

Agenda Item	5
Report No	PC/2/20

HIGHLAND COUNCIL

Committee: Pensions Committee

Date: 19 March 2020

Report Title: Pension Fund Contributions and Administration

Report By: Head of Corporate Finance and Commercialism

1. Purpose/Executive Summary

- 1.1 The purpose of this periodic report is to update members on matters relating to the administration of the Highland Council Pension Fund.

2 Recommendations

- 2.1 There are no additional implications other than those highlighted in the report.

Members are asked to:

- i. Consider the details of the report

3. Implications

- 3.1 Resource – as described in the report.
3.2 Legal - none
3.3 Community (Equality, Poverty, Rural and Island) - none
3.4 Climate Change / Carbon Clever – none
3.5 Risk – none
3.6 Gaelic - none

4. Introduction

- 4.1 The Highland Council is the Administering Authority for the Highland Council Pension Fund. In addition to the Highland Council, 31 employers participate as admitted or scheduled Bodies in the Fund.
- 4.2 Participating employers are required to calculate and deduct the appropriate rate of pension contributions from salaries in addition to an employer's contribution in accordance with guidance issued by the Highland Council Pension Section. These contributions are remitted monthly to the Highland Council Pension Fund. The statutory deadline for payment to be made is the 19th of each month.

5. Scheme Employers Pension Contributions

- 5.1 Pension contributions received from employers are checked for accuracy against known parameters and the dates received are recorded and monitored.
- 5.2 Contact is made with an employer in instances where payments are received late or not to the expected value.
- 5.3 Contributions from scheme employers are all being received on time and all contributions are up to date.

6. Employers Leaving the Fund

- 6.1 No employers have left the Fund since the last report.

7 Employers joining the Fund

- 7.1 No employers have joined the Fund since the last report.

8 Pension Fund Costs

- 8.1 The Pension Fund Annual report for 2019/20 will include a report on financial performance against budget. This is to comply with the CIPFA guidance, "Preparing the annual report guidance for Local Government Pension Scheme Funds" (April 2019).
- 8.2 The year to date pension costs from 1 April to 29 February 2020, are presented in the table on the next page against the budget for 2019/20 which was approved by Pensions Committee in August 2019.
- 8.3 As requested by Committee further detail has been provided on the Pensions Administration costs and the Fund Manager fees.
- 8.4 For the year end forecasts, the equities fees have been estimated as higher than budget as the final instalment of fees will be based on market value as at 31 December 2019 and up until that period equities had performed well. It is difficult to estimate the budget for Fund Manager fees accurately as these depend on the performance of the market.
- 8.5 The forecast expenditure for the Investment Advisor is estimated to be higher than budget due to procurement costs for an absolute return fund manager

	Actual year to date £000	Annual budget £000	Year- end estimate £000	Year- end variance £000
<u>Administrative expenses</u>				
Medical exams (staff)	2	5	5	0
Conference & seminar expenses (includes subsistence)	0	1	1	0
Subscriptions to organisations	2	1	1	0
ICT charges	1	1	1	0
Bank charges	0	2	2	0
Other charges (pension levy, tax certification costs, debt collection)	0	2	3	1
<u>Pensions administration costs</u>				
Pensions administration staff	571	633	619	(14)
GMP	66	135	71	(64)
Computer and ICT	446	253	261	8
Fares, travel, accommodation	1	1	1	0
Printing and stationery	3	9	3	(6)
Postages	9	10	11	1
Other pensions admin costs (phone, insurance, subscriptions)	6	11	8	(3)
Total	1,107	1,064	987	(77)
<u>Oversight and governance</u>				
Actuarial Fees	28	50	50	0
Audit Fees	10	30	30	0
Central Support - Pensions Investment	0	146	146	0
Training	0	4	4	0
Subsistence and travel	0	1	1	0
Investment Consultant Fees	57	80	120	40
Performance Management Fees	6	23	23	0
Legal Expenses	0	5	5	0
Total	101	339	379	40
<u>Management fees</u>				
Investment expenses	78	334	334	0
Custodian Fees	27	85	85	0
Transaction costs	0	330	330	0
<u>Fund Manager fees</u>				
Unitised insurance policies	86	100	182	82
Equities	2,486	3,150	3,286	136
Bonds	205	260	275	15
Property	202	400	403	3
Private equity		3,000	3,000	0
Property debt		190	190	0
Total	3,084	7,849	8,085	236
Overall total	4,292	9,252	9,451	199

- 9.1 Pension schemes, including those in the public sector, are required to undertake a data reconciliation exercise with HMRC. This will ensure that both details of Guaranteed Minimum Pensions (GMP) and periods of contracted out service, which are used to determine entitlement to the new single state pension, are up to date and robust.
- 9.2 The reconciliation exercise for the Highland Council Pension Fund is now complete and identified around 1600 complex records that will require further investigation
- 9.3 The further investigation will
- 1) Analyse the remaining unmatched cases on an individual basis
 - 2) Understand and report the impact of the exercise on the fund and scheme members
 - 3) Agree a policy to deal with cases where GMP have been overpaid
- 9.4 Equiniti will undertake the final analysis on behalf of the Fund. The final cost of the exercise along with details of the final impact on the Fund and scheme members will be reported to a future Pension Committee/Board.

10 Annual Benefit Statements

- 10.1 Annual benefit statements as at 31st March 2019 were published on line on 31st August 2019.

11 Additional Voluntary Contributions.

- 11.1 Prudential has been the appointed Additional Voluntary Contribution (AVC) provider to the Highland Council Pension Fund since 1989.
- 11.2 AVCs are a popular method for members to pay extra via their salary to improve their pension benefits at retirement. During these last 30 years we have worked closely with Prudential to ensure that all administrative, communication and investment aspects of the arrangement have been met.
- 11.3 As well as Prudential having their own governance procedures with regards to fund choice and performance the pension fund has also kept these under review and reviewed this with Prudential at the annual review meeting. An example of changes being made where necessary is the closure of the Prudential Ethical Fund on 20 February 2020 and replaced with a fund more aligned to Environment, Social and Governance (ESG) principles, known as the Prudential Positive Impact Fund.
- 11.4 For information, as at 31st December 2019, the Fund has 582 active members with an AVC fund as well 136 deferred members. Average contribution to the AVC facility during 2019 was £2600 (£220 per month). Total funds under management with Prudential are £9.8m. During 2019, 58 members with an AVC fund retired with an average fund size of just under £23k with most opting to use this to boost the tax free cash sum they received at retirement.

12 Triennial Valuation

- 12.1 In line with other Local Authority Pension Funds the Highland Council Pension Fund will undergo a Statutory valuation exercise as at 31st March 2020. The exercise will be undertaken by the Fund Actuary.
- 12.2 Amongst other outcomes the Valuation Exercise will determine the funding level at that date and calculate employer contribution rates for the 3 financial years from 1 April 2021.
- 12.3 A training session on the Valuation will be delivered by the Fund Actuary at 2pm on 19th March 2020.

13. Statutory deadlines/compliance

- 13.1 Increasing demands and complexity around pensions as well as the increased expectations of all stakeholders and statutory national requirements has created the necessity to review staffing levels in the Administration team to ensure that it is adequately resourced and skilled to deliver the pension service to the required standard. A report will be brought to a future committee once the review is complete.

Designation: Head of Corporate Finance and Commercialism

Date: 19 Feb 2020

Author: Charlie MacCallum

Background Papers: