

## Full Business Case: Pensions Administration

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## 1. Introduction

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The council and Capita have recognised that significant change is needed to deliver the pensions administration service at the quality that is required by members of the Barnet Pensions Fund.

The responsibility for the administration of the Local Government Pension Scheme (LGPS) for the Barnet Pension Fund is with Barnet Council. The administration of the Pension services has been outsourced to Capita Employee Benefits (Capita) since 2013 as part of a 10-year partnership (management of the pension fund investments was retained in-house, under the direction of the Section 151 officer). The council is now in the seventh year of the contract.

Since outsourcing pension administration has become even more complex due to the detailed data and regulatory requirements for its provision which has driven by events such as the introduction of the replacement CARE scheme, 50/50 provisions in the scheme, auto-enrolment requirements, and supervision by The Pensions Regulator.

Following the recognised failings of administration and data quality, both the council and Capita significantly increased resources to improve the position. Over the last 12 months, very significant improvements have been made to the data quality and resolving the back log of member cases. During the very detailed review of the data, a number of additional issues emerged, which have been, or are in the process of being, resolved. Looking to the future, Capita and the council engaged in discussions as to the best way of providing the service going forward. The council have now concluded that reflecting all of the changes above in the expectations for the pensions service, that it was probably sensible to move the service to a specialist LGPS provider.

This document sets out the strategic context, detailed options, and provides the analysis for a decision to be made.

## 2. Reasons

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This project is necessary to identify alternative options for the future of the council's pension administration service.

LBB have a duty to consider the best way forward, to mitigate the risks to our members and protect their financial wellbeing, but also the council itself in terms of its reputation, finance and statutory compliance.

This project is deemed necessary at this stage due to the two main factors

1. the conclusion by the council that the best provision of the service would probably involve the transfer to a specialist LGPS provider
2. the request by Policy and Resources Committee, 17/06/2019, to put contingency plans in place

This project will therefore look at future pension options assessing value of money, considering quality of services, meeting contractual requirements and costs (one-off and ongoing).

## 3. Aims & Objectives

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The project aim is to assess various options for delivery of the service. A number of options are examined below, with a preferred option put forward for consideration.

The desired outcomes are:

- a service that meets all regulatory requirements
- a quality service for members and employers of the Barnet Pension Fund. It must achieve consistent quality of performance, improvement, and maintenance, of data quality, and ensure ease of implementation (and transition)
- provides value for money

## 4. Options

Option	Advantage	Disadvantage	Risks
Option 1: Bring in house and manage directly	<ul style="list-style-type: none"> <li>• Direct control resulting in total oversight of performance</li> <li>• Direct relationships with members resulting in ease of dealing with, and responding to enquiries</li> <li>• This option would probably seem desirable by some engaged residents and the unions</li> <li>• Remove duplication of contract and oversight management as 1 role managing and delivering the service</li> </ul>	<ul style="list-style-type: none"> <li>• Software and implementation costs</li> <li>• Expense of hiring and training locally in a very competitive and limited marketplace</li> <li>• The need for highly qualified resources because of the extremely complex and increasing regulatory oversight required of pensions schemes</li> <li>• Inherent time delay in building a team from scratch</li> <li>• Timescale too long to achieve short term deliverables</li> <li>• Unable to achieve economies of scale presented in other options</li> <li>• Short to medium term impact while implementing</li> </ul>	<ul style="list-style-type: none"> <li>• Management transformation focus on finance might reduce should LBB bring pensions in house</li> <li>• Risks of time scale to implement, software implementation risks, and a very competitive market for staff</li> <li>• Reputational damage</li> <li>• Data transition going wrong</li> </ul>
Option 2: Procure a new 3 <sup>rd</sup> Party administrator from the LGPS framework	<ul style="list-style-type: none"> <li>• Potential scope of increasing value for money through service quality/delivery depending on the current market</li> <li>• Service can be rescoped for current complex requirements for delivery of service</li> </ul>	<ul style="list-style-type: none"> <li>• The LGPS Framework is not fully representative of the available options. There are only 3 other providers in Lot1</li> <li>• Use of the Framework would incur procurement costs</li> <li>• Other LA's have experienced similar performance based issues with framework providers</li> <li>• Reliant on reporting from 3rd party</li> </ul>	<ul style="list-style-type: none"> <li>• Data transition going wrong</li> <li>• Unknown outcome, potentially leading to extended transition period/cost</li> <li>• Reputational and public confidence should the procurement select a provider which then results in similar performance issues</li> </ul>

