



Pensions Board
21st November 2017

**Report from the Director of Human
Resources and Organisational
Development**

For Information

Wards affected: ALL

An Update on the Pension Administration Service

1.0 Summary

- 1.1 The Local Government Pension Scheme (LGPS) is a contributory Career Average Revalued Earnings (CARE) Defined Benefit scheme whereby pensions are calculated (and revalued) on a yearly basis, based on the pensionable pay members' receive for each year. Prior to 1st April 2014, the LGPS was a Final Salary Defined Benefit Scheme, meaning that members' pensions were calculated according to their length of service in the LGPS and their final pay at the date of ceasing active membership of the scheme.
- 1.2 This report includes not only the LGPS pension scheme and other benefits for Brent Council pensionable employees but also the other scheduled and admitted bodies within the borough area; with the exception of teachers who are covered under their own national pension scheme.
- 1.3 The administration of the LGPS scheme locally for Brent Council was transferred to Capita Hartshead (now Capita Employee Benefits), on 1st October 2011. The six year contract expired in September 2017 but was extended for another year. Two one year extensions are permissible under the contract so the current contract will now expire in September 2018. An update on options for a new supplier of pension administration services is contained in this report.
- 1.4 This report gives an update on three key areas of the pension administration service:
1. Performance on issuance of the Annual Benefit Statements to members of the Brent Local Government Pension Scheme (LGPS) for the year 16/17.
 2. Brent's Record Keeping Plan lodged with The Pensions Regulator.
 3. Provision of the pension administration service when the current contract with Capita expires.

2.0 Recommendation

2.1 That the Pensions Board notes the updates.

3.0 Annual Benefit Statements (ABS)

3.1 Under Regulation 89 of the Local Government Pension Scheme Regulations 2013, there is a requirement to issue Annual Benefit Statements to current contributors by 31st August each year following the end of the tax year in March. There is also a requirement under the Public Service Pensions Act 2013 to notify the Pension Regulator of failure to comply with the law.

3.2 Active members on the End of Year Returns as at 31 March 2017 supplied to Capita were 6,053 but this included 387 leavers so the active membership was 5,666. ABSs sent to active members sent by 31 August 2017 was 4,123. Since this date a further 142 ABSs were sent on 31 October 2017. Capita have sent a letter to 1,154 members informing them that they should be receiving an ABS. This leaves another 247 records with various queries.

3.3 There are a range of issues behind this. There are a number of active pension members who have left or retired between April and the end of August 2017. Any leaver would either become a pensioner, in which case they would not receive an ABS or a deferred member in which case they should still receive an ABS. In addition, there are a number of records that require further investigation due to low or no salary information. This group could be leavers that the pension administrators have not been notified about by the various employers/schools. Capita are currently undertaking a more detailed breakdown of the 1,401 active members without an ABS. The reasons include:

- 54 Now confirmed zero earnings cases so no ABS due.
- 776 records on return for which no corresponding pension administration record is held. A request for starter information has been sent to employer/school to ensure a record can be set up and a statement issued.
- 150 records where the full time equivalent pay was lower than the minimum wage and this has been queried with the employer/school.
- 136 where the CARE event was incomplete. These are being investigated by Capita and records corrected or a query put to the employer/school.
- 203 records missing CARE history. These are being investigated by Capita and records corrected or a query put to the employer/school.
- 82 CARE calculation issues. These are being investigated by Capita and records corrected or a query put to the employer/school.

3.4 The breakdown of performance on ABS is given below.

Active Membership

| | |
|--|--------------|
| Total number of active members as at April 2017 (Return says 6,053 but of these 387 are leavers and therefore no longer active) | 5,666 |
| Annual Benefit Statements sent to active members by 31 August 2017. | 4,123 |
| Annual Benefit Statements sent to active members by 31 October 2017 but were delayed due to queries that have now been resolved. | 142 |
| Total number of ABS not sent out | 1,401 |

3.5 Of the deferred members, the latest position is given in the table below.

Deferred Membership

| | |
|--|--------------|
| Total number of deferred members as at 31 March 2017 | 8,014 |
| Annual Benefit Statements sent to deferred members by 31 August 2017 | 6,027 |
| Total number of ABS not sent out. The reasons for this are given below. | 1,987 |
| Deferred members past their normal retirement age whom Capita has contacted and 12 now are in receipt of pension. | 103 |
| IT adjustment required to Capita IT system HartLink to allow correction of some specific data so ABSs can be sent to those individuals affected by this fault. | 371 |
| Capita awaiting response from employers on a range of queries. | 29 |
| No current address. Often, when deferred members move, they do not inform the pension scheme of their new address so over a number of years, the pension scheme will lose track of individuals that do not update their address. | 1,484 |

3.6 As 100% of ABSs had not been sent out by 31 August 2017, a material breach was reported to The Pension Regulator on 28th September 2017. A copy of the Breach Report is attached as appendix 1. Since the Breach Report was sent, a further 142 ABSs have been sent to active members. There has been engagement with the Regulator and a fortnightly progress report is required to be sent. The percentage of ABSs sent out in 2017 is an improvement on 2016 by about 9% but there are still underlying data issues to resolve.

4.0 Data and Record Keeping Plan

4.1 In June 2010 The Pension Regulator published record-keeping guidance with a view of improving industrywide pension scheme data. The guidance sets out a number of minimum requirements all pension schemes must meet in order to demonstrate good levels of understanding and adherence in ensuring the

upkeep of suitable data. Accurate pension scheme data is critical for the smooth running of a pension scheme to identify members and accurately calculate member benefits. The guidance categorised data in two ways 1) Common data and 2) Conditional data, each with a minimum number of requirements.

- 4.2 The Common Data items are: National Insurance number, surname, forename and/or initials, gender, date of birth, date pensionable service started, expected retirement date, membership status, last status event, address and postcode.
- 4.3 Conditional data consists of all the types of data used to accurately calculate benefits which are conditional to the make-up of each pension scheme.
- 4.4 The root cause of many underlying data issues rests with information flow from payroll providers for schools and other organisations (employers) which have admitted body status or are already LGPS members. The council provides payroll services for only four schools. This means that as administrators of the scheme, the council will frequently have to chase queries from other employers/payroll providers without the ability to have any mandatory requirements or sanctions if data is not forthcoming.
- 4.5 Appendix 2 is the Pension Scheme's "Record Keeping Plan". This is requirement especially where issues with data have been identified. The plan sets out the specific data that requires attention and remedial action together with an action plan. At the time of writing this report, we are awaiting feedback from The Pensions Regulator about the Record Keeping Plan. Quotes for costs for correcting data e.g. finding and verifying addresses for deferred members, have been sought. Address tracing is anticipated to cost £6k to £8k and other data cleansing and correction is likely to cost between £30k and £40k. This expenditure is necessary as having correct data will significantly contribute to more efficient administration of the scheme and greatly facilitate migration of the service to a new provider.

5.0 New Supplier for the Pension Administration Service

- 5.1 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.
- 5.2 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.

- 5.3 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. On the day, three presentations were made to officers and the Chair of the Pension Board.
- 5.4 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.
- 5.5 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.

Orbis

- 5.6 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.

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)

- 5.7 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)

- 5.8 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 those specified, 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.

Although the costs for WYPF are cheaper, serious consideration has to be given to sustainability of quality of service provision into the future. Table 1

below summarises factors taken into account when considering a service provided by LPP or WYPF.

5.9 Table 1

| | Factor | LPP | WYPF |
|----|---|---|---|
| 1. | Implementation Costs | 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. | 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. |
| 2. | Operating system | Altair Proven to deliver across most LGPS pension schemes but the software supplier has a near monopoly (over 90%) so costs are higher. Altair does calculations within the system so does “end to end” processing. | Civica Proven to deliver for those funds for which it operates but only has about 5% of the LGPS market. Civica is not “end to end” and does calculations externally which then have to be fed back into Civica. This creates additional processes. |
| 3. | 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. |
| 4. | Experience of bringing in Capita contracts and Hartlink | Yes – Cumbria County Council | No |
| 5. | Governance | Entering into a shared service with Lancashire County Council 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. |

| | | | |
|----|------------------------------|---|---|
| 6. | 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 LAPF Investment Awards and were Pension Age Awards finalists. WYPF are the third largest of 89 local authority pension funds (447,000 members). |
|----|------------------------------|---|---|

5.10 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.

6.0 Legal Implications

61. The Public Service Pensions Act 2013 enables The Pensions Regulator to request information, issue Improvement Notices and civil penalties and carry out inspections. The Regulator has statutory objectives which include promoting and improving understanding of the good administration of work-based pensions to protect member benefits.

6.2 Part of the functions of the Pensions Board is to secure compliance with any requirements imposed by the Pension Regulator in relation to the scheme; and to ensure the effective and efficient governance and administration of the scheme. The Pension Regulator's Draft Code of Practice stresses the need for Pensions Boards to exercise effective oversight for the Scheme's administration in circumstances where the day to day running is outsourced to an external provider and states "The legal requirements relating to internal controls apply equally where schemes outsource services connected with the running of the scheme Schemes should ask their service providers to demonstrate how they comply with the legal standard of adequate internal controls for the services they provide."

7.0 Diversity Implications

7.1 No adverse diversity implications have been identified.

8.0 Staffing/Accommodation Implications (if appropriate)

8.1 No specific staffing implications.

Attachments

Appendix 1 Breach Report to “The Pensions Regulator”
Appendix 2 Record Keeping Plan

Contact Officer: David Veale Extn: 4595
david.veale@brent.gov.uk