Report of the Section 151.Officer
Local Pension Board – 14th December 2016

FUNDING FORTHE RESTRUCTURE OF THE PENSION SECTION

Purpose:	The report outlines plans for the restructure of the Pension Administration Section.
Report Author:	Lynne Miller – Principal Pensions Manager
Finance Officer:	Jeff Dong – Chief Treasury & Technical Officer
Legal Officer:	Stephanie Williams
Access to Services Officer:	N/A
FOR INFORMATION	

1.0   Background

1.1   Pension administration was last formally reviewed in 2009, when the section's staffing compliment was increased from 11 to 16 full time equivalent members.

1.2   Minor sectional readjustments were effected in 2012 and 2014 which has resulted in the loss of 3 full time equivalent staff, in anticipation of the efficiencies anticipated through IT investment. In addition, there is currently 1 additional temporary member of staff (appointed from May 2015 to March 2018) to deal with the reconciliation exercise as a result of the cessation of contracted-out status from April 2016, which is funded separately through the Pension Fund.

1.3   The staff structure from 2009 and current structure after the adjustments above are shown in the attached appendices 1 and 2.

1.4   While the initial increase in staffing numbers in 2009 was both welcomed and a necessity in equal measure, the national pensions' arena has recently undergone and continues to go through a period of very significant change. A number of key developments are changing the shape of public and private sector pensions and this in turn is impacting on the delivery of core services in respect of the Local Government Pension Scheme (LGPS).

The introduction of the new LGPS 2014 has presented significant challenges, as it did not simplify the Regulatory regime but instead created a hybrid where new requirements were introduced but the need to maintain previous versions of the LGPS Regulations in parallel still remain.

This, along with the advent of automatic enrolment, increasing governance requirements for LGPS funds and other high level changes has resulted in an increase in workload which is also of higher technical complexity as well as the need for more stringent reporting and higher levels of accountability.

1.5   In conjunction to the above, the workforce profile of the pension section dictates that an element of succession planning is appropriate and indeed is required to ensure continuity of service delivery into the future. Experience is vital across the section and examination of the existing maturity profile only emphasises the need to more appropriately plan for the future given that 50% of staff are aged 50 and above, the majority of which are in senior positions within the section with long service and experience in the pensions administration environment.

1.6   This report sets out proposals designed to ensure that the section is in a position to effectively deal with the current challenges as well as position it for the future. The aim is to restructure the section; taking advantage of the technology investment already in place to increase consistency and efficiency of process and improve productivity further as well as ensure continuity of service delivery.

The proposals are considered necessary in the context of increasing demands and complexity around pensions, the increased expectations of all stakeholders and statutory national requirements.

2.0   Review of current structure

2.1   The pension section was last formally reviewed in September 2009.

2.2   The main proposals in that report were designed to:

- Address increased sectional workloads and legislative changes
- Enhance use of available technology with derived efficiencies
- Review communication requirements to meet growing member and employer demands
- Address staff training and development requirements
- Ensure the maintenance of a stable and accurate membership database
- Provide the capacity to deal with large scale ad hoc events
- Review job descriptions and current staffing resources.

2.3   The 2009 review approved the addition of 5 staff as follows:

- A dedicated Technical Officer to maintain the IT system and undertake specific work allocations - testing new legislative upgrades and reviewing cyclical work areas as well as the responsibility of production of valuation extracts and management reports.

- A dedicated Communications and Training Officer to address the statutory demands of communicating the LGPS and provide education and training to all the Fund's stakeholders.
- 3 additional Assistant Pension Officers to help address the data quality issues that had been raised at that time.

2.4   Whilst initially the additional staff, along with IT investment, addressed the increase in sectional workload identified and the impact of legislative changes at that time, the subsequent section readjustments in the interim period, along with the technical complexity of LGPS 2014 and other major legislative impacts such as automatic enrolment, 'freedom and choice' and the Public Services Pensions Act 2013, which have resulted in increased governance and regulatory compliance, have eroded any benefit gained and has resulted in the section once again under pressure and struggling to maintain the level of service it strives to provide.

Automatic enrolment and subsequent re-enrolment has added its own challenges with sudden influxes of new members on a triennial basis, many of whom may elect to opt out, which increases the work load of the section.

2.5   The formal appointment of a Communications and Training Officer in 2009 has achieved a consistency in Scheme communication and ensured that statutory requirements are met as well as providing education and training to the Fund's stakeholders.

The Communications and Training Officer has been able to provide dedicated education and training for section staff, employers and members in respect of the major changes to the LGPS since 2009, including LGPS 2014; changes to HMRC tax allowances and the cessation of contracting-out. In addition, the Fund benefits from collaboration with other Welsh Pension Funds to provide shared communication material on an All Wales basis thus reducing costs and ensuring a consistent approach.

The Communications and Training Officer is also responsible for the designated pension fund web site which has the potential to significantly improve communication with both members and employers and also act as a training tool. It should be noted though that time needs to be devoted to the development of its potential due to the rapidly changing environment and other statutory requirement such as Welsh   Language compliance.

2.6   The 2009 review raised concerns relating to succession planning as well as referring to a Welsh Pension Fund Treasurers report which commented that no formal training and development programme was in place within Swansea.

This has been partially addressed as there are now 4 members of staff fully qualified or currently studying the Chartered Institute of Payroll

Professionals' (CIPP) Foundation Degree in Pension Administration and Management and another member of staff qualified at certificate level.

In addition, there are training plans in place for each grade with ad-hoc training undertaken by the pension arm of the Local Government Association which is supported in-house by the Communications and Training Officer and *aquilaheywood* in respect of the pension administration system. In-house corporate training is also utilised wherever a training need is identified and all staff from grade 7 and above have undertaken the Corporate Developing leadership and management skills course.

2.7   Nevertheless there remains over 50% of the section without any formal qualifications in pension administration. This is mainly due to the longevity of service of many of the staff within the section as well as the age profile of staff.

The knowledge and skills requirements for Pensions are now enshrined in a code of practice and best practice guidance , therefore, the issue of professional qualifications and continued personal development needs to be given greater emphasis, not simply to provide staff with the tools necessary to deliver a service within an ever-changing and technically complex environment but also to protect the pension fund with its statutory responsibilities as an administering pension fund authority as well as provide succession planning. It is proposed that all future permanent appointments, whether new appointments or promotions from within the section emphasise the expectation that a formal qualification will be undertaken and the Section's budget is re-profiled to ensure an adequate training budget exists .

2.8   The review of job descriptions in 2009 resulted in grades remaining unchanged at the implementation of job evaluation and single status, with the exception of the Pensions Manager whose grade was increased by one.

2.9   Swansea Pension Fund continues to be a member of the CLASS' (Computerised Local Authority Superannuation System) consortium which is a partnership between *aquilaheywood* (the software provider) and the majority of LGPS Funds.

A major upgrade to the Pensions Administration system commenced in 2009 and was fully implemented by 2013. This has provided the benefit of using a stable and well supported software system which allows for fully integrated product enhancements that are deliverable at a far lower cost than otherwise would be the case.

Currently, in addition to the main administration system, the Fund also utilises an imaging system and workflow system, although the workflow system is currently being reviewed by *aquilaheywood* to further meet the needs of the consortium and regulatory reporting requirements.

2.10   In 2015, the Fund also implemented a self-service system (My Pension Online) which allows Scheme members to view and make minor amendments to their records as well as calculate projections of pension benefits. Currently there is just under a 10% take-up of active members and therefore it is seen as priority to expand promotion of the self-service facility over the next year with the aim to provide annual benefit statements electronically from 2018, thus saving on printing and postage costs.

2.11   Perhaps the most far-reaching IT enhancement has been the implementation of i-Connect which allows for the automation of transfer of member data from employers' payroll systems to the pensions administration system on a monthly basis, thus reducing the need for manual inputting; reducing the workload of end-of-year reconciliation and ensuring the maintenance of a stable and accurate membership database.

Currently, the data is automated for 91% of the Fund membership and the section is working with the remaining employers to achieve 100% automation which includes the monthly updating of members' records thus holding member data in as real-time as possible and streamlining procedures for setting up new members and ensuring any changes to membership details are notified in a timely manner.

This, however, can only be achieved for current and future changes and historic amendments which have not been notified by employers remain undetected until either a member notifies the section of the error on their record or the member leaves or retires, when a full perusal of the member's record is undertaken to ensure an accurate calculation of the benefits accrued. Considerable resources would be required from the Pension Section and employers and therefore currently, there are no recommendations to address this issue.

2.12   A Technical Officer was appointed as part of the 2009 review to lead and develop IT. In 2014, the job profile of an Assistant Pension Officer was amended to Assistant Technical Officer in order to provide assistance to the Technical Officer and prepare for succession planning.

These roles have proved successful with a huge development in the section's IT structure and have role become increasingly busy as the section embraces technology; however, it is also identified that in some cases development has been delayed or deferred due to demands on the Technical Officer in respect of his shared responsibility with the Communications and Training Officer with regard to the supervision and management of the section and support of the Pension Manager in operational delivery of pension administration.

In addition, the age profile and expressed early retirement interest of the current Technical Officer provides an opportunity to realign the post to meet the needs of the section.

3.0   Gap Analysis

3.1   It is recognised that initially, the review in 2009 was appropriate and dealt with the issues raised at that time; however, as stated previously, the loss of staff in the interim period, along with the introduction of an extremely technical and complex scheme and increasing governance requirements has led to vulnerability within the Pension Section concerning its ability to meet statutory obligations and consequent deadlines including:

- The provision of information and payment of benefits to Scheme members and other stakeholders under the Disclosure regulations
- The monitoring that members' benefits are HMRC tax compliant
- The provision of Annual Benefit Statements under stricter timescales
- The capacity to deal with large scale ad hoc events without impacting on 'business as usual'.

This leads to the risk of penalty notices from and possible intervention by the Pensions Regulator (tPR).

In addition, the advances made in technology have changed the profile of how work is undertaken within the section and that, along with the change of administration procedures as a result of LGPS 2014 would make it appropriate to review the structure of the section to ensure efficient deployment of staff.

3.2   Pensions are universally accepted as being technically complex and highly regulated where the level of change has been significant over the past decade and more, affecting all areas of Fund administration and shows no sign of diminishing. It is of note that currently 4 LGPS arrangements are locally administered covering:

- LGPS to 2008
- LGPS 2008
- LGPS 2014 (main scheme and 50/50 section)
- Elected member arrangements

With the exception of the elected member arrangements, the other LGPS arrangements are not stand-alone but form a hybrid scheme with the introduction of the new LGPS 2014 CARE Scheme and the requirement to maintain previous versions of the Final Salary LGPS Schemes in parallel.

3.3   The practical administration of the LGPS as a consequence of the implementation of LGPS 2014 and the Public Services Pensions Act 2013 (PSPA 2013) has become more technically complex resulting in increased time per case required thus making the workload heavier for pension section staff, which, along with the complexity leads to the risks identified above. It is already impacting on staff as sickness levels have already risen by 81% for the current year compared to 2015/16, with just over 20% of the sickness being stress related.

For example, prior to LGPS 2014 and PSPA 2013, if a new member had previous local government membership the choice was simply whether or not to aggregate the two periods of service. The advent of the new Scheme with the retention of the Final Salary link and PSPA 2013 now provides the member with at least 8 options and usually results in considerable time explaining the options to the member or complete member disengagement. This work is currently allocated to the Grade 4 Assistant Pension Officers who have neither the expertise nor experience to deal with such complex cases.

This is just one example of the increased complexity and cases such as these, along with an increase in member expectations due to increased awareness of pensions have all added to the complexities and the additional time required to carry out not only the core administration but to also provide the necessary advice and guidance to employers and scheme members. Further examples of increased complexity and/or additional governance requirements are contained in Appendix 3.

