

Agenda Item	7
Report No	PC/5/25

HIGHLAND COUNCIL

Committee: **Pensions Committee**

Date: **12 February 2025**

Report Title: **Pension Fund Administration**

Report By: **Chief Officer, Corporate Finance**

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 (“the Fund”).

2 Recommendations

- 2.1 Members are asked to consider this report and note the following:
- i. update on the Member Self Service (Engage) and Altair Pensioner Payroll projects (section 6)
 - ii. action being taken by officers to review the Fund’s compliance with the Pension Regular (TPR) General Code of Practice (section 7)
 - iii. Mansion House reforms - consultation responses update (section 8)

3 Implications

- 3.1 There are resource implications as processes should be in place to ensure that there are adequate resources in place to support the Pensions Administration work.

- 3.2 In terms of legal implications, the governance of the Fund must comply with all Local Government Pension Scheme (LGPS) legislation and regulations and TPR requirements, or the Fund could be non-compliant and in breach of Regulator requirements.
- 3.3 The risk management framework is an integral part of governance and risks are considered as part of all the areas covered in this report. There is a Pension Fund risk register which is regularly updated and project risk registers are in place for the Engage and Altair projects.
- 3.4 There are no Health and Safety (risks arising from changes to plant, equipment, or people) or Gaelic implications arising as a direct result of this report.

4. Impacts

- 4.1 In Highland, all policies, strategies or service changes are subject to an integrated screening for impact for Equalities, Poverty and Human Rights, Children's Rights and Wellbeing, Climate Change, Islands and Mainland Rural Communities, and Data Protection. Where identified as required, a full impact assessment will be undertaken.
- 4.2 Considering impacts is a core part of the decision-making process and needs to inform the decision-making process. When taking any decision, Members must give due regard to the findings of any assessment.
- 4.3 This is a monitoring and update report and therefore an impact assessment is not required.

5. Introduction

- 5.1 The Highland Council is the Administering Authority for the Highland Council Pension Fund. In addition to the Highland Council, 24 employers participate as admitted or scheduled Bodies in the Fund.
- 5.2 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 22nd of each month.
- 5.3 This report also provides an update on the Service Plan 2024/25 agreed in February 2024 and budget monitoring for the Fund to 31 December 2024.

6. Member Self Service (Engage) and Pensioner Payroll

- 6.1 The Member Self Service (Engage) and Pensioner Payroll are part of the integrated Altair Pensioner Benefits Administration system. The Altair Pensions Administration Benefits system provided by Heywood Limited has been used by Highland Council Pension Fund since July 2019.
- 6.2 The Pensions Committee approved the Service Plan in February 2024 which included

costs for both the implementation of Engage and the Pensioner Payroll modules in financial years 2023/24 and 2024/25 respectively. In May 2023, the People and Finance Systems Programme Board approved the project, and the Procurement Approval Group approved the contract variation with Heywood Limited.

- 6.3 As noted in the Service Plan 2025/26, the planned date for implementation of the Pensioners' payroll was rescheduled from November 2024 to February 2025 and on 21 January 2025 a decision to go live in February was approved. In the Service Plan 2025/26 following the embedding of the Altair payroll, there are actions in the work plan to implement straight through processing and immediate payments functionality later in 2025.
- 6.4 As background to this change, some of the reasons for implementing Engage and the payroll module are below.
- the Pensions Industry is moving towards a self-service model, whereby individuals can readily access information on their pensions online, securely and all in one place and the implementation of Engage would be a step towards this objective.
 - members in the Highland Council Pension Fund have increased from 31,609 in 2018/19 to 35,551 in 2022/23 (12%) which has increased service demand.
 - significant increases in volumes of new entrants, early leavers and retirements to process as well as increased volume of pension benefits estimates has meant reduced performance against key performance indicators and requires process efficiencies to be implemented.
 - increasing and complex demands on the pensions administration service include the implementation of McCloud/Goodwin resolution (age discrimination challenge to the transitional protections put in place when the LGPS benefit structure was reformed in 2015) which require process efficiencies to be implemented.
 - The process of setting up pensioners on 2 separate systems and reconciling Zellis Resourcelink to Altair is inefficient with the increased risk of inaccuracies and incomplete data and requires considerable resource, which could otherwise be focussed on delivering a higher quality service.
- 6.5 The benefits of using the fully integrated Altair Engage and pensioner payroll modules is that the modules interface within the Altair system, reducing the need for manual input and the risks associated with cross-system reconciliation. Some key advantages are summarised below:
- Full integration - enhances efficiency, improves security and reduces costs.
 - Single database - this reduces the risk of data discrepancy and processing errors and removes the need for reconciliation between different systems.
 - Real-Time Information - payroll calculation results are automatically passed onto an RTI messaging maintenance facility for payroll reporting.
 - Flexible processing - a range of payment methods can be efficiently employed, as demonstrated by the supplementary Altair Immediate Payments solution.
 - Full audit trail - audit referencing is created upon processing, which augments accountability, supports data validation, and complies with external auditing requirements.
 - Interaction – the payroll module connects to Engage, meaning enrolled payees

can easily view and print payroll documentation, such as Pay Advice and P60s.

