

Item: 7

Pension Fund Sub-committee: 22 November 2023

Pension Administration Strategy.

Report by Head of Finance

1. Purpose of Report

To consider an updated Pension Administration Strategy.

2. Recommendations

The Sub-committee is invited to note:

2.1.

That the Council, as an Administering Authority, has discretion, under the Local Government Pension Scheme regulations, to publish a Pension Administration Strategy.

2.2.

That a Pension Administration Strategy sets out roles and responsibilities for the Administering Authority and of the employers participating in the Pension Fund.

2.3.

That the Pension Administration Strategy, once approved, must be kept under review and updated when necessary.

2.4.

That, in certain circumstances, the Pension Fund may recover costs from employers that have arisen as a result of that employer's performance.

2.5.

That the Pension Administration Strategy, which was approved in 2017, has been reviewed and updated, to reflect recommendations arising from an internal audit.

It is recommended:

2.6.

That the Pension Administration Strategy, attached as Appendix 1 to this report, be approved.

3. Background

3.1.

Under regulation 57 of the Local Government Pension Scheme (Scotland) Regulations 2018, an administering authority may prepare a written statement of the authority's policies in relation to certain administrative matters. It is not, therefore, a regulatory requirement to publish a Pensions Administration Strategy. However, it does represent best practice.

3.2.

One aim of the Pension Fund Administration Strategy (the Strategy) is to distinguish the Administering Authority functions from those of the employers in the Fund and establish the expected levels of performance from employers and the Administering Authority.

3.3.

The Strategy sets out the standards for pension administration against which performance will be assessed.

3.4.

The Strategy will form the basis for reporting performance to employers through an annual performance report with quarterly information provided to the Pension Fund Sub-committee and Pension Board during the year.

3.5.

The Strategy is intended to:

- Underpin a high-quality pension service to Scheme members.
- Facilitate improvements and efficient working arrangements.
- Develop the Fund's service standards.

3.6.

The Strategy will also act as a reference manual for Payroll and Human Resource staff in employer organisations dealing with pensions.

4. Pensions Administration Strategy

4.1.

An Internal Audit on Pensions Administration was undertaken in April 2023 and reported to the Monitoring and Audit Committee on 8 June 2023. The internal audit contained recommendations relating to the Pensions Administration Strategy as follows:

- The strategy was outdated, and should be reviewed and updated.
- The Strategy should be made available on the Council's webpage.

4.2.

The updated and reviewed Pension Administration Strategy, attached as Appendix 1 to this report, which was initially approved by the Pension Fund Sub-committee on 14 June 2017, sets out roles and responsibilities for the Council as Administering Authority and of the employers participating in the Orkney Islands Council Pension Fund.

4.3.

Timescales for the provision of information to the Fund are set out in the updated and reviewed Pension Administration Strategy.

4.4.

It is important that employers are aware of their obligation to provide data to the Fund in accordance with agreed timescales. The following are potential consequences of delays in receipt of data from employers:

- Benefits are delayed, potentially resulting in interest falling due on lump sum retiring allowances and other payments.
- The timescales for issuing other member communications (such as new start information and details of early leaver benefits) may breach the Occupational Pension Schemes (Disclosure of Information) Regulations 1996 and the Pensions Act.
- Additional staff resource required to deal with problems.
- General reputational risk to the Fund.

4.5.

Data quality is particularly important to the Local Government Pension Scheme following the move in 2015 from a final salary scheme to one based on career average re-valued earnings. It is critical that employers provide accurate and timely information to ensure that benefits are calculated correctly.

4.6.

Further changes made to the Pension Administration Strategy include the following:

- A key priority is the migration of the Council's manual pension records to the Altair Pension System. This will allow members to access the member self-service module to update personal data, submit queries, access annual benefit statements and request pension estimate calculations.
- Print a payslip where pensioner's net pay changes by more than £2 in any month.

4.7.

The updated Pension Administration Strategy, attached as Appendix 1, has been reviewed and updated. Should the Strategy be approved, it will be made available on the Council webpage.

5. Corporate Governance

This report relates to the Council, as administering authority for the Orkney Islands Council Pension Fund, complying with its governance processes and procedures and therefore does not directly support and contribute to improved outcomes for communities as outlined in the Council Plan and the Local Outcomes Improvement Plan.

6. Financial Implications

6.1.

There are no financial implications associated directly with the recommendations to this report.

6.2.

The revised Strategy should improve information flow from employers which will speed up payments to members and other parties.

6.3.

Regulation 68 of the Local Government Pension Scheme (Scotland) Regulations 2014 allows the Council, as Administering Authority, to recover additional costs from an employer where these have been incurred as a result of an action or omission by an employer.

6.4.

Section 7 of the Strategy clarifies the circumstances where as a result of an act or failure to act by the employer, the Fund may recover costs from the employer.