3.4   Scheme membership volumes have increased by 33% since 31/03/2008 (see Appendix 4), when membership was analysed for the 2009 restructure. However, this does not represent the full picture as the membership profile includes large number of part and variable time members (currently 52% of active membership base) and members with more than one membership record, which have more resource demands than a stable full-time officer member. Although IT enhancements have assisted with this issue they cannot fully address it, therefore there is still a requirement for manual intervention and member engagement.

This, along with automatic enrolment and the continuing high profile of pensions, has resulted in high membership movements covering new starters and movements to deferred or pensioner status, significantly increasing sectional and individual workload allocation. In 2015/16 this affected 6206 records which represent approximately 15% of the whole Fund compared to 3480 (10.29%) in 2012/13 before the advent of LGPS 2014 and automatic enrolment.

3.5   In order to consider the proposed change, an assessment of duties was undertaken followed by a gap analysis (Appendix 5) comparing the current standards and work tasks with what still needed to be achieved.

4.0   Benchmarking

4.1   CIPFA Benchmarking assess that the "norm" is now about 3,500 members per member of staff on core duties, which allows for the efficiency associated with IT investment. 10 members of the Pension Section are considered working on core duties which equates to 4,114 members per member of staff.

4.2   Taking account of the CIPFA benchmarking, this would suggest increases of 1.75 staff are required.

However, as many of the Fund's smaller employers are just starting to implement automatic enrolment and that a large influx of membership is anticipated after 30/09/2017 when the transitional arrangements, enjoyed by both the City and County of Swansea and Neath Port Talbot CBC, to defer enrolment of existing staff not already in the LGPS ends, the proposal is to increase existing staff by 2 FTE and realign the deployment of existing staff to meet the modern-day demands of pension administration.

Any cost associated with these proposals would fall to the Pension Fund rather than the Revenue Account of the Council.

4.3   A comparison against other Welsh Pension Funds has also been made using SF3 data for 2015/16 which shows that the Fund is competitive in terms of cost per member, although it ranks high in the ratio per member (against the total number of pension staff).

Fund	Total LGPS membership at 31/03/2016	Number of Pension Staff	Ratio per Member (total Pension Staff)	Administration Costs £	Cost Per Member £
Torfaen	55481	25	1:2219	1,131,000	20.39
Swansea	40440	14	1:2889	882,000	21.81
Cardiff	37995	11	1:3454	912,000	24.00
RCT	65830	26	1:2532	1,803,000	27.39
Dyfed	44182	17	1:2599	1,213,000	27.45
Gwynedd	34694	15	1:2313	1,185,000	34.16
Clwyd	37,898	22	1:1722	1,390,000	36.68
Powys	16416	8	1:2052	906,000	55.19
E & W	5,396,477	1,781	1:3030	138,503,000	25.67

4.4   Including the maximum additional salary costs that would be incurred (after 3 years), the additional administration cost of, £90,608 which equates to £2.24 per member, would still make the Fund well-placed amongst colleague Funds at £24.05

4.5   It should also be noted that the average cost per member for all LGPS Funds in England and Wales is £25.67 with a ratio of 1:3030 member per member of staff and therefore the Fund is also well-placed nationally.

5.0   Proposed Structure

5.1   In considering the proposed changes, the following key principles have been considered:

- Efficiency and effectiveness of the service provision.
- Meeting the demands of regulatory change
- Succession planning, including the need to address the potential shortcomings in the future of the sectional workforce profile.

- The need for staff to adapt to new technologies, processes and new ways of working
- Current team structure can be slightly rigid preventing sufficient flexibility and workflow balance
- Generic working rather than specialists within a new benefits team
- The introduction of a pensions support team to optimise the use of IT to meet new methods of service provision and regulatory requirements
- A more appropriate spread of workload at senior levels

5.2   It is proposed that if the funding is approved the new structure would be implemented from 1st April 2017. The proposed structure is set out in Appendix 6, with an outline of the functional duties set out in Appendix 7. This, however, may be summarised as follows:

- The amendment of the Communications and Training Officer to Deputy Pension Manager (with Communications & Training) (from Grade 8 to Grade 9) to reflect the increased supervisory responsibility due to the amendment to the current Technical Officer responsibilities and realign the role to allow for succession planning.

