

 <p><b>Brent</b></p>	<p align="center"><b>General Purposes Committee 8 November 2017</b></p> <p><b>Report from the Strategic Director of Resources</b></p>
<p>For Action</p>	<p align="right">Wards affected: ALL</p>
<p align="center"><b>Future Provision of the Pension Administration Service</b></p>	

Appendix 1 is not for publication as it contains exempt information as specified in the Local Government Act 1972.

## **1.0 Summary**

- 1.1 This report seeks approval from the General Purposes Committee (GPC) to enter into a shared service arrangement with a partner through the delegation of functions pursuant to The Local Government Acts 1972, and 2000, the Localism Act 2011 and the Local Authorities (Arrangement for the discharge of Functions) (England) Regulations 2012 for the provision of the future pensions administration service.

## **2.0 Recommendations**

- 2.1 GPC is asked to approve the selection of the Local Pensions Partnership (LPP) as a shared service partner for the Brent Council pension administration service, using the delegation of functions of the Local Government Acts stated in paragraph 1.1. Approval to award a shared service provision for pension administration rests with Cabinet and General Purposes Committee. Cabinet is due to consider this report on 13 November 2017.

## **3.0 Details/ Operational Considerations**

- 3.1 The responsibility for the administration of the Local Government Pension Scheme (LGPS) for the Brent Pension Fund lies with Brent Council. The pension administration service has been outsourced since 1994. The current pension administration contract was awarded in 2010 for 6 years to Capita Hartshead now Capita Employee Benefits (Capita), and commenced 1 October 2011. The council is now in the sixth year of the contract and the contract has been extended for a further year. A further year's extension is also possible taking maximum use of the current contract up to 30 September 2019 but the intention is to make use of only one year of extension. Pension administration is complex due to the detailed data and legislative requirements for such service provision. It usually takes between 9 to 12 months to transfer such a service from one provider to another.

- 3.2 As at the 31 March 2017, the pension fund had 6,053 contributors, 6,391 pensioners and 8,014 deferred pensioners.
- 3.3 Capita's performance on the contract had not been satisfactory especially on special projects such as implementation of the new LGPS regulations 2014. Concerns had been raised in the triennial valuation by the pension fund actuary with regard to the quality of Brent's pension administration data. Delays in sending out the 2016 and 2017 Annual Benefit Statements (ABS), have been reported as material breaches to The Pensions Regulator. Officers are working closely with Capita and The Pensions Regulator to prepare a record keeping plan to improve the quality of pension data which in turn will enable the issue of a higher number of annual benefit statements. The number of ABSs issued in 2017 has been higher compared to 2016, an increase from 80% to 89% for active members that could have received an ABS. It should be 100%.
- 3.4 Prior to the expiry of the current contract, the Council explored the option of procurement of the pension administration contract through a mini competition using an existing procurement framework. The commercial market for pension administration services is small and rather than procure a further contract, Officers considered that a shared service arrangement may offer the Council a better service going forward. The Council Management Team (CMT) approved this approach in July 2017. CMT discussed options for a shared service partner for pension administration at a meeting on 5 October 2017.
- 3.5 An engagement event with potential shared service partners was held on 4 September. Harrow Council, West Yorkshire Pension Fund, Lancashire Council, Wandsworth Council and Orbis (which comprises of Surrey, East Sussex and Brighton and Hove Councils) were invited to attend. Wandsworth Council did not attend as they felt it would not be fair to existing partners to bring on a new partner at the current time. Harrow Council did not attend as they had misunderstood the nature of the engagement. Lancashire County Council referred us to the Local Pensions Partnership (LPP) who attended on their behalf. LPP is a collaboration between the Lancashire County Pension Fund and the London Pensions Fund Authority (LPFA). It is a local government owned pensions services company. Orbis and the West Yorkshire Pension Fund (WYPF) also attended.
- 3.6 On the day, three presentations were made to officers and the Chair of the Pension Board.
- 3.7 All three organisations clearly stated that a minimum of 9 months lead-in time was required for a successful transition. This ties in with timescales for the current contract which currently will cease in September 2018. A delay in implementation would have detrimental consequences for the successful completion of three major projects: 1) the triannual re-enrolment project which is due in early 2019, 2) the next triennial valuation of the pension fund which is due as at 31 March 2019 and 3) the provision of the ABSs for 2019.
- 3.8 Following the engagement day contact was made with existing partners Southwark and Lewisham who both declined the opportunity for a shared pension administration service.

