

**The London Borough of Havering
Pension Fund**

Local Government Pension Scheme

Charging Policy

September 2014

V0.1

Document Control

[This should include document details, version history, approval history, and equality impact assessment record.]

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Lead officer	<i>Karen Balam</i>
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V0.1	<i>1st draft</i>	<i>21/08/2014</i>	<i>Legal, HR, Finance, Equalities Unit, Policy and Research Group, Pension Committee</i>
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Equality Impact Assessment record

Date	Completed by	Review date
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1. Introduction

Purpose

In recent years there has been a significant increase in the amount of fees the Fund spends on legal and actuarial work, largely as a result of an increased number of employers joining, leaving and changing their status within the Fund and the subsequent effects of this.

These fees can be spread across all employers, proportionately to their size, although the activity tends to be the result of decisions made by a small number of employers. Alternatively, these fees can be charged directly to the relevant scheme employer directly.

This policy aims to set out that charges should be met by the relevant scheme employer directly rather than the escalating cost be met by all scheme employers on behalf of the few employers who are consuming the actuarial and legal services.

Pension Fund charges are set out within the Local Government Pension Scheme Regulations 2013 and The Pension Regulator (TPR).

Policy summary

A clear and concise guide to what charges may arise for Scheme Employers and which Scheme Employer will be responsible for which charges.

Scope

The policy covers all costs arising from the actuarial services provided to support Scheme Employers in delivering their legislative responsibilities.

Timescales

The policy is applicable on an on-going basis until updated or reviewed due to legislative, regulatory or audit requirement change.

Aims, objectives and outcomes

The aim of the policy is to deliver value for the members of the Havering Pension Fund, which will help to deliver customer satisfaction with the Council by helping to deliver spend within budget.

2. Policy

Background

In recent years there has been a significant increase in the amount of fees the Fund spends on legal and actuarial work, largely as a result of an increased number of employers joining, leaving and changing their status within the Fund and the subsequent effects of this.

These fees can be spread across all employers, proportionately to their size, although the activity tends to be the result of decisions made by a small number of employers. Alternatively, these fees can be charged to the relevant scheme employer directly.

A charging policy has been approved by the Havering Pension Fund Committee that sets out the charging policy to cover these specific costs in relation to the Local Government Pension Scheme (the Scheme), which is administered by the London Borough of Havering (the Administering Authority). Costs that currently apply, as set out in the Funding Strategy Statement, are also included.

This charging policy will be applied to all new instructions from (to be agreed subject to the Pension Committee and employer consultation).

Cost chargeable to the Fund

Bespoke Costs

Bespoke work directly related to a Scheme Employer will be recharged to the Scheme Employer on a case by case basis. Where such work is commissioned by a Scheme Employer a quotation will be provided in advance of any agreement to carry out the work. Bespoke work may be carried out if staffing resources are available to carry out the work required.

Standard Costs

Most costs of the Fund will continue to be charged by the Actuary proportioning them to all employers, based on size, as part of the Triennial Actuarial Valuation exercise. These are then picked up by employers through their employer contributions. We already consider these costs to be spread across by employers in a fair manner and therefore this method will remain unchanged.

Examples of costs included in this category:

- Governance costs

- Benefits administration

Payroll processing for pensioners
Actuarial fees associated with completing the triennial valuation
Investment management costs (where not netted off the fund values)
Audit Fees
Most other administrative work and officer's time

However, some costs are more specific and are incurred as a result of the decision and actions of a particular employer. It seems only fair that these should be paid by the employer who generates them, rather than being shared across all employers. An indication of the fees and charges will be provided on request, and Scheme Employers are encouraged to contact the Pension Administration team at the earliest opportunity before taking any action that would give rise to the situations that would give rise to charges, as set out below.

Cost chargeable to the employers

Terminology

The following sections illustrate the costs that are chargeable and who pays them. Before considering the types of charges to be made, it is worth just establishing some terminology.

Two descriptors crop up which warrant explanation:

Transferor - This is the employer, often known as the 'Letting Authority' from which the staff originated before joining the new employer

Transferee - This is the employer which the transferring staff are joining

Several different categories of employers are also mentioned in the policy:

Scheduled Body - All 1st and 2nd tier Local Authorities, and Academy Schools, which include Free Schools and University Technology Colleges.

