (in practice as part of the annual report)
 - any other matters the administering authority thinks appropriate (after consulting with its employing authorities and other appropriate persons).
30. The administering authority must keep the scheme under review and make such changes as are appropriate.

EQUALITY AND DIVERSITY

31. The council, as a public body, is required to meet its statutory obligations under the Equality Act 2010 to have due regard to eliminate unlawful discrimination, promote equal opportunities between people from different groups and to foster good relations between people who share a protected characteristic and people who do not share it. The protected characteristics are: age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation.
32. As this is a new strategy for the Isle of Wight Pension Fund, an equality impact assessment (EIA) has been completed to stage 1. This demonstrates that there are no implications from the adoption of this administration strategy on any of the protected characteristics listed above. A copy of the initial assessment is available from the Technical Finance Manager.

OPTIONS

33. Having reviewed the draft administration strategy and considered its contents against the regulatory requirements and best practice guidance, members have two options:
34. Option 1: to approve the draft Pension Administration Strategy and recommend its adoption by the Pension Fund Committee.
35. Option 2: not to approve the draft Pension Administration Strategy and propose alternative solutions to improve the standards of administration of the fund.

RISK MANAGEMENT

36. Failure to ensure that the highest governance standards are met could lead to the following risks:
- Poor or less than optimal decision making within the fund, as the knowledge and skills of individuals making decisions is not adequate.
 - A lack of clear objectives may lead to elected members, pension board members or officers spending time and resource in areas that are not of strategic importance.
 - An inability to evidence high standards of governance may bring the fund to the attention the Pensions Regulator, who if dissatisfied has the power to fine the fund.
37. Implementing a strategy which forms an agreement between the fund and its employers will formalise the relative responsibilities of the parties within the fund, and will assist in enforcing the standards of performance contained therein.
38. Failure to secure improvements in the quality and timeliness of data received from employers could further compromise the ability of the fund to maintain accurate member records. This could result in late and/or inaccurate pension estimates being provided to members, as well as delaying the calculation and payment enabling the correct benefits on retirement and death.
39. If poor quality data is provided to the fund's actuaries for the triennial valuation of the fund, there will need to be more assumptions made in the calculation of the funds liabilities, which could result in higher employer contributions being required from employers, including the council.

RECOMMENDATION

40. Option 1: To approve the draft Pension Administration Strategy and recommend its adoption by the Pension Fund Committee.

APPENDICES ATTACHED

41. [Appendix 1](#): Draft Pension Administration Strategy

BACKGROUND PAPERS

42. The Pensions Regulator's code of practice 14 *Governance and administration of public service pension schemes*.
<http://www.thepensionsregulator.gov.uk/codes/code-governance-administration-public-service-pension-schemes.aspx>

43. The Pensions Regulator's administration guide for trustees.
<http://www.thepensionsregulator.gov.uk/trustees/administration-in-your-dc-scheme.aspx>
44. The pension regulator's trustee toolkit "Running a scheme" Tutorial three: scheme admin and member data.
<https://trusteetoolkit.thepensionsregulator.gov.uk/mod/scorm/player.php?a=37¤torg=ORG-13062-m40&scoid=530>

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