6.5.

The cost of administering the Fund is met by all employers, however when additional costs arise due to the poor performance of an employer, it is unfair that those employers whose performance is good are penalised.

7. Legal Aspects

The Local Government Pension Scheme (Administration) (Scotland) Regulations 2018 apply to the operation of the Pension Fund. These replaced the Local Government Pension Scheme (Administration) (Scotland) Regulations 2014 with effect from 14 May 2018.

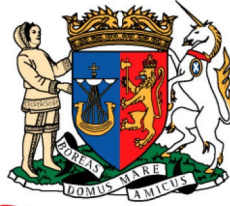
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9. Appendix

Appendix 1 – Orkney Islands Council Pension Fund - Administration Strategy.



ORKNEY
ISLANDS COUNCIL

Pension Administration Strategy

November 2023

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1. Introduction

Orkney Islands Council is the administering authority responsible for overseeing the Local Government Pension Scheme (LGPS) for Council employees and for employees of various other scheduled and admitted bodies who have been allowed to participate in the Scheme.

The Local Government Pension Scheme (Scotland) Regulations 2018 state that an administering authority may prepare a written pension administration strategy, setting out:

- The roles and responsibilities of the administering authority and scheme employers.
- Performance levels which the administering authority and scheme employers are expected to achieve in carrying out their functions.

Whilst formulating and publishing such a policy is not mandatory, the Council has prepared a pension administration strategy statement to assist with service delivery and has published it in the interests of transparency and good governance.

The strategy recognises that both the Council and scheme employers must co-operate to provide an efficient and effective service to scheme members.

2. The Pension Administration Strategy

The strategy statement is a result of consultation with employers and a copy of the statement will be issued to each scheme employer. The Fund will review and revise the policy where appropriate with employers being consulted on any changes.

3. Strategy Objectives

Key objectives are:

- To ensure the delivery of a high-quality pension service to all members.
- To ensure that each party is fully aware of its roles and responsibilities not only in accordance with LGPS regulations but also in accordance with other overriding legislation and the Pensions Regulator's Codes of Practice.
- To develop a close and successful working partnership between the Council and scheme employers.
- To ensure that performance standards are understood, achieved and reported on.

4. Orkney Islands Council

Appendix A outlines the Council's roles and responsibilities and expected performance standards.

Performance is continually monitored to ensure improvements are made in all areas. Key performance indicators are reported to the Pension Fund Sub-committee and the Pension Board on a biannual basis.

Performance data on key targets is also included in the Council's Annual Pension Fund Report.

5. Scheme Employers

Appendix B outlines employers' roles and responsibilities and expected performance standards.

The Council will monitor the areas where timescales have been agreed to ensure that the level of performance continues to be satisfactory.

The Council will, at the earliest opportunity, work with an employer if an area of poor performance is identified. A member of the Pension Section will offer to meet with the employer to discuss the poor performance and will provide the necessary assistance to rectify the situation.

6. Discretions

Regulation 58 of the Local Government Pension Scheme (Scotland) Regulations 2014 requires an employer to publish, and keep under review, a policy statement relating to the exercise of certain discretionary powers in relation to members.

Each employer must send a copy of its statement to the Council. The Council's published policy statement on its discretions as the Administering Authority will be located at:

www.orkney.gov.uk/Service-Directory/S/pensions.htm

7. Costs or Penalties

Each employer is responsible for providing the Council with all of the information detailed in Appendix B. Where the information provided is inaccurate and results in an incorrect calculation of benefits, any costs or penalties incurred will be charged to the employer.

Regulation 68 allows the administering authority to recover additional costs which it has incurred as a result of an employer's poor performance. The Council will notify the employer and will recover these additional costs from the employer.

Where the Pensions Regulator, Pensions Ombudsman or any other Regulatory Authority imposes financial compensation or a fine on the administering authority due to default, omission or other negligent act caused by an employer, then that sum will be recharged to the employer. If the employer is not at fault, such costs will be met in full by the administering authority.

The Council will require an employer to pay interest on any late payment of contributions where a payment is made one month after the due date. Any interest will be calculated at one percent above the Royal Bank of Scotland's base rate on a day to day basis from the due date to the date of payment, compounded with three-monthly rests.

After due investigation, the Council will report an employer to the Pensions Regulator where it has failed to pay over contributions and where, after adequate warning, it has failed to rectify the situation.

8. Development

The Finance Service is also working closely with the Council's Digital Communications Co-ordinator to enhance the Pension information section on the Council's website.