- 6.6 The key outcomes of the Engage and pensioner payroll projects are:
- Highland Council Pension Fund members will have secure access to comprehensive and accurate information on their payroll and benefits in real time which will enable pensioners and active members to:
 - check and print payroll documentation such as Pay Advice and P60s.
 - generate benefit estimate statements and “what if” modelling and update details.
 - update personal/contact details and nomination of beneficiaries plus bank details for pensioners.
 - new pensioners will no longer need a separate My View account to view payslips and P60s (although My View will be maintained to allow existing pensioners to view historic advice slips).
 - Highland Council Pension Fund pensioner payroll and benefits payment are processed and paid securely, accurately and efficiently using a single integrated Pensions Administration system.

7. The Pensions Regulator – General Code of Practice

- 7.1 TPR’s new General Code of Practice (GCoP), was laid in parliament on 10 January 2024 and became effective from 28 March 2024. The new code collates and updates 10 existing codes of practice into one set of clear, consistent expectations on scheme governance and administration. GCoP applies to all pension schemes, public and private. <https://www.thepensionsregulator.gov.uk/en/document-library/code-of-practice>
- 7.2 An action to review of the Fund’s compliance with GCoP was included in the previous Service Plan 2024/25 which presented to Pensions Committee in February 2024.
- 7.3 The Fund’s Actuary, Hymans launched a TPR GCoP compliance checker for LGPS funds. The Fund considered different options to assess compliance with GCoP and the Hyman’s compliance checker was the most cost-effective solution.
- 7.4 Officers used this tool to assess compliance with GCoP and the results are set out in Item 5 of the Agenda. It should be noted that overall the Fund is complying with most requirements and an action plan is in place to address areas of non- compliance.

8. Mansion House and Inheritance tax reforms update

- 8.1 Following on from our report on the Mansion House reforms to the Pensions Committee in December and changes to the LGPS in England and Wales, our Fund Actuary and Investment Advisor have both submitted responses on the Local Government Pension Scheme (England and Wales) Fit for the Future consultation by the Ministry of Housing, Communities and Local Government (MHCLG). The response from Hymans is available below and the Aon response will be circulated to the Committee and Board.
- <https://www.hymans.co.uk/insights/local-government-pension-scheme-england-and-wales-fit-for-the-future-hymans-robertsons-response>

- 8.2 There was also a consultation on the Inheritance Tax proposals in the Autumn Budget 2024 which closed on 22 January 2025. As announced in the Autumn Budget 2024, from 6 April 2027 most unused pension funds and death benefits will be included within the value of a person's estate for Inheritance Tax purposes and pension scheme administrators will become liable for reporting and paying any Inheritance Tax due on pensions to HMRC. The impact of this is an additional complex technical administrative task for pension scheme administrators.
- 8.3 The Fund is part of the Scottish Pension Liaison Group (SPLG) which submitted a joint response on behalf of the 11 administering authorities in the Local Government Pension Scheme (LGPS) (Scotland) representing 674,620 members and Northern Ireland Local Government Officers' Superannuation Committee (NILGOSC) which has approximately 165,000 members. This was a comprehensive response co-ordinated by Falkirk Pension Fund Manager which highlighted SPLG administrator concerns and will be circulated to Committee and Board.
- 8.4 The Fund Actuary has also submitted a response which is published on their website. <https://www.hymans.co.uk/insights/technical-consultation-inheritance-tax-on-pensions>
- 8.5 Officers will continue to keep members updated on the progress of government reviews and ongoing developments.