Resolution Body - All Town and Parish Councils

Admission Body –

(a) a body which provides a public service in the United Kingdom which operates otherwise than for the purposes of gain and has sufficient links with a Scheme employer for the body and the Scheme employer to be regarded as having a community of interest (whether because the operations of the body are dependent on the operations of the Scheme employer or otherwise);

(b) a body, to the funds of which a Scheme employer contributes;

(c) a body representative of— (i) any Scheme employers, or (ii) local authorities or officers of local authorities;

(d) a body that is providing or will provide a service or assets in connection with the exercise of a function of a Scheme employer as a result of—

- (i) the transfer of the service or assets by means of a contract or other arrangement,
- (ii) a direction made under section 15 of the Local Government Act 1999(a) (Secretary of State's powers),
- (iii) directions made under section 497A of the Education Act 1996(b);
- (e) a body which provides a public service in the United Kingdom and is approved in writing by the Secretary of State for the purpose of admission to the Scheme.

The 'employer type' shown in the left hand column of the tables below is the type of employer which is joining, leaving or changing status, **not** the type of employer who is causing the change, for example, by outsourcing staff.

Costs associated with new employers joining the Fund

Employer Type	Standard Actuarial Costs (Contribution rate, bond value report and sub-fund set-up report as relevant)	Standard Legal Fees (drafting and producing admission agreement and other legal queries)
Scheduled and Resolution Body	The new employer is responsible for these costs, unless they are a new employer as a result of a TUPE from a current scheme employer, in which case, the transferor* pays. However, all new academies starting from September 2010 will pay their own fees	Not applicable in normal circumstances
Admission Bodies	Transferor	Transferor

- See 'Terminology' above
- Note that costs will increase with the length or complexity of the query or report, and also due to delays in providing data, incomplete data, incorrect data or recalculations arising from amendments.

Costs associated with changes to continuing employers

Employer Type	Bond Value re-assessments (Actuarial Costs)	Bulk Transfers in and out of Havering Pension Fund (Actuarial Costs)	Bulk Transfers between two employers in Havering Pension Fund (Actuarial Costs)	Merger and Demergers within existing employers (Actuarial and Legal Costs)
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Scheduled Body and Resolution Body	Not Applicable	Transferor for transfers out of Havering Pension Fund, Transferee for transfers in	Transferor	Very unlikely in normal circumstances, please refer to Havering Pension Fund
Admission Bodies	Transferor – if transferor deems a bond assessment is necessary (subject to the Administering Authority Policy regarding bond revaluation)	Very unlikely in normal circumstances, please refer to Havering Pension Fund	Transferor	Very unlikely in normal circumstances, please refer to Havering Pension Fund

Costs associated with ceasing employers leaving the Fund

The Pension Fund will carry out a full cessation valuation for Scheme Employers leaving the Scheme to calculate the current surplus or deficit in relation to the Scheme Employer's employees. Costs associated with cessation will be recharged to the departing Scheme Employer as set out below.

Indicative reports to aid decision making by the Scheme Employer may also be provided and will be recharged to the Scheme Employer, as set out below.

Employer Type	Cessation valuation (actuarial costs)
Scheduled Body and Resolution Body	The scheduled body* or resolution body**
Admission Bodies	Transferee***

* It is unlikely this will happen as new staff in scheduled bodies have an automatic right of entry

** At present, this is unlikely to occur

*** It is normally the transferee but this may be subject to the Admission Agreement, bond, guarantor or indemnity

Note, contact the Pension Administration Team to request an estimate of costs. Also note, that costs will increase if there are delays in providing data, for incomplete data or incorrect data. Recalculations and amendments will also result in higher costs.

Additional tangible costs

Excessive costs in relation to new, ceasing or changing employers

Where administrative time by the Fund related to one of these situations exceeds what we deem "reasonable", these costs will also be recharged to the relevant employer in addition to the standard costs.

FRS17 Reports

The Fund has operated a charging policy prior to this more comprehensive one, at present this remains unchanged.

The FRS17/IAS19 reports are accounting reporting standards, the purpose of which is for employers to disclose/account for the total value of pension payments that have accumulated at an accounting year end. The disclosure is an employer's duty to publish and is not a cost for the Pension Fund to bear. Any officer time spent completing the data returns, to the fund's actuary, on behalf of the employers will be reimbursed. The rate is set at the start of the FRS17/IAS19 cycle and will be communicated to employers at that time and is in addition to the fees charged by the actuary.

