

MEETING OF THE PENSION FUND PANEL

3 NOVEMBER 2017

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

1. NCC Pension Fund's Administration Strategy Statement

Purpose of the report

This report seeks Panel approval to update NCC's LGPS Administration Strategy, to align with Tyne and Wear Pension Fund's (TWPF) Administration Strategy upon implementation of the shared LGPS pensions administration service with TWPF, from late January 2018.

Recommendation

The Panel is requested to:

- (i) approve the NCC LGPS Administration Strategy attached as Appendix 1 to this report; and
- (ii) delegate authority to the Director of Corporate Resources in consultation with the Chair and Vice Chair of the Panel to make any further changes required to the Strategy as a result of the consultation with the participating employers and trade unions.

Key issues

- 1.1 The Pension Fund Panel first approved an Administration Strategy for NCC Pension Fund in 2006, to comply with a (then) newly introduced LGPS regulatory requirement. The Strategy was last updated by the Panel in November 2016, effective from 1 January 2017.
- 1.2 NCC is in the process of moving its "in-house" LGPS administration service to a shared administration service with Tyne and Wear Pension Fund (TWPF) to be delivered by South Tyneside Council (STC) from 29 January 2018. The LGPS is a **single scheme**, administered locally, with NCC and STC both designated as administering authorities in the regulations. For the efficiency of the proposed shared administration service local practices should be aligned, therefore Panel approval is sought for the revised NCC LGPS Administration Strategy (at **Appendix 1**) which aligns NCC's practices with STC's.
- 1.3 There is a legal requirement to consult on the Administration Strategy with Scheme employers and such other persons as the administering authority considers appropriate. Therefore, once the Strategy is approved by the Panel, all participating employers and relevant trade unions will be consulted. It will also be shared with the LGPS Local Pension Board at its meeting on 11

December 2017. The Panel is also asked to delegate authority to make any further changes required to the Strategy, as a result of the consultation.

1. NCC Pension Fund's Administration Strategy Statement

BACKGROUND

NCC Pension Fund's current Administration Strategy

- 1.4 The Pension Fund Panel first approved an Administration Strategy for NCC Pension Fund in 2006, to comply with a (then) newly introduced LGPS regulatory requirement. The Strategy was last updated by the Panel in November 2016 and changes made were effective from 1 January 2017.
- 1.5 The Administration Strategy effective from 1 January 2017 and currently in place can be accessed from the link:

<http://www.northumberland.gov.uk/NorthumberlandCountyCouncil/media/About-the-Council/pensions/Appendix-2-open-NCC-Administration-Strategy-Statement-1-January-2017.docx>

Move to a shared pensions administration service

- 1.6 NCC is in the process of moving its "in-house" LGPS administration service to a shared administration service with Tyne and Wear Pension Fund (TWPF) to be delivered by South Tyneside Council (STC) from 29 January 2018.
- 1.7 The LGPS is a **single scheme**, administered locally, with NCC and STC both designated as administering authorities in the LGPS Regulations.
- 1.8 The Scheme allows for different practices to be adopted by different administering authorities. For example, all administering authorities must monitor receipt of monthly contributions from employers against the "19-day" rule which is incorporated in the Pensions Regulator's guidance, but the Scheme allows each administering authority to request that employers pay within a shorter timeframe and also monitor against that locally set timeframe.
- 1.9 As part of the ongoing project to move towards a shared LGPS pensions administration service with TWPF, officers at NCC Pension Fund and TWPF have been working together to align processes and procedures, where possible, to facilitate an efficient shared service.
- 1.10 Therefore, Panel approval is sought at this meeting for the revised NCC LGPS Administration Strategy, attached as **Appendix 1**, which aligns NCC's practices with STC's, and will apply from the beginning of the fully operational shared administration service.
- 1.11 Officers are working to a target date of **29 January 2018** by which time it is expected that NCC's Pensions Administration Team, NCC's LGPS payroll function and NCC's LGPS membership records will have moved from County Hall, Morpeth, to the TWPF offices/systems at South Shields.
- 1.12 Before the shared service is fully operational, it is important to align NCC Pension Fund's Administration Strategy with TWPF's so that pensions administration staff at TWPF can confidently discuss queries with NCCPF and TWPF employers and with LGPS members from either Fund who may place an

enquiry on or after 29 January 2018.