		<ul style="list-style-type: none"> <li>• Less direct contact with LBB pensions members</li> <li>• Less control, influence and responsiveness and flexibility compare with option 4</li> <li>• Short term impact while implementing</li> </ul>	
Option 3: Open Tender	<ul style="list-style-type: none"> <li>• Competitive tender resulting in value for money for service (both financial cost and delivery)</li> <li>• Easy to demonstrate value for money due to the competitive process</li> <li>• Service can be rescoped for current complex requirements for delivery of service</li> </ul>	<ul style="list-style-type: none"> <li>• Potential longer timeframes for completion due to full procurement</li> <li>• Less control, influence and responsiveness and flexibility compared with option 2 and 4</li> <li>• Short term impact while implementing</li> <li>• Use of the Framework would incur procurement costs</li> </ul>	<ul style="list-style-type: none"> <li>• No/little response from potential contractors especially due to current regulatory scrutiny</li> <li>• Data transition going wrong</li> <li>• Unknown outcome, potentially leading to extended transition period/cost</li> <li>• Reputational and public confidence should the same issues occur</li> </ul>
<p><b>Preferred Option:</b></p> <p>Option 4: Delegation of Service to another Local Authority</p>	<ul style="list-style-type: none"> <li>• Non-profit organisation, who have the same culture and values as LBB, leading to potential better quality of relationships and outcomes</li> <li>• Experience in managing LGPS and bringing other LA's onboard</li> <li>• Experience of dealing with former Capita clients and providing smooth transition</li> <li>• Supply services to wide range of similar organisations so there is an</li> </ul>	<ul style="list-style-type: none"> <li>• Reliant of reporting from 3<sup>rd</sup> party</li> <li>• Less direct contact with LLB pensions members</li> <li>• Potentially more expensive in the short terms than the status quo</li> <li>• Short term impact while implementing</li> </ul>	<ul style="list-style-type: none"> <li>• Data transition going wrong</li> <li>• Reputational and public confidence should similar issues that the scheme is facing still occur with delegation of service</li> </ul>

	<p>understanding of expectations and how to work with local govt</p> <ul style="list-style-type: none"><li>• Expertise to draw upon (specialist staff)</li><li>• Opportunity to have direct say in the governance structure (dependent on provider)</li><li>• Potentially lower implementation costs than other options</li><li>• Other boroughs that use this option have given positive reviews of the providers</li><li>• Potentially lower costs due to economies of scale, such as IT costs</li><li>• Satisfactory outcome for some engaged residents and the unions</li><li>• Service can be rescoped for current complex requirements for delivery of service</li></ul>		
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With the preferred option being a delegated service to another Local Authority, the council have identified 3 potential partners to provide its pensions administration service. The council visited each of the potential providers to assess capability and their appetite to become a partner.

Initial evaluation provided information to the council that two of these organisations were better placed to meet the council's needs. These two providers were then subject to formal qualitative assessment by officers; 20% allocated to costs and 80% allocated across five broad headings/questions for quality:

1. Resources
2. Systems and processes
3. Culture and values
4. Service & performance
5. Organisational structure

The scores awarded are as follows:

	Unsuccessful Candidate Score	WYPF Score
Quality Scoring (up to 80%)	58.40	70.40

The scores above indicate that WYPF is the preferred option for a delegated service, fulfilling one of the main council requirements for a service; a quality service for pension fund members.

## 5. Expected Benefits

Benefit Type	Description of the benefit	Who will benefit	Expected benefit value	Financial year that the benefit will be realised	Benefit Owner	How will the benefit be measured	Baseline value (£, % etc) and date
Non-Financial	A reliable and trusted pensions service for all fund members	All scheme members	Reduction in customer Complaints	CY 2 of new contract	BPF	Average complaints for the last three years compared to post implementation complaints	Average number of complaints over the last 3 calendar years is 44
Non-Financial	Accurate annual benefit statements issued on time for all fund members	All scheme members	Reduction in queries	CY 2 of new contract	BPF	Against revised annual benefit statements sent out in 2018/19	808