Appendix A - Orkney Islands Council – Roles, Responsibilities and Performance Standards

The Council will be responsible for:

- Managing the investment of the Orkney Islands Council Pension Fund in accordance with the Regulations and ensuring that proper governance arrangements of the Fund are in place.
- Submitting a triennial valuation to the Fund Actuary.
- Delivering a service which meets statutory requirements and complies with current professional standards.
- Ensuring compliance with data protection legislation.
- Providing a properly maintained software system to deliver a pensions administration service.
- Ensuring the integrity of the software system in which member records are held.
- Advising employees and employers on any Local Government Pension Scheme related matters as and when requested.
- Providing regular and appropriate communications to all members.
- Notifying employers of any relevant changes to Local Government Pension Scheme regulations.
- Providing information to, and communicating with, HMRC, banks, solicitors, other pension schemes, actuaries and any other appropriate bodies as required.
- Creating new member records within 10 working days of notification of members joining the scheme.
- Updating a member's record within 10 working days of notification of a change of circumstances by an employer or a member.
- Providing members with details of their additional service or pension within 10 working days of receiving a transfer value from another pension provider.
- Paying a transfer value over to a new pension provider within 10 working days of receiving all the necessary transfer forms.
- Providing information for divorce proceedings and calculating and maintaining pension credits when they arise.
- Providing all active and deferred members with an Annual Benefit Statement within the statutory timescale.
- Providing pension estimates within 10 working days of a request.
- Providing bulk pension estimates (more than 10) but this will be subject to negotiations to agree turnaround times, depending on current workloads.
- Processing a member's pension benefits within 3 working days of retirement provided all necessary information has been received.
- Processing a refund of contributions within 3 working days of receipt of all the necessary information.

- Providing the necessary information in order to comply with the National Fraud Initiative (NFI) and thereafter, in conjunction with the employer, investigate all pension matches identified in the reports provided.

With regard to pension benefits and payroll processing, the Council will:

- Pay pensions by BACs in accordance with the Council's payroll processing timetable.
- Deduct Income Tax from each member's pension in accordance with statutory requirements.
- Pay existing Compensatory Added Year pensions on behalf of Employers and re-charge these pensions on a quarterly basis.
- Apply Pension Increases as per Treasury Orders.
- Provide a P60 at year-end.
- Maintain statutory tables with the payroll system.
- Process and submit payroll year-end returns in accordance with HMRC deadlines.
- Maintain payslip and P60 stationery in accordance with HMRC legislation.
- Process and submit any annual returns in accordance with the relevant deadlines.

Appendix B – Employer – Roles, Responsibilities and Performance Standards

The employer will be responsible for:

- Ensuring compliance with data protection legislation.
- Providing details of all new starts to the administering authority within 10 working days of commencement.
- Deciding who is eligible to become a member of the scheme, the date membership commences and notifying the administering authority using the appropriate forms.
- Deciding if the member is full-time, part-time, variable-time or is a casual employee, and if not full-time, deciding the proportion which the employee's contractual hours bear to a comparable full-time employee.
- Completing the appropriate form when there has been a change of circumstances, and forwarding it to the administering authority within 10 working days of the change.
- Completing a leaver form and forwarding it to the administering authority within 10 working days of a member's leaving date.
- Providing all necessary documentation required by the administering authority (e.g. ill health certificate, certificate of protection etc.) in a timely manner.
- Providing all necessary information to the administering authority in the correct format in order to update members' records on the pension administration system.
- Providing a copy of the employer's policy on the exercise of its discretionary powers within the regulations and keeping the policy under regular review.
- Providing the necessary information in the correct format and within the agreed timescales to allow the calculation of retirement benefits and, if required, advising the administering authority of any additional discretionary benefits being awarded.
- Notifying the administering authority at least one month prior to a member's intended retirement so that the member can be provided with an indication of their pension benefits. Details of the actual pensionable pay received by the member must then be forwarded to the administering authority on the appropriate form within 3 days of the member's final pay date.
- Forwarding all necessary documents to the administering authority as soon as possible after a death in service in order to avoid any delay in notifying dependants of their entitlement to pension benefits.
- Issuing details of a member's right of appeal under the LGPS along with any statement regarding a decision the employer has made about the LGPS in regard to that member.
- Appointing an independent doctor, qualified in Occupational Health Medicine, to assist in determining ill health retirements. Alternatively, an employer may choose to use the services of the Council's appointed doctor.
- Ensuring that the correct rate of member and employer pension contributions are collected for both the main scheme and the 50/50 scheme and are paid over to the administering authority in accordance with statutory timescales, i.e. within 19 days following the month of payment.
- Ensuring that their payroll provider accurately assesses Pensionable and Assumed Pensionable Pay for both the main scheme and 50/50 scheme.

- Ensuring that their payroll provider collects all additional voluntary contributions (AVC's) and pays them over to the specified AVC provider as instructed by the member and the administering authority.
- Being fully compliant with and adhering to Auto Enrolment legislation.
- Paying over the associated strain costs to the Pension Fund within 30 days of the member's benefits being paid when a member has been awarded any additional membership, pension or compensatory added years.