Comparing NCC's current Administration Strategy with TWPF's Strategy

- 1.13 In August 2017, Karen McWilliam of Aon Hewitt undertook a review of TWPF's Administration Strategy and compared it with NCC's. The differences she highlighted, and the approach taken to resolve the differences, are set out in paragraph 1.14, below.
- 1.14 Areas where the TWPF Administration Strategy differs (or may differ) from NCC's strategy/approach are as follows:

Difference	Approach taken in NCC's revised Administration Strategy (Appendix 1) applicable from 29 January 2018
Employer payments to Fund: TWPF asks for payment by 14 th whereas NCC asks for payment by 19 th . TWPF also mentions that late paying employers may be named in Annual Report (this is not mentioned by NCC).	NCC has adopted the same approach as TWPF and will ask for payment by 14 th from 29 January 2018. Requesting payment earlier in the month is better practice and may reduce the small number of breaches of the 19-day rule which occur.
TWPF asks for year-end information by 22 nd April whereas NCC asks for it by 30 th June.	NCC has adopted the same approach as TWPF and will ask for information by 22 nd April. In reality, NCC already requests this information in April (<i>not</i> June) and setting it out in the Strategy is clearer to employers and better practice.
TWPF sets out various timescales (in paragraph 26) for employers to meet which are not specified in NCC's Strategy.	NCC has adopted the same approach as TWPF and will ask for employers to meet the same timescales from 29 January 2018. Setting out the timescales clearly to employers is better practice.
TWPF will provide up to 10 employer estimates within 21 days, and the employer must discuss a timescale where more than 10 estimates are required. This does not feature in NCC's strategy.	NCC has adopted the same approach as TWPF and will set the same maximum number of employer estimates that will be provided from 29 January 2018. This is a pragmatic approach to managing employer expectations of the pensions administration service.
TWPF will cease paying compensatory added years (CAY) to members where the employer is no longer paying the recharge. This is not mentioned within NCC's Strategy.	NCC has adopted the same approach as TWPF and will cease paying unreimbursed CAY from 29 January 2018. In reality, NCC would not continue to pay unreimbursed CAY so setting it out in the Strategy is clearer and better practice.

Difference

Approach taken in NCC's revised Administration Strategy (Appendix 1) applicable from 29 January 2018

TWPF reviews its policies at least annually whereas NCC's Strategy is reviewed every 3 years.	NCC has retained its policy to review the Administration Strategy every 3 years, or sooner should there be a reason to change. This allows the flexibility to review when necessary.
NCC's Strategy mentions that employers must ensure data is transmitted securely but this is not mentioned within TWPF's Strategy.	NCC has retained this comment in the revised Administration Strategy, because it represents good practice and a useful reminder to employers to be mindful of data security.
NCC's Strategy has a section on the Administration Objectives which doesn't feature in TWPF's strategy.	NCC has retained this section in the revised Administration Strategy, because it represents good practice.
NCC's strategy has a key risks section which doesn't feature in TWPF's strategy.	NCC has retained this section in the revised Administration Strategy, because it represents good practice.

- 1.15 Aon Hewitt recommended that NCC Pension Fund should publish its own Administration Strategy, even if this is identical or largely identical to the TWPF Strategy.

NCC's revised Administration Strategy

- 1.16 TWPF's current Administration Strategy can be accessed from the link:
<http://www.twpf.info/CHttpHandler.ashx?id=14069&p=0>
- 1.17 The approach taken in revising NCC's Administration Strategy (at Appendix 1) was to use the same references, paragraph numbers and headings as the TWPF Administration Strategy, and keep the wording identical, where possible.
- 1.18 Additional information is included in NCC's revised Administration Strategy, such as the list of contacts at the end.
- 1.19 The Strategy also sets out the roles of the parties in the shared administration service, and in particular, which functions will remain with the Fund (i.e. investments, accounts, collection of contributions and Fund governance) and which functions will transfer to the shared administration service to be provided by South Tyneside Council (i.e. membership record keeping and pensioner payroll).
- 1.20 When TWPF's Administration Strategy is next reviewed at the annual review of policies in February 2018, officers at NCC and TWPF will discuss making changes to further align both Strategies.

Consulting with employers

- 1.21 There is a legal requirement to consult on the Administration Strategy with Scheme employers and such other persons as the administering authority considers appropriate.
- 1.22 Therefore, once the Strategy is approved by the Panel at this meeting, all participating employers and relevant trade unions will be consulted. It will also be shared with the LGPS Local Pension Board at its meeting on 11 December 2017.
- 1.23 The Panel is also asked to delegate authority to make any further changes required to the Strategy, as a result of the consultation. This will enable any comments that are made by the employers to be taken into account before the Strategy is finalised and published.

MEETING OF THE PENSION FUND PANEL

3 NOVEMBER 2017

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

2. Revised Governance Policy and Compliance Statement

Purpose of the report

This report seeks approval from the Panel to revise the Northumberland County Council LGPS Governance Policy and Compliance Statement to reflect changes which will result from implementation of the shared LGPS pensions administration service with TWPF, from late January 2018.