9. Scheme Employers Pension Contributions

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

10. Employers Leaving the Fund

- 10.1 Fund officers are working alongside external legal advisors and the Fund Actuary to manage the exit for one employer whereby the liability for the pensioners and deferred members (previous employees who have not yet retired) is settled from the employer's share of pension assets and the remaining active members continue in the fund. There is work ongoing to draft the admission agreement for the remaining active members and on actuarial calculations.
- 10.2 In February 2024, one of the employers went into liquidation (Sight Action) and officers are working with the Fund Actuary to calculate a cessation value.
- 10.3 There is work ongoing to transfer the Scottish Fire and Rescue Service (administration staff) to Strathclyde Pension Fund (81 Pensioners, 69 active employees and 66

deferred member). Scottish Ministers provided a Direction Order under Schedule 4, Part 1 of the Regulations in respect of the transfer and Strathclyde Pension Fund will pay these employees from February 2025 onwards.

- 10.4 The Fund continues to work with WIPRO to manage the cessation of the admission agreement as part of the transfer of service back to the Council. One pension scheme member remains an employee of WIPRO until the end of the contract and then will revert to Highland Council.

11. Employers joining the Fund

- 11.1 No employers have joined the Fund.

12. Pension Fund Costs

- 12.1 The Pension Fund Annual report includes a report on financial performance against budget as required by CIPFA guidance, "Preparing the annual report guidance for Local Government Pension Scheme Funds" (April 2019).
- 12.2 The external audit of the Highland Council Pension Fund Annual report and accounts 2023/24 is complete and accounts were presented to and approved by Pensions Committee on 6 December 2024.
- 12.3 The budget monitoring reporting sets out actuals to 31 December 2024 and currently forecast year end expenditure is generally expected to be in line with budget though the following should be noted with regard to these year-end forecasts:
- overspend on subscription fees which includes costs for Local Government Association (LGA) technical support which will be included in future budgets
 - underspend on Pensions Investment and Accounting staff due to staff vacancies
 - overspend on Investment Consultant fees due to support provided to implement investment strategy changes.
 - overspend on investment expenses due to asset transition activity during the financial year.
 - fund manager fees are based on market values and the performance of investments which can be volatile. There is a year-end adjustment completed to reflect fund manager fees where costs are netted off investments.

12.5 Altair pensioner payroll project costs are being reported to and monitored by the Human Resource, Payroll and Pensions Project Board (HRP&P Board).

	Actual year to date 24/25 £000	Annual Budget 24/25 £000	Year-end estimate 24/25 £000	Year-end variance 24/25 £000
<u>Administrative expenses</u>				
Medical exams (staff)	4	5	5	0
Conference & seminar (includes subsistence)	0	1	1	0
Subscriptions to organisations	30	5	30	25
Bank charges	2	2	2	0
Other charges (pension levy, tax certification costs)	0	3	3	0
Pensions administration staff	761	1,036	1,036	0
Central support charge (internal ICT support, property costs, payroll, business support)	10	156	156	0
Computer and ICT (external providers)	541	600	600	0
Fares, travel, accommodation	0	1	1	0
Printing and stationery	0	1	2	1
Postages	0	4	4	0
Other pensions admin costs	4	8	8	0
Total	1,348	1,822	1,848	26
<u>Oversight and governance</u>				
Actuarial Fees	63	100	100	0
Audit Fees	0	36	44	8
Pension Investments and Accounting staff	59	262	142	(120)
Central support charge (internal ICT support, internal audit, payroll, business support)	0	21	21	0
Training	0	5	5	0
Subsistence and travel	0	1	1	0
Investment Consultant Fees	134	100	150	50
Performance Management Fees	4	50	50	0
Tax and Legal Expenses	0	10	10	0
Total	260	585	523	(62)
<u>Management fees</u>				
Investment expenses	316	350	400	50
Custodian Fees	30	100	100	0
Transaction costs	0	350	350	0
Fund Manager fees	2,050	10,288	10,288	0
Total	2,396	11,088	11,138	50
Overall total	4,004	13,495	13,509	14

13. Guaranteed Minimum Pension Comparison Exercise

- 13.1 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.
- 13.2 The reconciliation exercise for the Highland Council Pension Fund is complete and final reviews are being undertaken of 118 cases. The remedy is that any negatively affected pensioners have received arrears payments with interest; and any incomplete GMP details for active and deferred members will be uploaded, in the near future. This work will be progressed as soon as possible.

14. Additional Voluntary Contribution (AVC's)

- 14.1 Prudential has been the appointed Additional Voluntary Contribution (AVC) provider to the Highland Council Pension Fund since 1989.
- 14.2 To maximise the range of benefits offered to employees, Highland Council has entered into an agreement with AVC wise (a company specialised in this discipline) to provide a Shared Cost AVC scheme to qualifying scheme members.

Designation: Chief Officer, Corporate Finance

Date: 31 January 2025

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Background Papers: LGPS regulations, TPR, GCoP