  At present the Pension Manager grade is three and four grades above the nearest grades that can be considered for succession planning and while it cannot be assumed the a successor will be appointed internally it would be detrimental to the section if personal development of this nature was not in place.

- The creation of a Technical Team consisting of the Senior Technical Officer (Grade 8), Technical Officer (Grade 6) and two Pension Support Officers (Grade 4) (formerly Assistant Pension Officers). The amendments to the current structure would be:

  - At present, the Technical Officer has a shared responsibility with the Communications and Training Officer with regard to the supervision and management of the section. This is obstructive in the development of IT within the section and therefore it is proposed to remove this element and re-align the responsibilities to be more IT development focussed. In order to keep consistency of hierarchy, it is also proposed to rename the job title as Senior Technical Officer.

  - The amendment of the Assistant Technical Officer's grade from Grade 4 to Grade 6 to allow for more utilisation of skills in the post as well as working towards succession planning and re-name the job title to Technical Officer.

  - The two Pension Support Officers would mainly be responsible for the quality of membership data, dealing with the output from i-Connect as well as general administrative duties and would be coached in ground-level pension administration with the view to be

advantageously positioned for promotion to a Pension Officer (Grade 6) if a vacancy became available.

- The creation of a new Benefits Team structure consisting of 3 Senior Pension Officers and 6 Pension Officers. In amending the current structure, the Pension Officers would work generically on a cradle to grave basis, dealing with all member requirements to increase flexibility of resources. This would require the following resource adjustments:

  - One additional post as Senior Pension Officer (Grade 7). This post was deleted in March 2014 due to the member of staff taking ER/VR; however, LGPS 2014 and other new statutory requirements has highlighted a lack of resource in this area which results in a persistent backlog of work, resulting in detriment to service provision.

  - One additional Pension Officer (Grade 6) to allow generic working on a cradle to grave basis, dealing with all membership requests and increasing flexibility of resources as well as providing a good basis for succession planning.

  - The deletion of one Assistant Pension Officer (Grade 4) to be replaced with a further additional Pension Officer (Grade 6) as above

5.3   If the funding is approved, close monitoring will be required to ensure the objectives of the restructure are met. In assessing the benefits of these changes, it will be necessary to examine the following areas where the potential benefits of these proposals have been identified:

- Increasing customer service standards and expanding customer expectations as part of the core service
- A structure geared to meeting the administration and governance demands of the LGPS and other statutory requirements
- An increased flexibility to meet new ways of working and assist in dealing with large scale ad-hoc events
- Improved allocation and more effective deployment of staff to the benefit of benefits administration, data integrity, communication and IT developments.
- An improved focus and development of IT
- Improvement clarity in line management and sectional reporting
- Improved succession planning in the context of the workforce profile

5.4   If the funding is approved, job descriptions, will need to be reviewed and grades need to be ratified by the Job Evaluation team. Staff consultation and a slotting and matching exercise will then be completed by current Pension Section staff. Appropriate staff will be slotted and matched into posts and any vacant posts would be ring-fenced to current pension staff

and competitive interviews arranged. Any resulting vacant posts would be liaised with HR regarding recruitment/re-deployment.

6.0   General Issues

6.1   There are no other variations proposed.

7.0   Equality and Engagement Implications

None

8.0   Financial Implications

8.1   Calculated at the maximum additional salary costs that would be incurred, the additional administration cost would be £90,608 which equates to £2.24 per Fund member.

8.2   Any cost associated with these proposals would fall to the Pension Fund rather than the Revenue Account of the Council.

9.0   Legal Implications

9.1   The legal implications are outlined in the report.

Background Papers: None

Appendices:

Appendix 1: Pension Section structure 2009
Appendix 2: Current Pension Section structure
Appendix 3: Examples of increased complexity/shortened timescales
Appendix 4: Comparison of membership data 2008 to 2016
Appendix 5: Gap analysis
Appendix 6: Proposed structure
Appendix 7: Outline of proposed duties