Non-Financial	TPR are sufficiently satisfied with LBB progress	All scheme members LBB	Increased reputation for administration	CY02 of new contract	BPF	Against formal letters issued from/to TPR	Against current oversight
Non-Financial	Greater assurance and governance of service	Scheme Manager	Increased satisfaction by scheme manager and members	CY 2 of new contract	BPF	Reduction of complaints by scheme members and scheme manager Reduced escalation of risks and issues No intervention by TPR	Reduced oversight by TPR Reduction of risks/issues escalated to LBB leading to no warning notices issued.
Non-Financial	Reduction in aged casework	Scheme members	Reduction in the number of age case work/cases not meeting SLA deadline	CY2 of new contract	BPF	Average aged casework numbers post implementation vs CY2	
Financial	Reduction in required oversight at CEO and CFO level  No fines from TPR	LBB	No financial penalties.  Reduction in CEO/CFO recharges to Barnet Pension Fund	CY 2 of new contract	BPF	No fines Lower costs	Against current fines per FY Against annual recharges from LBB
Financial	Annual costs could be reduced given the nature of the	LBB	Financial	CY 2 of new contract	BPF	Against costs of current arrangement	Average against annual costs for Capita are £478,684. Annual costs for WYFP are £459000. <u>A</u>



	shared costs						saving of <u>£19,684</u>
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## 6. Summary of Key Risks

Risk ID	Short Risk Title	Long Description
RK001	Data	Damage and/or loss of data during transfer onto new system
RK002	Reputational	Reputational damage because of RK001
RK005	Project Delay	With 3 parties working together, risk of delay
RK006	Information Delay	Committee(s) request further information during meeting

## 7. Costs/Investment Appraisal

Costs of the project are paid for from the assets of the pension fund.

The following are high-level costs:

Option	Commentary	Annual cost (contract, shared service or in house)	Implementation cost	First year costs
1	Comparison based on mean analysis of outer London Boroughs	£1,323,000	£250,000	£1,573,000
2	Cost based on £20 per member per annum	£540,000	£150,000	£690,000
3	Cost based on £20 per member per annum	£540,000	£150,000	£690,000
4	Costs based on information from WYPF	£459,000	£150,000	£609,000

The information above indicates that option 4, a delegated service, is the preferred option. These providers were subject to formal qualitative assessment by officers, of which 20% of the total score was allocated to costs.

	Unsuccessful Candidate Score	WYPF Score
Cost Scoring	0.18%	19.82%

The scores above indicate that WYPF is the preferred option for a delegated service, fulfilling another of the council's requirements for a service; value for money. Further to these ongoing costs, implementation costs are estimated to be £150,000 for WYPF, and £327,000 for the unsuccessful candidate.

## 8. Timescale

Considering the complexity of a pensions administration service, the current plan is for a yearlong transition. Should approval of the recommended option be provided at Policy & Resources Committee on 19/02/2020, the Director of Finance will take the necessary actions to conclude delegation of the pension administration function to WYPF by the end of March 2021, as per the transition plan.

## 9. Project Assurance

The project will be managed according to the LBB project management toolkit.

Approval for this project will be provided by the Policy and Resources Committee, to appoint Bradford City Council (the administration authority of the WYPF) as the pension fund administration service provider, authorising the Director of Finance to take the necessary action.

The Committee will also authorise the Director of Commercial and Customer Services to negotiate the transfer of the service from Capita to WYPF.

A project board will be set up to track the progress of the project, with the Finance Director as chair. As per the delegation of authority, the chair will have the final decision, taking into account the views and information provided by other project board members.

Deliverable / Product	Quality Criteria	Author	Reviewers	Accepter
A delegated service for a 3 <sup>rd</sup> party pensions administrator	The service incorporates all required outcomes and meetings regulations.	tbc	Anisa Darr Nigel Keogh George Bruce Mark Fox	P&R Committee Pension Fund Committee

## 10. Dependencies

- Approval at Policy and Resource Committee
- Approval at Full Council
- Approval of delegation to Director of Finance
- Capita's cooperation in the transfer of the pensions administration service
- Full engagement from WYPF

- Commercial agreement between LBB and Capita to extract the Pensions Service from the CSG contract
- Stable regulatory environment
- Commercial agreement between LBB and WYPF to deliver the new pensions