



Pension Fund Committee

24 February 2021

Title	Transition and remediation Costs
Report of	Director of Finance
Wards	n/a
Status	Public
Urgent	No
Key	No
Enclosures	None.
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Summary	
At the request of the Committee, this report considers administration costs incurred during the change of administrator and as a consequence of poor administration processes.	
Officer Recommendations	
That the Pension Fund Committee note the report.	

1. WHY THIS REPORT IS NEEDED

- 1.1 At the October meeting, the Committee requested that a report be submitted in regard to the financial arrangements relating to the termination of the Capita contract for pension administration and that the report includes reference to costs incurred by the pension fund due to poor performance by the administrator. This report discusses administration costs incurred by the pension fund since the Council assumed full oversight of pension administration services on 1 April 2019. This paper considers:

Administration Charges from Capita
Fees to external parties
Compensation to scheme members
Additional in-house staffing costs
Overpayments of benefits that are not recovered from scheme members

Administration Charges

- 1.2 The Pension fund has been charged via the Council with the cost of the administration service which comprises 'day-to-day' administration and any additional projects agreed. The cost recharged for day to day administration in the last completed year was £474,000. This is calculated on the basis of the number of scheme members with an annual inflation adjustment. We are still awaiting details of the day-to-day administration costs in the seven months up to the transition date, 31 October 2020 (and contribution collection to 31 January 2021) and this will be on the same per member basis. Capita have not charged for supporting the transition to West Yorkshire Pension Fund (WYPF).
- 1.3 The provision of administration services is via a contract between Capita and the Council. In terminating that contract early no charge has been levied on the pension fund. It was agreed that Capita would provide post transition support for three months to 31 January 2021, mainly to provide WYPF with explanations of information held on members records. This support is due to be billed based on time expended at agreed hourly rates. There is no indication that any charges will be levied for this service.
- 1.4 In addition to day-to-day administration costs, additional projects charged since 1 April 2020 comprise:
- £14,391 - LBB's 50% share of the additional staff costs for data remediation.
£2,403 – automated message notifying callers of change of administrator.
- 1.5 Administration charges in future from WYPF will be based on the costs of their administration services allocated proportionally to membership across all their clients. Costs for the first year are projected to be a little lower than charges incurred previously. West Yorkshire charged £20,000 for work incurred in the pre-31 October 2020 transition of data. Looking forward, WYPF will not be raising any additional fees for correcting the data gaps as part of a new data improvement plan.

Non-administrator fee costs incurred by the Pension Scheme

- 1.6 External adviser fees were incurred as a consequence of the failure to issue the majority of pension saving statements (PSS) due to scheme members from 2014. Ensuring that members were not disadvantaged through their obligation to meet tax liabilities due to exceeding their annual pension allowance involved significant external costs in checking PSS, reviewing the financial implications of the options available to members and settling charges from Independent Financial Advisors appointed by the impacted staff. All of these costs are recoverable by the pension scheme and reimbursement is expected before the 31 March 2021. No other external advisory fees have been incurred.

Compensation to Scheme Members

- 1.7 Scheme members who have suffered as a consequence of the PSS issue due to loss of pension expectation or having taken action on the basis of erroneous annual benefit statements may be offered compensation for distress and inconvenience. These payments will not be made by or recharged to the pension fund. It is possible that claims for higher compensation may be submitted by scheme members to the Pensions Ombudsman and any awards will not be a cost to the pension fund.

Additional In-house Pension Staff Costs

- 1.8 The monitoring of the pension fund moved from Capita to LBB Finance team from 1 April 2019. Initially this comprised three staff shared between Pension, Treasury and Banking. Following a restructure from March 2020 and new recruitments the Pension only team now comprises five staff, two of which are interims / fixed term contracts. The three-permanent staff (Head of Pensions, Pension Fund Manager and Pensions Accountant) are the minimum required to deal with pensions in a stable environment, with a fourth likely to be retained to assist with data improvement leading up to the 2022 actuarial valuation
- 1.9 The two members recruited during 2019 on an interim basis were to manage the actions promised to the Pension Regulator around data quality and failures to issue annual benefit statements, to support the Actuary to complete the 2019 triennial valuation and also subsequently to review the options for the provision of administration services, manage the transition to WYPF and coordinate the resolution of PSS issues. Costs incurred on interim staff in this period is £279,000 which has been paid by the Pension Fund. The two interim staff were engaged in a decision by the council to improve the data quality rapidly, engage with TPR and scope the provision of the administration service through a local government specialist provider. Therefore, it has been concluded that these costs are properly incurred by the Pension Fund and justified by the benefits that will accrued from a change in administrator.