## 4.0 Options appraisal of prospective partners

4.1 The Council's objectives for the service are to secure best value for money, achieve consistent quality of performance, improve the quality of data and ensure ease of implementation and transition. The Council considered the relative merits of the three organisations that attended the engagement event and these are detailed below. After the presentation, a process of review took place between Finance and HR. This resulted in a number of calls to the three potential partners for clarification on service provision and costs. Information is summarised in Appendix 1.

### Orbis

4.2 Orbis is a partnership between three councils Surrey, East Sussex and Brighton and Hove.

- Orbis pension administration operates Altair software the most common type across LGPS.
- Orbis provides pension administration to 2 Councils and in addition 4 London Boroughs, three of whom had been on the London framework and were previously clients of Capita. Therefore they have experience with transferring from Capita's bespoke pension administration system HartLink.
- As Orbis is a partnership of local authorities, Brent Council would be able to enter into a shared service arrangement. Any shared service agreement means that the councils have a mutual understanding that the administration service is being provided for the benefit of participating councils and its other customers.

Reviewing Appendix 1 however, Orbis costs were significantly higher than the other two presenters and costs for software implementation were also very high. Annual software licence costs are in addition to the annual service provision costs which is not the case for the other two providers. Given that Orbis costs were so much higher, it is recommended that the Council does not enter into a shared service partnership with Orbis.

### Local Pensions Partnership (LPP)

4.3 The Local Pension Partnership (LPP), is a local government owned not for profit limited company.

- As a partner with the LPP Brent Council would not have an input into the LPP Board but there is an advisory board to which Brent could input.
- The LPP pension administration operating system is Altair which is the standard local government pension administration system operated by approximately 90% of the LGPS Funds in England and Wales. Aquila Heywood is the software supplier of Altair and the near monopoly means licence costs tend to be higher for system use.
- LPP although a relatively new entity, can draw on the experience of the LPFA, formally one of the main suppliers of LGPS administration. The LPFA indicated two years ago that it was going to focus on pension fund investment rather than pension administration.
- The shared service arrangement would be with Lancashire County Council.

- LPP have a wide range of organisations to which it provides pension administration services.
- The range of organisations to which pension administration is provided and the expertise in provision of such services gives confidence that the LPP can provide a quality pension administration service.

### West Yorkshire Pension Fund (WYPF)

4.4 West Yorkshire Pension Fund is a joint service run with West Yorkshire and Lincolnshire Pension Fund.

- WYPF confirmed on the day that Brent would have a genuine partnership being able to input into the running of pension administration.
- WYPF operate Civica as their pension administration software which is the second largest system used by Local Government Pension Scheme providers in England and Wales but that is about five percent of the market. Licenses for this software are significantly cheaper than Altair.
- WYPF operating costs were the lowest of the three presenters.
- WYPF implementation costs were also significantly lower than LPP although WYPF indicated that if implementation costs are greater than the £30k, these extra costs would be passed on.
- WYPF currently provide a pension administration service for a number of fire pension schemes and the Lincolnshire Pension Fund too.

4.5 Although the costs for WYPF are cheaper, serious consideration has to be given to sustainability of quality of service provision into the future. The redacted Table 1 below summarises factors taken into account when considering a service provided by LPP or WYPF. Figures for annual contract costs and implementation costs in Table 1 can be found in Appendix 1 which contains exempt information.

**Table 1**

	<b>Factor</b>	<b>LPP</b>	<b>WYPF</b>
1.	Annual Contract Costs	Please see Appendix 1	Please see Appendix 1
2.	Implementation Costs	Please see Appendix 1  Expenditure driven by higher costs for implementing Altair but seems more realistic when considering complexities and length of time for implementing a new pension administration service.	Please see Appendix 1  Officers think WYPF have underestimated total implementation costs. WYPF has informed the Council that if costs are higher than specified, these will be passed on which means an unknown additional amount at this time.
3.	Operating System	Altair Proven to deliver across most LGPS pension schemes but the software supplier has a near	Civica Proven to deliver for those funds for which it operates but only has about 5% of the LGPS market. Civica is not

		monopoly (over 90%) so costs are higher. Altair does calculations within the system so does “end to end” processing.	“end to end” and does calculations externally which then have to be fed back into Civica. This creates additional processes.
4.	Customers	Includes London Boroughs such as One Source and Ealing; Lancashire and Hertfordshire County Council. Fire Services such as Kent, Lancashire, Hertfordshire, Bedfordshire, Merseyside	No London Boroughs to date. Lincolnshire, West Yorkshire County Councils. Fire Services such as Dorset & Wiltshire, Berkshire, Devon & Somerset.
5.	Experience of bringing in Capita contracts and Hartlink	Yes – Cumbria County Council	No
6.	Governance	Entering into a shared service with Lancashire County Council whose pension administration is done by a Limited Company LPP was a concern expressed by officers. This places the service delivery at arm’s length and would not be such a close partnership as would be possible with WYPF. Legal have confirmed that it would be possible to enter into a shared service with Lancashire County Council.	As WYPF is part of Bradford Metropolitan Council, the service provision would not be at “arm’s length” and this would be potentially a closer partnership.
7.	Quality of Service Provision	LPP is the new vehicle of pension administration for the LPFA which is now focusing on pension fund investment. As such, it has a wide breadth of experience of pension administration including London Boroughs. LPP is bigger than WYPF having 520,000 members.	WYPF has recently been shortlisted for the scheme administration award in the LAMP Investment Awards and were Pension Age Awards finalists. WYPF are the third largest of 89 local authority pension funds (447,000 members).

Of the three potential partners WYPF are able to better match the price currently paid by the Pension Fund for the pension administration service. However, given the data quality issues that have been identified by the Actuary and the performance issues that have come to light with the Annual Benefit Statement exercises, it is considered that LPP should be partnered with due to their experience in migrating pensions administration from Capita and experience in delivering a sustained quality service for a range of other LGPS bodies including other London Boroughs.

#### **4.6 Pension Payroll**

Currently pension payroll is administered in house by Brent payroll through Oracle. The three authorities were asked about the ongoing pension payroll provision and expressed a preference for an end to end service. Officers have considered the existing arrangements and have a preference for maintaining pension payroll in house. This is cheaper and costing and coding are all dealt with through the Oracle interface which can link with other pension administration systems.

4.7 Please see Appendix 1 for a cost and quality comparison between the three organisations

#### **5.0 Financial Implications**

5.1 The current cost of the service and costs associated with adopting the recommendation of the report, including one off implementation costs, are contained in Appendix 1. These costs initially fall to the pension fund. However, this will, over time, add to the deficit on the pension fund, and hence have to be recovered from the other employers in the fund, principally the council as the largest employer.

The report has set out the concerns over the current quality of service and why this additional expense is expected to alleviate those concerns.

#### **6.0 Legal Implications**

6.1 Officers are seeking approval to identify a local authority shared service partner for the pension administration service. Officers have considered the statutory framework that permits local authorities to establish shared services. The Local Government Acts 1972, and 2000, the Localism Act 2011 and the Local Authorities (Arrangement for the discharge of Functions) (England) Regulations 2012 give local authorities the authority to delegate (arrange for the discharge) of their functions by:-

- Another local authority;
- The executive of another local authority; or
- A joint committee.

6.2 Any proposed shared service and delegation will need to be undertaken in accordance with the statutory framework noted in paragraph 6.1. Officers will need to be mindful that unless the shared service or delegation is undertaken in accordance with the statutory framework, there is a possibility that the arrangement could amount to a public contract and be caught by the EU procurement rules.

- 6.3 In agreeing any arrangement, Officers should have regard to the Council's fiduciary responsibilities to secure best value and value for money.
- 6.4 The council's statutory pension functions are non-executive functions and are exercised by the Pension Fund Sub-Committee. It could be argued that the decision to enter into a shared service for the provision of pension administration services would also be a non-executive function and that the decision would fall to the General Purposes Committee. Alternatively, the nature of pensions administration is largely an administrative support service and therefore incidental to the council's statutory function. In such circumstances, the decision as to a new provider should be reported to Cabinet. In view of the lack of clarity as to whether a pensions administration service is an executive or non-executive function, it is recommended that approval is sought from both Cabinet and the General Purposes Committee. A report on the pension administration service will be considered by Cabinet on 13 November 2017.

## **7.0 Diversity Implications**

- 7.1 There are no diversity implications arising from the report.

## **8.0 Staffing /Accommodation Implications**

- 8.1 There are no direct implications for Brent staff in having a new shared service with a new provider and the pensioners payroll being retained in house.

Attached: Appendix 1 contains exempt information as specified in the Local Government Act 1972.

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