SOUTH YORKSHIRE PENSIONS AUTHORITY

24th November 2016

Review of Pensions Administration

1. Purpose of the Report

To present to Members a proposal to reorganise the Pensions Administration Unit to facilitate the shift from annual to monthly pension contribution reconciliation along with other improvement measures.

---

2. Recommendations

Members are asked to,

(a) agree to increasing the Pensions Administration Unit establishment by the appointment of five additional posts budgeted at £130,000 pa as shown below,

(i) UPM Manager
(ii) Data Analysts x 4

(b) approve in principal the restructure of the Pensions Administration Unit and the potential increase in the overall staffing budget estimated at £30,000 pa.

---

3. Background

3.1 Although dating back to the late 1800's the LGPS of the modern era came into being on 1st April 1974. During the intervening forty-two years the scheme has undergone a major overhaul on no less than five occasions together with countless policy reviews and miscellaneous amendments. The scheme has also had to respond and adapt to significant overriding legislation primarily through social security and tax reform. It is fair to say that today's pension scheme does not share a great deal in common with the scheme that was around in 1974.

3.2 From a pensions administration perspective, scheme and overriding legislation changes always add to rather than replace the knowledge required to administer the Scheme as deferred and pensioner members generally continue to have the regulations in force at the time they left/retired apply instead of the new legislation. This adds further complexity to a job that already has a great emphasis on rules and regulations.

3.3 The Pensions Administration unit has had by contrast relatively few fundamental reviews during the same time period with the last full review taking place almost 20 years ago in 1997. There have been a number of initiatives and limited reorganisations to meet certain demands mostly achieved within existing budgets but no fundamental review of the unit. In the year prior to the last review the fund had undergone the 1995 actuarial valuation with new employer contributions effective from April 1996.Given we are currently in a valuation year the close proximity of the 1995 valuation to the last review enables us to accurately compare the changes that have taken place during the intervening period as illustrated below,

	1995 Valuation	2016 Valuation	Percentage Change
Active Members	31,815	52,230	**+64.17%**
Deferred Members	10,410	51,670	**+396.35%**
Pensioner Members	21,606	47,035	**+117.69%**
Total Members	63,831	150,935	**+136.46%**
Fund Assets	£1.2bn	£6.25bn	**+420.83%**
Funding Level	80%	85%	**n/a**
Employer Contributions	10.7%	14.8% plus £67m pa	**n/a**
Active Employers	75	391	**+421.33%**
Number of Staff in Pensions Administration	51	55	**+7.84%**

3.4 Although the above table clearly traces the increase in the number of members and employers during the last 20 years it is the joint impact of this increase along with a more complex and demanding scheme that has led us to the point where our method of working has to change

3.5 Members will be aware that the unit has been through some difficult times since the implementation of our new pensions administration system. However it should be noted that proposals being put forward in this report are not as a result of these difficulties and would have occurred if we had been able to remain on our old system. Indeed colleagues in other funds who have not changed system provider are reporting similar difficulties and backlogs as ourselves.

4. Reasons for Change

4.1 Contributions Reconciliation and Posting of Scheme Member Contributions

The traditional method of reconciling the amount paid over by employers in respect of their employees is to work from an annual return delivered sometime after the 31st March year-end. The twelve monthly payments are added up and if they tally with the amount being shown on the annual return we can proceed to upload the amount of contributions collected from each scheme member to their individual pension record. There are a number of problems with this approach,

1. The number of active employers and active members have increased by 421% and 64% respectively since the 1995 valuation meaning there are more annual returns and more members on those returns for whom we have to post contributions.

2. The annual returns don't always balance to payments received and they have to be returned to the employer for investigation and correction
3. The annual returns will include un-notified new starters and leavers and other discrepancies that require investigation.
4. There is a Statutory requirement to provide each contributing member with an annual forecast of their pension benefits and since April 2014 a statement of the actual benefits contained in their pension account. The Statutory deadline is 31st August following the year-end. The deadline used to be 'by the following 31st March' and although we were sending statements at the time there wasn't a Statutory requirement to even issue statements around the time of our last review.
5. Reconciling contributions on an annual basis means that when something goes wrong we don't find out about it for up to 13/14 months. We already know from our employer SLA performance reports that required data is sent to us later than it should be and that some of that data is only ever sent because we have identified it as missing through year-end reconciliation work. In other words doing the job annually means that we storing up all the problems to the year-end and by doing so giving ourselves a maximum of three months to reconcile, clear problems, run processes, submit print-files and deliver 50,000 statements.