Recommendation

The Panel is requested to:

- (i) consider and approve the revised draft Governance Policy and Compliance Statement as set out in Appendix 2 to this report; and
- (ii) approve, as consultees, the participating employers and trade unions.

Key issues

- 2.1 LGPS funds must prepare and maintain a Governance Compliance Statement which shows whether the governance arrangements in place comply with DCLG's statutory guidance (attached as **Appendix 3**). For NCC, the Governance Compliance Statement is combined with its Governance Policy Statement in the Governance Policy and Compliance Statement (GPCS).
- 2.2 The GPCS was last updated in 2015 to reflect the change to the Fund's governance arrangements as a result of the requirement to operate the LGPS Local Pension Board.
- 2.3 An update is now necessary to reflect the proposal to move to a shared administration service with Tyne and Wear Pension Fund, and the revised draft GPCS is attached as **Appendix 2** to this report.
- 2.4 The changes made to the attached draft GPCS (since the 2015 version) are:
 - minor updates including replacing references to the Fund's Statement of Investment Principles with references to the Investment Strategy Statement;
 - reference to the proposed shared LGPS pensions administration service with Tyne and Wear Pension Fund from January 2018; and
 - replacing the reference to the current delegation to NCC's Staff Committee to exercise the administering authority's discretion over the payment of death grants to delegate instead (from 29 January 2018) to the Head of Pensions at Tyne and Wear Pension Fund.

This last point will require a change to the NCC Constitution.

2. Revised Governance Policy and Compliance Statement

BACKGROUND

Pension Fund Panel governance

- 2.5 LGPS funds must prepare and maintain a Governance Compliance Statement which shows whether the governance arrangements in place comply with DCLG's statutory guidance (attached as **Appendix 3**). For NCC Pension Fund, the Governance Compliance Statement is combined with its Governance Policy Statement in the Governance Policy and Compliance Statement (GPCS).
- 2.6 The GPCS was substantially revised in 2015, following changes to NCC's Constitution which had been approved at full Council on 25 February 2015 to introduce the Terms of Reference for the (then) newly formed NCC LGPS Local Pension Board.
- 2.7 Responsibility for updating the GPCS rests with the Pension Fund Panel.
- 2.8 There are strong arguments for leaving certain detail relating to governance of the Fund out of the NCC Constitution in the interests of keeping the Constitution "high level". For NCC Pension Fund, **detail** of the governance arrangements is maintained in the GPCS. Part of the change approved by full Council on 25 February 2015 included cross referencing the Panel remit to the Governance Policy and Compliance Statement, so that future changes to the governance arrangements, as recorded in the GPCS, will not also require an update to the NCC Constitution.
- 2.9 The Pension Fund Panel *can* update the GPCS without taking such changes to full Council, but it would depend *which* changes were being made whether the GPCS should also go to full Council.

NCC's updated Governance Policy and Compliance Statement

- 2.10 In 2007, DCLG introduced a requirement for LGPS administering authorities to put a Governance Compliance Statement in place before 1 March 2008. This requirement replaced the earlier requirement to have a Governance Policy Statement in place by 1 April 2006, though it effectively required administering authorities to have *both*.
- 2.11 LGPS Regulations 2013 (SI 2013 No. 2356) contain the following:

“Administering authorities: governance compliance statement

55. —(1) An administering authority must prepare a written statement setting out—

- (a) whether the authority delegates its functions, or part of its functions under these Regulations to a committee, a sub-committee or an officer of the authority;
- (b) if the authority does so—
 - (i) the terms, structure and operational procedures of the delegation,
 - (ii) the frequency of any committee or sub-committee meetings,

(iii) whether such a committee or sub-committee includes representatives of Scheme employers or members, and if so, whether those representatives have voting rights;

(c) the extent to which a delegation, or the absence of a delegation, complies with guidance given by the Secretary of State and, to the extent that it does not so comply, the reasons for not complying; and

(d) details of the terms, structure and operational procedures relating to the local pension board established under regulation 53(4) (Scheme managers).

(2) An administering authority must keep a statement prepared under paragraph (1) under review, and make such revisions as are appropriate, following a material change to any of the matters mentioned in that paragraph.

(3) Before preparing or revising a statement under this regulation, an administering authority must consult such persons as it considers appropriate.

(4) An administering authority must publish its statement under this regulation, and any revised statement.”

2.12 Regulation 55 (above) covers the same items as the predecessor Governance Compliance Statement Regulation, except for sub clause 55 (1) (d), which requires the Governance Compliance Statement to include details of the local pension board.

