

PENSIONS COMMITTEE

19 MARCH 2018

ADMINISTERING AUTHORITY UPDATE

Recommendation

1. The Head of Human Resources and Organisational Development recommends that the Administering Authority update be noted.

Guaranteed Minimum Pension (GMP) Reconciliation and Rectification

2. Progress continuing by our provider ITM. Activity is reasonably static while they await feedback from HMRC. The table below shows the latest Project Dashboard update.

Project dashboard

Status	Reconciled					Proposal		Unreconciled			Other	
	No GMP liability	Exact match	Within tolerance	Accept HMRC	Accept Admin	Proposal to client	Proposal to HMRC	Awaiting data from client*	Awaiting data from HMRC	Further review	N/A record	BAU
Active	12,340	449	240	1,123	985	39	2	54	886	35	6,816	
Deferred Post GMP Age	514	90	56	82	74		4	11	60	2	189	
Deferred Pre GMP Age	13,784	1,916	483	1,028	1,043	62	140	103	807	12	2,023	
Pensioner Post GMP Age	3,020	4,963	2,937	722	1,008	60	5	203	598	28	498	
Pensioner Pre GMP Age	521	287	99	504	26	3	1	20	95	15	11	
Widow(er)	88	213	257	27	253	5		51	607	103	142	
Unlinked dependant								135	-	-	59	
Total on admin	30,267	7,918	4,072	3,486	3,389	169	152	577	3,053	195	9,738	
Other admin					1,079		846	-	686	1	25,184	6
HMRC only					4			204	2,009	7	8,327	
Total reported cases – 27 February 2019	30,267	7,918	4,072	3,486	4,472	169	998	781	5,748	203	43,249	6
Total reported cases - Baseline	23,333	7,552	3,566						816	36,386	29,705	6

*includes cases returned by the Worcester team but not yet processed by ITM. It also includes cases sent to the Worcester team on 5 November relating to the GMP value reconciliation]

3. ITM awaiting a large number of responses from HMRC by 1 April 2019.
4. Administering Authority working on queries and returning these to ITM and responses are up-to-date.
5. ITM are preparing Stage 3 rectification proposals which will commence from April.

6. A proposal/decision paper on the Fund's approach to under and overpayments will be presented to the next Committee in June.

Administration Software

7. The Administering Authority currently uses 'Altair' administration software contracted from Aquila Heywood. A project group has been established to review the current contract and in accordance with the procurement arrangements the group plan to re-procure the administration software.

8. The group have identified two issues which need to be actioned. Firstly the current servers will need to be replaced by January 2020 and Aquila Heywood has confirmed that they will cease to support our software version from September 2019. To eliminate these issues and in preparation for a re-procurement exercise, which is estimated will take 18/24 months, it is proposed to extend the current contract and in doing so move the hosting from WCC to Aquila Heywood and for the service to be 'cloud' based.

9. Aquila Heywood has been asked to submit a proposal for this extension and a report will be submitted to the Commercial Board to approve.

10. The project group consists of the Chief Financial Officer, Procurement Manager, ICT Infrastructure & Security Architect, ICT Commercial & Contracts Manager, Pensions Manager, and representatives from the Administering Authority.

Covenant Review

11. The Fund has carried out this analysis to identify and monitor employers which potentially pose a higher risk to the Fund (and the other participating employers, because other employers have to share the deficits of an insolvent employer) with a view to assessing what actions may be needed in order to mitigate the risk and protect the Fund (and other employers). This monitoring forms part of the Fund's wider risk management strategy. Given the Fund has a large number of employers; it would not be practical to assess the covenant in detail for every employer. This analysis is a first step to categorise the employers into broad risk groups and to prioritise action in relation to those employers where there is potentially a higher risk to the Fund so that these employers can be investigated further and/or further data can be gathered to refine the covenant rating.