Time and resource are the major barriers to the current approach. In 2016 we were able to issue 94% of annual statements by the Statutory deadline and the remainder were issued by the end of October. We did not have to report a breach to the Pensions Regulator as the 6% not issued were not material but the achievement still came at a cost. In order to meet the deadline we had to stockpile non-priority work which has created backlogs that aren't yet cleared despite us having staff working overtime regularly throughout the summer and this is continuing. This cycle repeats from April 2017 when the 16/17 annual returns start to arrive unless there is a change of approach.

The obvious solution is therefore to shift from annual to monthly reconciliation which at a stroke resolves all the time issues explained above. It is so obvious you may wonder why it has taken until now to raise the issue but the fact is that the technology to achieve a monthly reconciliation for over 50,000 member contributions has only recently become available. In achieving change the system needs to be able to take out a lot of the manual processes to be able to compress all the checking we currently perform over a number of months into a regular and efficient monthly cycle. This could not have been achieved under our old system but is already successfully in operation on UPM by our colleagues in West Yorkshire. They commenced rolling out their annual statements in May this year as a result!

To achieve monthly reconciliation employers will be required to upload secure monthly files which will contain significantly more information than we currently require but that is readily available from their payroll systems. That information will alert us to new starters and leavers and provided they are entered on the payroll in a timely manner it will mean that failing their SLA performance targets will become a thing of the past. New Starter forms will no longer be necessary and data received in this way will automatically be uploaded to our database just requiring sense checks instead of manual loading.

4.2 Impact on Member Services

For many years our Pensions Officers have had multi-functional roles whereby, once through career-grade training, they undertake the full range of pensions administration duties and are therefore capable are dealing with the full range of member and employer enquiries and ensures we always have a selection of fully experienced staff to move into supervisory and managerial roles when they become available. This continues to be effective and well respected by the staff but in recent years their ability to provide the full range of services to scheme members has been compromised by having to be pulled away for project work. Initially this was related to the new system implementation and that was a temporary diversion but this year there was a real temptation to create a permanent internal team to work solely on the annual reconciliation. This would have resulted in the creation of a single purpose team from existing pensions officers. In the end we opted for a different solution that was successful to a point but having backlogs of work is not a healthy place to be and it is only a matter of time before our staff succumb to the stress of a never-ending cycle. As mentioned above this cycle will repeat from April 2017 and it is clear that regardless of whether or not we shift to monthly reconciliations the task has to be undertaken by staff who are focused on that task alone and not responsible for a range of other duties.

For all the reasons explained so far and regardless of which way we approach it additional staff resource is required to enable us to consistently meet the statutory deadlines for annual statements and return to our supremely high levels of customer service and performance results. Simply adding more staff though may not have the desired effect. It currently takes between four to six years for a pensions officer to be fully trained and we simply haven't got the time for this. An alternative approach is available however and the following paragraphs explain the proposed solution along with other restructure options that are necessary at this time.

5. Restructure Proposals

5.1 Data Team (4 additional posts plus internal restructure)

This is the key to the whole restructure. Cracking this particular puzzle unlocks everything that follows. As already described the current way of dealing with contribution posting and reconciliation is not sustainable. Statutory timescales are too demanding, the number of employers are too many and growing and the way we deal with it is archaic.

The plan is therefore to reduce the number of Member Services teams from four to three but to distribute the current Pensions Officer numbers amongst them. This will free up a Team Manager and a Deputy Team Manager to head up a Data Team that will be responsible for all aspects of contribution posting and reconciliation.

The team will include four Data Analysts **additional to existing resources.** These posts will have a single function and will be a fixed grade. They will be trained in this single function only and only require a basic knowledge of pensions. This will result win them being functional and of benefit to the unit within a short period from appointment. Despite the fixed salary I am intending to aim high and wide with this recruitment to get the best staff we possibly can.

For the Manager and Deputy of this team this is a great opportunity to develop working practices and mould a brand new team into an efficient and productive unit. This is something completely new and will not stand still for long. We'll have the annual returns for 16/17, a trial using current monthly returns in 17/18 and then UPM monthly returns from 18/19.

The Contributions Team will be part of Member Services and therefore will report to the Pensions Manager. The team will work closely with colleagues in Finance responsible for ensuring actual payments are received and consistent with the funding plan for each employer. Although there aren't many LGPS Funds currently reconciling contributions on a monthly basis I can confirm that the number of staff that we require to perform the task for a fund our size is consistent with those that are. The remaining Member Services teams will be equalised as near as possible in staff numbers, employer numbers and members served.

Importantly, after the 16/17 returns have been completed, Pensions Officers will no longer have any direct involvement with contribution and reconciliation. However, as always, there still needs to be close cooperation between all teams to ensure the most positive outcome for the scheme members we serve. By removing these duties but keeping Pensions Officer numbers the same the intention is to give them adequate time to complete casework and achieve performance targets whilst still leaving time for member phone calls, difficult cases, visitors, training etc. Once the backlog is cleared there will no longer be a requirement for overtime and further backlog situations will not arise.