Full details and estimated costs can be obtained by contacting Debbie Ford, telephone: 01708 432569.

Poor performance recharges

Where we consider that we have incurred additional costs (including officer's time) as a result of an employer's poor level of performance, regulation 70 of the Local Government Pension Scheme Regulations 2013 allows us to recover these costs. We have never used this power to date, although the details of where this regulation may be applied is set out below. You can also view the full Local Government Pension Regulations [here](#).

Circumstances where costs might be recovered as the result of poor performance

The circumstances where costs may be recovered from employers:

- 1) Persistent and on-going failure to provide relevant information (as determined by the Employer Information provided to all new scheme employers) to the Havering Pension Fund, scheme member or other interested parties in accordance within

specified performance targets, either as a result of timeliness of delivery or quality of information.

2) Persistent and on-going failure to pass relevant information to a scheme member or potential members, either due to poor quality or not meeting the agreed timescales outlined in the performance targets.

3) Persistent and on-going failure to deduct and pay over correct employee and employer contributions or any other payments due to the Havering Pension Fund within the stated timescales.

4) Instances where the performance of the Scheme employer results in fines or additional costs being levied against the Havering Pension Fund by the Pension Regulator, Pensions Ombudsman or other regulatory body.

5) For a persistent failure to resolve an isolated case(s) satisfactorily.

Calculation of costs incurred

For a persistent failure to resolve an isolated case(s) satisfactorily the Fund will recharge the cost of officer time from the point in time at which we write a formal letter to the scheme employer until the case is resolved. The rate applicable will be dependent upon the level of officer(s) involved in resolving the case and the time spent on resolution.

For persistent and on-going failure to meet targets, following intervention to assist the employer concerned, the Fund will recharge the additional costs due to the employer's poor performance at the relevant officer(s) cost and the time spent on resolution from the point of time that a formal letter has been issued to the scheme employer until performance improves.

Where the performance of the scheme member results in fines or additional costs being levied against the Fund, the Fund will recharge the full costs it has incurred to the relevant employer(s).

Late payment of contributions

In December 2013 The Pensions Regulator (TPR) issued draft code of practice no. 14 concerning '**Governance and Administration of Public Service Pension Schemes**'. Whilst this code of practice is currently in draft it is intended that all TPR codes of practice as they relate to Public Service Pension Schemes (of which the LGPS is one), will come into force from 1 April 2015. Of course, with the exception of the new LGPS that came into force from 1 April 2014, new statutory legislation governing all other public service pension schemes will come into force from 1 April 2015 in accordance with the Public Service Pensions Act 2013.

With this in mind action needs to be taken now to ensure that the LGPS meets the requirements of TPR's codes of practice as soon as possible and so an Employer's Contribution Guide will be published by the Administrative Team of the Havering Pension Fund.

With regard to the collection and payment over of contributions it should be noted that TPR has a number of statutory objectives including:

- To protect the benefits of pension scheme members;
- To promote and improve understanding of the good administration of work-based pensions; and
- To maximise compliance with the duties and safeguards of the Pensions Act 2008.

The Pension Regulator's Draft Code of Practice No.14 "Governance and Administration of Public Service Pension Schemes" sets out the legal requirements for maintaining contributions, with regard to what constitutes late payment, the following applies:

'140. Employer contributions must be paid to the scheme on or before the 'due date' (the date on which contributions are due under the scheme). Where employer contributions are not paid on or before the date they are due under the scheme and the scheme manager has reasonable cause to believe that the failure is likely to be of material significance to the regulator in the exercise of any of its functions, the scheme manager must give a written report of the matter to the regulator as soon as reasonably practicable.

141. Where employee contributions are deducted from a member's pay, the amount deducted is to be paid to the managers of the scheme within 19 days beginning on the day after the deduction is made, or within 22 days if paid electronically (the 'prescribed period').

142. Where employee contributions are not paid within the prescribed period, if the scheme manager has reasonable cause to believe that the failure is likely to be of material significance to the regulator in the exercise of any of its functions, they must, except in prescribed circumstances, give written notice of the failure to the regulator and the member within a reasonable period after the end of the prescribed period.'