Excess Benefits Paid to Scheme Members

- 1.10 It's not uncommon for benefits to be overpaid due either to late or incorrect information from employers and scheme members that is unconnected to administrator error. However the administrator is expected to make reasonable efforts to recover the overpayments, although this can be difficult, especially for late notified deaths. Overpayments due to errors in calculations by the administrator when they had all the relevant information are normally

recoverable from the administrator. At present we are in discussion with Capita in respect of four recent overpayments totalling £112,000 due to errors in benefit calculations. Capita, reasonably, are insisting that every effort is made to recover from scheme members. Our ability to do so has been referred to Legal. It would not be a surprise if attempts to recover resulted in complaints to the Pensions Ombudsman. We have notified Capita that should the members not repay the overpayments, we expect Capita to do so.

- 1.11 When LBB Finance commenced monitoring debts due by employers (strain costs) or scheme members (overpayments) there was an outstanding balance of £2.1 million as at 31 March 2019, of which £600,000 was more than one year old. Most of these debts have been recovered, some by instalments or payment is imminent. Those that were not recoverable due mainly to a lack of information to support the debt or delays in contacting members concerning the overpayment were valued at £176,000. The actuarial valuation process ensures that written off strain costs or unrecovered overpayments are reflected in the funding position of the relevant employer.

In Summary

- 1.12 The Scheme has incurred additional cost in changing administrator, which will always be a feature of appointing a new administrator regardless of the reason for the decision to change. The Pension team remain confident that this will provide a long-term benefit to scheme members and employers.

2. REASONS FOR RECOMMENDATIONS

- 2.1 The report is for noting.

3. ALTERNATIVE OPTIONS CONSIDERED AND NOT RECOMMENDED

- 3.1 None

4. POST DECISION IMPLEMENTATION

- 4.1 N/A.

5. IMPLICATIONS OF DECISION

5.1 Corporate Priorities and Performance

- 5.1.1 To ensure that the Pension Fund is being invested prudently and to the best advantage in order to achieve the required funding level. Effective monitoring of the Pension Fund will ensure that long term investment targeted returns are achieved and will provide support towards the Council's corporate priorities.

5.2 Resources (Finance and Value for Money, Procurement, Staffing, IT, Property, Sustainability)

- 5.2.1 The Pension Fund costs are ultimately reflected in the employers' contribution rates and good management of costs will help to control contribution rates.

5.3 Social Value

5.3.1 Membership of the Pension Fund ensures the long-term financial health of contributing employees on retirement.

5.4 Legal and Constitutional References

5.4.1 Constitution – Under article 7 one of the responsibilities of the Pension Fund Committee is ‘To meet review and consider approval of the Pension Fund Statement of Accounts, income and expenditure and balance sheet or record of payments and receipts’. A review of expenses falls within that remit.

5.4.2 There are no relevant legal references.

5.5 Risk Management

5.5.1 Monitoring of expenditure is a key element of protecting the assets of the pension fund.

5.6 Equalities and Diversity

5.6.1 Pursuant to the Equalities Act 2010, the Council is under an obligation to have due regard to eliminating unlawful discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Act; advancing equality of opportunity between persons who share a relevant ‘protected characteristic’ and those who do not share it; and fostering good relations between persons who share a relevant ‘protected characteristic’ and persons who do not share it. The ‘protected characteristics’ are: age, disability, gender reassignment, pregnancy, and maternity, race, religion or belief, sex and sexual orientation, marriage and civil partnership.

5.6.2 The rules governing admission to and participation in the Pension Fund are in keeping with the public-sector equality duty. The public sector equality duty requires public authorities in carrying out their functions to have due regard to the need to achieve the objectives set out under s149 of the Equality Act 2010. Good governance arrangements and monitoring of the Pension Fund’s managers will benefit everyone who contributes to the fund.

5.7 Consultation and Engagement

5.7.1 Not applicable

5.8 Insight

5.8.1 Not applicable

6. BACKGROUND PAPERS

6.1 None