5.2 Performance Manager (internal restructure)

This is a new role but not an additional post. It is positioned in Member Services and reports direct to the Pensions Manager. This senior manager role will be responsible for ensuring that we meet our performance targets and that work is processed according to the number of staff available on any given day. This will be achieved by dynamically taking account of sickness, leave and other work commitments of the available staff. This post will also be responsible for ensuring co-operation and consistency of approach across the three Member Services teams and have a pivotal role in engaging with employers to get the best out of them. The post holder will also be directly responsible for providing performance reports and ensuring compliance with the Pensions Regulators code of practice. This is a challenging and demanding role but something we have been in need of for a number of years.

5.3 UPM Team (1 additional plus internal restructure)

Very soon after the implementation of UPM we recognised that we needed to have an internal resource responsible for its upkeep. We specified our requirements using existing resources and moved staff into position within our current Technical Team.

Through no fault of their own the UPM team have had more work than they can cope with. UPM is not a system to quietly sit in the corner and function and unfortunately we didn't know this during procurement as it was not made clear to us by the existing users we spoke to at the time. This issue has been recognised by internal audit who recommended a review of UPM team staffing in their recent UPM post implementation audit report along with their thirteen other recommendations.

Although no reflection on the performance of the staff involved positioning the UPM Team within the Technical Team has not worked out. There has been simply too much to do from both a UPM and a Technical perspective and therefore the effectiveness of both areas of work has been diluted to the point where we are barely getting by on both fronts.

The plan is therefore to transfer responsibility for the UPM team to IT under the management of the IT Manager but bolstered by an additional two posts. The first new post **is additional to the current establishment** and will be the UPM Manager.

The UPM Manager is an important new role that will take charge of the UPM team, oversee the development of our vision of UPM and provide comprehensive staff training. The post holder and the team will be expected to provide a customer service to all UPM users and will hold user meetings and forums to ensure our user experience of UPM meets their expectations. The UPM Manager will also challenge Civica as and when required to ensure they deliver on their responsibilities as the supplier and developer of our system.

The second post, from existing resources, will increase the number of UPM specialists from two to three. The intention is that each member of the team specialises in an area i.e. Process Maps, Bulk Processes and Reporting, Deliveries, Calculations & Training but all will have to learn and deliver aspects of their colleagues' tasks as well. This will ensure they can provide support to each other at busy times but also provide resilience to cover holidays and other absences.

5.4 Technical, Compliance and Internal Training Team (internal restructure)

The Technical Team will give up UPM related duties but will pick up taxation, compliance and internal training and the team will be expanded. During the last few years pensions taxation has become challenging given the complexity and the high profile personnel it tends to affect. This area shows no signs of abating nor does the Pensions Regulators oversight of the scheme and our responsibility to report material breaches of their code of practice. The plan is therefore to add a further post from existing resources and to take the opportunity to move the Senior Training Officer role into the Technical Team from where it currently sits within Communications as it is better situated within the team responsible for putting out technical guidance.

These two roles will share the same amended job description which will include equal measurers of Technical, Compliance & training.

5.5 IT (internal restructure)

In order to complement the arrival of the UPM team and respond to the changing external customer base both within and external to the building the remainder of IT will also be reorganised.

The plan is to reduce the number of Assistant IT Managers from two to one with a consequential increase in responsibility for the remaining member of staff. The existing Assistant IT Manager (IT Services) post will be re-designated as Helpdesk & Services Manager and will be a lower graded post. The existing post-holder will have her pay protected until she fully retires towards the end of 2017. The post has been job-share since the current post-holder flexibly retired but we never filled the remaining hours. As we no longer require these hours the post will be re-designated as part-time and the additional hours removed from the establishment. The Helpdesk Manager will ensure all helpdesk logs (inc UPM logs) are managed and progressed in a timely manner.

We are also taking the opportunity to increase the Network Officer's responsibilities to provide additional resilience and support to the assistant IT Manager and to adjust the hierarchy of the Development Officers to better reflect changes in the work they perform.

5.6 The Districts (internal restructure)

Line manager responsibility will transfer from the Head of Pensions Administration to the Pensions Manager. This is the next logical step following a decision I made last year to step back from monthly meetings with the Pensions Services Managers in favour of a joint Pensions Services Manager/Team Manager meetings. This initiative has been a success and having the Pensions Manager responsible for all staff responsible for servicing members makes sense.

As this is a fundamental review I am planning to take the opportunity to amend the job descriptions of the District Managers and their Deputies to include responsibility for all other scheme employers in their geographical area rather than just the district council which they currently serve. However this is to recognise the direction of travel rather than it being an actual possibility for most if not all of the current post-holders at this time. The job description will reflect the future requirements of the role so we can easily switch into it as appropriate and allows for some districts to go ahead of the others without the need for temporary solutions. If we achieve our monthly posting aims I envisage all districts will be working fully to the new job descriptions by April 2020 at the latest. Once fully implemented this would reduce the annual costs for this service currently charged across the four district councils as it would be charged proportionately across all the employers geographically based within South Yorkshire instead.

5.7 Payroll (internal restructure)

Since the implementation of UPM there has been by necessity a closer working relationship between the payroll team and our finance team managed by the Head of Finance. Equally payroll has always had a close relationship with Member Services and the link to Pensions Administration has been in place since payroll was transferred from the Joint Secretariat many years ago.

The dilemma of which way to go has been resolved by agreeing to reducing the Payroll Manager post from five to three days per week and aligns with the current post-holders request to work three days per week and therefore the post becomes part-time not job-share. By implementing this it enables us to split the Payroll and Administration functions as the current post-holders three days will be all payroll related and therefore transfer of line manager responsibility from Pensions Manager to Head of Finance can easily be accommodated.

5.8 Communications, External Training & Administration (internal restructure)

Administration & HR will now report to the Communications Manager and as soon as possible will be situated in the same area. In addition to her existing role which is unchanged the current post-holder will provide pensions and general support to Admin staff and Ill Health process support to the Personnel Officer.

5.9 A proposed structure chart is attached along with the current structure to enable comparison.

6. Implementation

6.1 If approved the intention will be to implement the plan as far as possible by 1st April 2017. This is an extremely tight timescale especially since external appointments are required but the timing has been set to ensure the maximum beneficial impact on the 2016/17 contribution reconciliation and the early trials of monthly posting of 2017/18 contributions.

6.2 In addition to the new posts all existing posts below senior manager level will be evaluated to take into account any changes that have taken place since the last formal evaluation in 2008. This will take in the new internal posts created by the review and will be a no risk review as no jobs have less scope or responsibility than they had under the previous evaluation. Job descriptions and person specifications are currently being produced for all new posts and are being reviewed for existing post-holders. Hay Group undertook the last evaluation and therefore already have an understanding of our business and the roles and responsibilities within our current structure. Given their history of working with us and the urgency Hay Group have been queued to perform this review during December providing the plan is approved. The cost of the evaluation will be financed from existing budgets.

7. Finance

7.1 The estimated cost of the plan is £170,000 per year. This includes the addition of **five** posts to the establishment plus some internal upgrades as indicated. The internal movement of staff to fill the internally created jobs would then release a number of posts that would be required to be recruited externally. This would take us to full establishment. The breakdown of the potential costs is itemised as follows,

Cost of additional establishment posts	£130,000 pa
Potential cost of upgrades	£40,000 pa

7.2 The potential increase in staffing costs would increase our overall administration costs charged to the fund. However this would not have a financial impact on the employers within the fund until the 2019 valuation with their new contribution rates from 1st April 2020. The administration charge from the current valuation is 0.4% of pensionable payroll and all things being equal the actuary has estimated that an increase in costs of this magnitude is unlikely to increase this beyond a further 0.01%.

7.3 Members will be aware that overtime working has been the norm since January 2015. Initially the overtime was required as a result of the implementation of UPM but latterly it has been as a result of the decision taken to prioritise the production of annual statements which has created a backlog of work. The annual spend on overtime is predicted to be £65,000 but would be eliminated if the plan were to be approved. The target is to clear existing backlogs before the 16/17 annual returns start to be released and if this is achieved no overtime is predicted in 17/18.

7.4 If approved the cost of the plan would not jeopardise our ‘below average cost’ rating on the CIPFA benchmarking survey. Had we added £170,000 to the budget in the 2016 survey our cost per member would have increased from £15.87 to £16.96 which is still comfortably below the club average of £18.58.

7.5 The cost of any system changes in relation to monthly posting is as yet unquantifiable but we are comfortable that it can be financed from IT development reserves when required and so will not add to the costs indicated in this report

8. Implications

1. **Financial** - The staffing budget will increase by approximately £170,000 per annum and has been included in the budget forecasts presented at today's meeting.

2. **Legal** - None

3. **Diversity** - None

4. **Risk** – None

Officer responsible:
Gary Chapman
Phone 01226 772954
E-mail: gchapman@sypa.org.uk

Background papers used in the preparation of this report are available for inspection in the Administration Unit

.