Noting the regulatory requirements to come in from 1 April 2015, together with the Local Government Pension Scheme Regulations 2013 (Reg. 71), the London Borough of Havering will issue Scheme Employers with a written notice of unsatisfactory performance and notify them that they may be charged interest where that performance does not improve. An employer who continues to fail to meet the statutory requirement to pay employer contributions, employee contributions and employee additional contributions over to the Pension Fund by the 19th day of the following month (22nd of the following month if paid electronically) will also be at risk of being reported to the Pensions Regulator who has the power to issue fines.

Interest payable under Reg. 71 must be calculated at one per cent above base rate on a day to day basis from the due date to the date of payment and compounded with three-monthly rests.

Pension Strain Costs

Redundancy

A pension strain cost may be incurred and will be payable by the Scheme Employer where a member retires early on the grounds of redundancy or business efficiency; or where the employer exercises their discretions in such a way as to give rise to pension strain costs. Employer discretions include:

- Awarding additional pension,
- Waived actuarial reductions,
- Allowing unreduced benefits for early retirement over the age of 55 where the member satisfies the rule of 85.

The above issues should all be covered in the Employer Discretion Policy, as required by the 2013 regulations.

Where an employer makes certain decisions which result in additional benefits being paid out to a member, this results in a strain on the Fund. The cost of providing these additional benefits are calculated and recharged in full to the employer who made the decision.

Ill-Health Retirements

A pension strain cost may also arise due to ill-health retirements. Each Scheme Employer is allocated an ill-health allowance at the triennial valuation, or at the time they become a new scheme employer. The costs of ill-health early retirements for each Scheme Employer are monitored and employers who exceed their allowance will be invoiced for the excess cost. Information on ill-health insurance is provided to all Scheme Employers but it is currently their decision whether they take out the insurance. Employers should be aware that the pension strain cost of a tier 1 ill-health retirement can be significant, in some cases in excess of over £100,000. Scheme Employers should carefully consider the level of their ill-health allowance, the cost of the insurance (which does reduce their employer rate), and the risk of a tier 1 ill-health occurring.

Pension strain costs are based on actuarial factors relating to a number of aspects such as the members age, sex and scheme membership.

Please note that where the Fund pays out the lump sum payment or first pension payment late because we have not received the forms in sufficient time for them to be processed (i.e. one month and one year late respectively), we are required to pay an interest payment to the member (Reg. 81). This interest cost will also be passed to employers.

Applicability

The policy applies to all current and any future employers within the London Borough of Havering Pension Fund, which includes the Council as an employer, all the Academies within the Borough and Admission bodies carrying out work under contract where there has been a transfer of staff who have retained continued access to the Local Government Pension Scheme.

The consequences of non-compliance include being reported to The Pension Regulator and the possibility of fines.

The Scheme Employers will be consulted as part of the policy development process, and a Scheme Employer representative also sits as a Member on the Havering Pension Fund Committee. Revisions to the policy in the future will also be consulted upon with the Scheme Employers. There are currently 30 Scheme Employers of the Havering Pension Fund.

Ownership and authorisation

The Policy Lead is the Transactional Manager, Exchequer and Transactional Services, who will be responsible for review of the policy as and when there are regulatory, audit or legislative changes. The Pension Committee will approve the Policy and any future revisions, subject to delegation to the Group Director of Resources.

3. Related documents

The Local Government Pension Scheme 2013.

Draft code of practice no. 14 concerning 'Governance and Administration of Public Service Pension Schemes'.

The Havering Pension Fund Funding Strategy Statement.

4. Dissemination and communication

The Policy has been disseminated to Legal Services, Human Resources, Finance, Equality and Diversities and the Policy and Research Unit for comment. The Policy will be disseminated to all Scheme Employers and the Havering Pension Committee for consultation and comment before finalisation.

The Policy will be published and available for access on the Havering Pension Fund website, in the Employer area, at <http://www.yourpension.org.uk/handr/Home.aspx>.

5. Implementation

The policy will be implemented by the Havering Pensions Administration Team, and clearly sets out the protocols to follow.

The Charging Policy does not have a mandatory training requirement or any other training needs.