2.13 The statutory guidance referred to in 55 (1) (c) is attached as **Appendix 3** to this report. This DCLG guidance is dated November 2008. DCLG has not indicated that it plans to update this guidance.

2.14 The revised NCC GPCS is attached as **Appendix 2** to this report. Revising the GPCS does not mean a change to the operation, business undertaken by or responsibilities of the Pension Fund Panel.

2.15 Regulation 55 (3) (above) requires the administering authority to consult such persons as it considers appropriate before preparing or revising a statement under this Regulation. Once approved by the Panel at this meeting, the revised draft GPCS will be distributed to participating employers and the trade unions for consultation.

2.16 The changes made to the attached draft GPCS (since the 2015 version) are:

- minor updates including replacing references to the Fund’s Statement of Investment Principles with references to the Investment Strategy Statement;
- reference to the proposed shared LGPS pensions administration service with Tyne and Wear Pension Fund from January 2018; and
- replacing the reference to the current delegation to NCC’s Staff Committee to exercise the administering authority’s discretion over the payment of death grants to delegate instead (from 29 January 2018) to the Head of Pensions at Tyne and Wear Pension Fund.

This last point will require a change to the NCC Constitution.

Exercising the administering authority's discretion over death grants payable

- 2.17 NCC's Constitution sets out that the Staff Committee should, where necessary, exercise the administering authority discretion over the payment of death grants. This function is not part of the Pension Fund Panel's remit because the Staff Committee can be called at short notice, and the payment of death grants should not be delayed to fit in with a meeting schedule which could involve (potentially) a four month wait.
- 2.18 On several occasions in the past, the Panel has considered and rejected changing its own remit to bring in the power to exercise the administering authority's discretion over the recipient of any death grant(s) payable.
- 2.19 NCC Pension Fund has very few death grant cases where the administering authority's discretion must be exercised. Typically, no more than one case every year is taken to the Staff Committee for a decision. As a result of the length of time between cases, coupled with staff absences/vacant posts within NCC's Pensions Administration Team, keeping Staff Committee members appropriately trained to be in a position to make a decision when needed has become problematic.
- 2.20 South Tyneside Council's Pensions Committee has delegated the death grant discretion for Tyne and Wear Pension Fund (TWPF) to the Head of Pensions at TWPF. The Head of Pensions must follow a written protocol, which is reviewed by the Committee annually and updated when necessary. The next review will be in February 2018. Delegating this discretion to an officer means that there are no unnecessary delays in the process.
- 2.21 The most recent version of TWPF's Death Grant Protocol, dated May 2014, is attached as **Appendix 4** to this report. This exemplifies the process which must be followed. Following the protocol involves several review processes, which should minimise the chances of missing any relevant information which should be taken into account in the decision.
- 2.22 It is proposed that NCC Pension Fund should adopt the same procedure as TWPF, and delegate the death grant discretion to the Head of Pensions at TWPF with effect from the commencement of the shared administration service in January 2018. This proposal is incorporated on page 12 of Appendix 2.

Panel and Council approval

- 2.23 The Panel is requested to consider and approve the revised GPCS, attached as **Appendix 2** to this report.
- 2.24 If the Panel gives approval to the revised GPCS, it will be necessary to request a change to the remit of the Staff Committee, as set out in the Council's Constitution, to make clear that the staff Committee will no longer exercise the discretion over payment of death grants from late January 2018. Advice obtained from NCC's Head of Legal Services is that such a change to the Constitution could only be made by a resolution of full Council.

IMPLICATIONS ARISING OUT OF THE REPORT

This applies to items 1. to 2. (inclusive) in this report

Policy:	Both reports seek Panel approval to update Fund policies.
Finance and value for money:	All investment decisions and funding strategy decisions could have an implication for the future employer contribution rates payable by employers participating in the Pension Fund. There are no investment decisions arising directly from these reports. Updating the policies will support the move to shared pensions administration with Tyne and Wear Pension Fund, which in turn will support an efficient shared service.
Human Resources:	None
Property:	None
Equalities:	None
Risk Assessment:	A risk assessment is performed as part of the asset liability modelling study undertaken periodically (usually every three years) to set the Fund's asset allocation strategy. There is no change to investment strategy contained within these reports.
Sustainability:	None
Crime & Disorder:	None
Customer considerations:	None
Consultation:	None
Electoral divisions:	All

Report sign off

Finance Officer	N/A
Monitoring Officer/Legal	N/A
Human Resources	N/A
Procurement	N/A
I.T.	N/A
Director (Corporate Resources)	AE
Portfolio Holder(s)	N/A

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