

<b>Subject</b>	<b>The Impact of Regulatory Changes on the Administration Service</b>	<b>Status</b>	For Publication
<b>Report to</b>	Authority	<b>Date</b>	15 <sup>th</sup> October 2020
<b>Report of</b>	Head of Pensions Administration		
<b>Equality Impact Assessment</b>	Not Required	<b>Attached</b>	No
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## **1 Purpose of the Report**

- 1.1 To inform the Board of the forecast impact on the administration service of various regulatory and other changes which are currently in process and the steps being taken to ensure the maintenance of standards of customer service.

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## **2 Recommendations**

- 2.1 Members are recommended to:
- a. **Note the forthcoming administrative impacts that LGPS funds are facing and the steps approved by the Authority to address them.**

## **3 Link to Corporate Objectives**

- 3.1 This report links to the delivery of the following corporate objectives:

### **Customer Focus**

To design our services around the needs of our customers (whether scheme members or employers).

SYPA needs to be in the best possible place to avoid any detrimental impact on our existing customer service expectations once the McCloud remedy is finalised.

### **Listening to our stakeholders**

To ensure that stakeholders' views are heard within our decision making processes.

The Scheme Advisory Board, LGA and other advisers to LGPS funds are all stressing the importance of project managing and planning for the increased workload that the McCloud judgement will bring.

## **Valuing and engaging our Employees**

To ensure that all our employees are able to develop a career with SYPA and are actively engaged in improving our services.

It is key for wellbeing to demonstrate that strategic planning is in place to anticipate and address known workload increases and ensure staff do not feel overwhelmed.

### **4 Implications for the Corporate Risk Register**

- 4.1 The actions outlined in this report have implications for operational risk O2 in the Corporate Risk Register – the proposal is aimed at reducing the risk that the Authority cannot continue to meet statutory deadlines for disclosure of information to scheme members.

### **5 Background and Options**

- 5.1 Members will be aware that the full restructure of the administration service was completed in late 2019 and, following some senior appointments in the summer of 2020, the new administration service is finally approaching full establishment. Clearly the pandemic has impacted the operational effectiveness of the team but it is anticipated this will be a temporary distraction as staff adapt to a more agile way of working in the longer term.
- 5.2 In planning for the resourcing levels required to sustain a high quality service to members and employers, there are a number of key 'unexpected' developments within the LGPS environment on the immediate horizon which will require significant additional work to be undertaken within the service. This paper set out details of these and provides details of additional resources approved by the Authority to address both the additional work required and ensure that standards of customer service can be maintained.

#### *McCloud judgement*

- 5.3 The most significant new administrative challenge faced by LGPS funds is the forthcoming impact of the McCloud judgement. SYPA has established a working group to plan for the anticipated workload that will impact when the remedy is finally agreed, expected to be later this year. The work streams involved in this project are wide-ranging and include:-
- Ongoing administration process changes
  - Retrospective reviews of leaver benefits (back to April 2014)
  - Additional Data Collection
  - Systems development
  - Scheme member and employer communications
  - Accounting and funding implications

- 5.4 The working group has estimated that the following volumes of member types are in scope for review, albeit that the actual numbers of members whose benefits will be directly impacted will be a small proportion of these.

Status of Member impacted	Approx. numbers in scope for review
Active	22,000
Deferred	10,000
Pensioner	9000
Transfer Out	600
Deceased	500
Others	150

- 5.5 Each of the different membership types will require quite different assessment and, where appropriate, remedy approaches and this will be a significant project to manage. Fortunately, in terms of project management, the restructure of the administration service accommodated a new senior post of Project and Improvement Lead and an experienced project manager has recently been appointed to this post.

*Other Age discrimination cases – Goodwin, Brewster et al*

- 5.6 At the same time as the McCloud judgement, the Government has faced a number of court challenges in relation to the discriminatory nature of the discrepancies that have historically existed in the public sector schemes in relation to provisions for partner pensions. A couple of cases have been linked to unequal treatment in relation to co-habiting partners pensions but the most recent case, in the Teachers' Pension Scheme (TPS), relates to the unequal treatment between male survivors of female scheme members and a comparable same-sex survivor.