12. The Fund is using a covenant screening tool developed by Mercer for use in multi-employer schemes and especially LGPS funds. The tool is based on a manageable number of Key Performance Indicators (KPIs). To populate the tool the Employers are asked to provide a small amount of financial data which is combined with the latest estimates of funding levels and deficits to measure aspects of covenant and pension risk. The tool provides risk scores for each employer for each KPI, using a Red/Amber/Green traffic light system. It also provides a summary for the Fund as a whole showing the number of employers in each risk category.

13. Risk scores are then analysed to screen out those employers with lower risk, either because the risk score is low or because other factors mitigate any adverse KPI scores e.g. there is a separate guarantee in place from a tax raising body or Central Government Dept. In this way, the tool identifies a small group of employers for which further work is needed to understand the risk position in more detail. This will include requests for additional data and if appropriate meetings/ discussions to explore any issues arising.

14. For the 40 employers that have been currently categorised overall as red in the analysis but we expect to filter these for the following reasons:

- 21 are categorised as red as we have not received complete data
- 8 have a green rating for KPI test 3. This shows low levels of gearing which would say that they still have the capacity to afford to continue to pay their pension contributions, even though they are running at a cashflow deficit. This will help inform discussions at the valuation
- 4 are larger organisations such as Councils and police and these would generally be considered low risk, but the sustainability of the contribution plan will need very careful consideration.
- The above leaves 7 other red cases for more detailed consideration which shows how the filtering process works using the tool. For these cases, Mercers suggest initial consideration should be given to any guarantee that may be in place e.g. from a letting authority (or the DfE in the case of an academy) as any risk here would lie more with the guarantors than the Fund as a whole. In the absence of such security, consideration can then be given to appropriate funding profiles to address the risk to the Fund. This may well require further discussions with the employers in question and we can link in one of our covenant experts to have a closer look at these specific cases to decide whether we need more information or a pro-active meeting with them.
- Further consideration of the amber and green cases will be undertaken once the red category has been considered.

McCloud Case

15. The following is an extract from the Q&A issued by the Scheme Advisory Board:

What is the McCloud case?

The case concerns the transitional protections given to scheme members, who in 2012 were within 10 years of their normal retirement age, in the judges and firefighters schemes as part of public service pensions reform. Tapered protections were provided for those 3-4 years younger. On 20th December 2018 the Court of Appeal found that these protections were unlawful on the grounds of age discrimination and could not be justified.

What are the potential implications of the case?

If the protections are unlawful then those members who are found to have been discriminated against will need to be offered appropriate remedies to ensure they are placed in an equivalent position to the protected members. Such remedies will need to be 'upwards' - that is the benefits of unprotected members will need to be raised rather than the benefits of protected members being reduced.

If the case is about the judges and firefighters schemes why could it apply to all public service schemes?

Protections were applied to all members within 10 years of retirement in all public service schemes, with the form that protection took varying from scheme to scheme. Although the case only relates directly to two schemes it is anticipated that the principles of the outcome could be accepted as applying to all public service schemes.

Will there be a further appeal?

The Government has applied to the Supreme Court for permission to appeal. Normally a decision on whether to grant permission is received within 3 months of the application, so by mid-April 2019.

Why has the cost cap process been paused due to McCloud?

Should the finding of the Court of Appeal stand then significant changes to public service schemes may be required. Depending on extent and cost of these changes there could be a material impact on the outcome of the cost cap process.

Fair Deal Consultation

16. The Government has issued a consultation document containing proposals to strengthen the pensions protections that apply when an employee of a Local Government Pension Scheme (LGPS) employer is compulsorily transferred to the employment of a service provider.

17. The proposed amendments to the LGPS Regulations 2013 would, in most cases, give transferred staff a continued right to membership of the LGPS. These changes would bring the LGPS in line with the government's October 2013 Fair Deal Guidance that applies in relation to transfers from central government.

18. The closing date for the consultation is 4 April 2019.

Contact Points

County Council Contact Points

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Specific Contact Points for this report

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Background Papers

In the opinion of the proper officer (in this case the Head of Human Resources and Organisational Development) there are no background papers relating to the subject matter of this report.