6. Monitoring and review

The policy will be reviewed as and when legislative, audit and regulatory changes are published. The policy will be formally reviewed in November of each year and reported to the Pension Committee, as necessary, if revisions to the policy are required to be approved. The Transactional Manager, Exchequer and Transactional, will be responsible for reviewing the policy.

7. Further information

If you have any further questions or comments about this charging policy, please contact Tara Philpott our Transactional Manager, HR, Pensions and Payroll:

Telephone: 01708 432179

Email: Tara.philpott@oneSource.co.uk

If your enquiry is regarding the FRS17/IAS19 - Full details and estimated costs can be obtained by contacting Debbie Ford:

Telephone: 01708 432569

Email: Debbie.Ford@oneSource.co.uk

Equality Impact Assessment (EIA)

Document control

Title of activity:	<i>Havering Charging Policy</i>
Type of activity:	<i>Administrative Policy relating to the Pension Fund Administration</i>
Lead officer:	<i>Karen Balam</i>
Approved by:	<i>Transactional Manager, Exchequer and Transactional</i>
Date completed:	<i>September 2014</i>
Scheduled date for review:	<i>Annually, commencing from November 2015</i>

Did you seek advice from the Corporate Policy & Diversity team?	Yes
Does the EIA contain any confidential or exempt information that would prevent you publishing it on the Council's website?	No

1. Equality Impact Assessment Checklist

The Equality Impact Assessment (EIA) is a tool to ensure that your activity meets the needs of individuals and groups that use your service. It also helps the Council to meet its legal obligation under the [Equality Act 2010 and the Public Sector Equality Duty](#).

Please complete the following checklist to determine whether or not you will need to complete an EIA. Please ensure you keep this section for your audit trail. If you have any questions, please contact the Corporate Policy and Diversity Team at diversity@haverinq.gov.uk

About your activity

1	Title of activity	<i>Havering Charging Policy</i>
2	Type of activity	<i>Policy, Administrative Policy relating to the Pension Fund Administration</i>
3	Scope of activity	<p><i>The activity impacted by the London Borough of Havering Pension Fund Charging Policy is the support for Scheme Employers of the fund, there are currently 30 Scheme Employers who make up the Havering Pension Fund made up of the London Borough of Havering as an employer, all the Academies within the Borough and Admission Bodies who carry out externalised contracted work on behalf of scheduled bodies (The Council and Academies).</i></p> <p><i>In recent years there has been a significant increase in the amount of fees the Fund spends on legal and actuarial work, largely as a result of an increased number of employers joining, leaving and changing their status within the Fund and the subsequent effects of this.</i></p> <p><i>These fees can be spread across all employers, proportionately to their size, although the activity tends to be the result of decisions made by a small number of employers, such as to become an Academy or to contract out services which leads to the creation of an Admission Body. Alternatively, these fees can be charged to the relevant scheme employer directly.</i></p> <p><i>A charging policy has been put forward to the Havering Pension Fund Committee that sets out the application of the policy as it will apply to Scheme Employer to cover</i></p>

		<p><i>these specific costs in relation to the Local Government Pension Scheme (the Scheme), which is administered by the London Borough of Havering (the Administering Authority). Costs that currently apply, as set out in the Funding Strategy Statement, are also included.</i></p> <p><i>This charging policy will be applied to all new instructions once consultation has been completed and the Group Director of Resources, under delegation of the Pension Committee, signs off the final Charging Policy. If any equality implications are identified in the consultation, they will need to be fully addressed.</i></p>
4a	Is the activity new or changing?	Yes
4b	Is the activity likely to have an impact on individuals or groups?	No
5	If you answered yes:	See below
6	If you answered no:	<p><i>This policy is determined by the Department for Communities and Local Government through the Local Government Pension Scheme Regulations 2013 and the Pension Regulator. It sets out charging policy for relevant scheme employers and there is minimal scope for the Council determining the policy.</i></p> <p><i>DCLG have published an equality statement regarding the Local Government Pension Scheme.</i></p> <p><i>If any equality implications are raised in the review of the policy in September 2015, a full Equality Impact Assessment will need to be undertaken to mitigate any further inequalities.</i></p>

Completed by:	<i>Karen Balam, Transactional Manager, Exchequer and Transactional</i>
Date:	<i>26 August 2014</i>