- 5.7 In July 2020, the Treasury confirmed that the remedy required as a result of this TPS case would need to be applied to all public sector schemes. In practice, what this is likely to mean for the LGPS once the remedy is agreed is both the retrospective recalculation of a number of partner pensions in payments but also the identification of new pension entitlements which had not previously been paid. As with most retrospective adjustments, in practice manual updates will be required at some stage in the process.

*GMP reconciliation*

- 5.8 The long standing project stemming from the Government's cessation of contracting-out (of the State Second Pension) and the implications for contracted-out schemes in relation to applying GMPs is finally reaching Stage 3 (rectification) as the final 'cut' of GMP data for each pension scheme from HMRC is expected imminently.

- 5.9 Stage 3 of the GMP reconciliation project is where the impacts will be felt directly by pensioners and beneficiaries (both positive and negative) and where the administration team will need to be involved in the recalculation of pensions in payment. In practice, the retrospective nature of the complex recalculations will inevitably involve manual processes and, more importantly, the resourcing time which will inevitably need to be devoted to communicating and explaining to pensioners these complex changes which are not of their making.

- 5.10 Although it is not possible to quantify the exact number of recalculations required until the final HMRC data cut has been received and reconciled, it is estimated that the numbers impacted will be at least in the low hundreds, and potentially higher. Based on the latest available information from HMRC, it is expected that work will need to commence on Stage 3 of the project by January 2021. Clearly there is also the potential for these changes in benefits to interact with those arising from the McCloud remedy further complicating implementation of both remedies.

*£ 95k cap and exit payment reform*

- 5.11 Members have been provided with a separate briefing not on the implications of the £ 95k cap and the reform of exit payments. Although this is at its core an employer issue, it is worth drawing attention to the fact that the Governments proposals published this month will, as drafted, lead to a significant increase in workload for administering authorities in relation to exit payments.

*Addressing the Resource Implications*

- 5.12 Administering authorities are constantly faced with challenges which require resources to be flexed, and the continued investment in technology (in particular automated functionality such as 'retire online') will lead to efficiency improvements which will address some of the additional resourcing requirements flowing from the changes in the scheme set out above. However, in totality, the sum of the forthcoming changes outlined above do face LGPS funds with some exceptional resourcing challenges.
- 5.13 One option, favoured by many funds, is to buy in additional expertise on a short-term basis from benefit consultants and similar providers but these can be an expensive solution with little long-term benefit. Following the administration service restructure, SYPA is well placed to manage the various projects from a structural perspective but there will inevitably be a significant increase in administrator resource requirements over a sustained period of time.
- 5.14 Consequently at its meeting on 30<sup>th</sup> September the Authority adopted its preferred approach which is to invest ahead of the curve in bringing in entry or junior level pensions officer posts and using existing training structures to develop capacity in-house. Members therefore approved the appointment of a maximum of up to 3 Pensions Officer posts to sustain the Authority during the forthcoming projects outlined above. The resource allocations will be kept under continual review for effectiveness and, given the age profile of the Pensions Officers within the organisation, it should be possible to manage any reductions required in future through 'natural' means. A recruitment process has already begun to fill an existing Pensions Officer post vacant due to a retirement and this process will be used to fill two of the additional posts immediately. Further recruitment will be governed by an ongoing assessment of actual workloads arising from these projects and will if possible be arranged to coincide with the filling of any existing posts that become vacant in the ordinary course of events meaning that we are bringing new staff into the organisation in small cohorts which can then receive appropriate training and support.
- 5.15 The total additional costs will be up to £ 75,000 per year and, for the current financial year, these can be met from forecast savings in the staffing budget from part-year vacancies.

## 6. **Implications**

6.1 The proposals outlined in this report have the following implications:

Financial	Approximately £ 75,000 per annum. As indicated the overall financial position in the current year will allow the part year impact of immediate recruitment to be absorbed within the overall financial position. Current estimates are that this growth in the establishment can be accommodated within the overall budget envelope for 2021/22.
Human Resources	Increase in core establishment.
ICT	None
Legal	None
Procurement	None

**Jason Bailey**

**Head of Pensions Administration**

<b>Background Papers</b>	
<b>Document</b>	<b>Place of Inspection</b>