

London Borough of Hammersmith & Fulham

Report to: LBHF Pension Fund Sub-Committee

Date: 03/03/2021

Subject: Update on the LGPS Pensions Administration Service

Report of: David Hughes, Director of Audit, Fraud, Risk and Insurance

Responsible Director: Rhian Davies, Director of Resources

Summary

This report follows up on the update report presented to the Pension Fund Sub-Committee on 24 November 2020 on the actions agreed by Members in light of the independent review commissioned into the Local Government Pension Scheme (LGPS) administration service provided to the Council and RBKC by Surrey County Council (SCC) under a section 101 delegation arrangement.

The Pension Fund Sub-Committee and the Pension Fund members need to be assured that the administration and governance of the Pension Fund is compliant with regulatory requirements, is effectively managing risk and providing a high-quality service.

This report provides an update for the Sub-committee on the progress being made to implement the recommendations approved on 31 July 2020 including the timetable for the implementation of the new Retained Pensions Team, the procurement of the new service provider and the data improvement programme.

Recommendations

1. That the contents of this report are noted and that further updates will be provided over the project duration.
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Wards Affected: None

H&F Priorities	Summary of how this report aligns to the H&F Priorities
Building shared prosperity	Continuing to provide assurance regarding the governance of the Pension Fund thereby encouraging employees to remain members of the LGPS.
Being ruthlessly financially efficient	To review and assess governance and efficiency of the Pension Fund, recommending and making changes where necessary.
Taking pride in H&F	Ensuring a high standard of governance of the Pension Fund that continues to underpin the retention and recruitment of employees.

Financial Considerations

All costs of Pension Fund administration are borne by the Pension Fund. These costs include the costs of any delegated or contracted arrangements and any shared or in-house retained pensions team. Any additional costs, such as data improvement, or transitional costs of moving to another delivery model will also be costs to the Pension Fund.

Some key areas of cost are still the subject of discussion and negotiation. Any decisions required as a result of the programme of work to terminate the current delegation arrangement and transition to the new delegation arrangement will require financial implications to be included in each decision report. Following agreement of these costs a detailed programme budget will be agreed and monitored and reported to the Committee.

Finance implications verified by Emily Hill, Director of Finance.

Legal Implications

Under Regulation 53 of the Local Government Pension Scheme Regulations 2013, the Council, as the administering authority of the Pension Fund “is responsible for managing and administering the Scheme in relation to any person for which it is the appropriate administering authority under these Regulations”. Therefore, it is responsible for ensuring that the Pension Fund is administered in accordance with the Regulations and wider pensions law and other legislation. This includes meeting legal requirements in respect of data, benefit statements, etc. It is at risk of an action being brought through the internal dispute resolution procedure, the Pensions Ombudsman, a court and/or the Pensions Regulator in the event of breach and/or any maladministration.

Legal Implications verified by Adesuwa Omoregie, Head of Law.

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Background Papers Used in Preparing This Report

Reports to the Pension Fund Sub-Committee on 9 March 2020, 31 July 2020, 29 September 2020, 24 November 2020 and 3 February 2021.

Additional Details

Key considerations

1. This report sets out the progress made against the actions agreed following the report of 31 July 2020 to the Sub-committee, including the implementation of the new Retained Pensions Team, the procurement of the new service provider and the data improvement programme. Previous updates were provided in September and November 2020.

What were the immediate actions identified in the report of 31 July 2020?

2. The Pension Fund Sub-Committee approved the recommendations set out in the Committee report of 31 July 2020, in light of the independent review of the Pensions Administration Service:
 - Reporting the concerns identified in the independent review report to the Pensions Regulator and notifying SCC that this is being done;
 - Serving 12 months' notice of termination on SCC in respect of the pension's administration service;
 - Taking necessary steps to create a detailed service specification and carry out a competitive tender for a replacement pensions administration service, engaging external expertise where appropriate;
 - Noting that the shared service arrangement with RBKC will come to an end at 31 December 2020 and that a suitable transition plan for the retained pensions service needs to be agreed;
 - Reviewing, agreeing, implementing and monitoring a data improvement plan with SCC and RBKC; and,
 - Establishing and recruiting to the post of Retained Pensions Manager for LBHF.
3. In December 2020, having reviewed the options for a new pensions administration service provider, the Director of Resources formally served notice on SCC that the Council wished to terminate its agreement with SCC on 31 January 2022.
4. The Council is required to provide a workplace pension scheme (in accordance with the Pension Act 2004) for its employees via the Local Government Pension Scheme. The Public Sector Service Act 2013 sets out detail of membership and establishment of a pension board to oversee the managing of the public service Pension Fund. Under the Act, the Pension Regulator issues code of practice. Code 14 sets out the legal requirements for public service pension schemes and contains practical guidance and sets out standards of conduct and practice expected of those who exercise functions in relation to those legal requirements.
5. As the Council has served notice on SCC, it has to take steps to put in place a pensions administration service which is compliant with the regulations and provides an effective and high quality service to the Fund's Members and Employer bodies. On 3 February 2021, the Committee approved the recommendation for the HFPP pensions administration service to be provided by the Local Pensions Partnership Administration (LPPA) hosted by Lancashire County Council.

What are the key project risks?

6. As reported at the previous meeting, the Pensions Taskforce identified a number of key risks which need to be taken into account:

- In serving notice on SCC, insufficient time is allowed for the development of the service specification and tendering process to be completed, along with a period of mobilisation for the new provider to ensure the new service is able to fully commence at the end of the notice period.

To manage this risk, a detailed project plan was developed and is being maintained. This was being used to inform the timing of serving notice on SCC, this has already been communicated to them. As set out earlier in the report, notice was served on SCC in December 2020 to terminate the agreement on 31 January 2022. The Sub-committee have approved entering into a delegation agreement for the service to be provided by LPPA, with a clear and achievable timetable proposed to ensure the new service can go live on 1 February 2022.

- The new Retained Pensions Team is not created and put in place in a timely manner or has insufficient capacity to manage the transition period and transfer of functions from RBKC by 31 December 2020.

A structure for the Retained Pensions Team was agreed and a successful recruitment undertaken. The Pensions Manager commenced on 2 November 2020; two permanent Pensions Advisors were appointed in December 2020 and in January 2021. Changes to the structure were agreed by the Taskforce, to include a temporary resource which commenced ahead of the transition of functions from the RBKC shared retained team at the end of December 2020. A detailed transition plan was put in place and reviewed on a weekly basis. The transfer of functions was completed as per the transition plan.

- Lack of market engagement (including potential public sector providers) leads to an inadequate specification being developed and tendered against which fails to attract competitive responses, does not provide value for money for the Council or does not enable implementation of the new service by the end of the notice period with SCC.

Following the steer from the Pension Fund Sub-committee to consider both public and private providers, the Taskforce engaged with a number of public providers (including Hampshire County Council who provide the Finance, HR and Payroll service to the Council under a partnership agreement). Reference sites were also engaged. In parallel and to consider the suitability of progressing a competitive tendering exercise for the new pension administration provider, a pre-competition engagement exercise has been undertaken. Following consideration of the options the Taskforce agreed to pursue the public-public provider option, with the existing partnerships being evaluated in detail. That evaluation led to the recommendation to the Sub-committee on 3 February 2021, to enter into a delegation agreement for the service to be provided by LPPA, which was approved.

- The Pension Fund's data held by SCC is not subject to sufficient data improvement work, impacting on the Pension Fund's ability to attract competitive tenders for the new service or failing to secure a value for money service through the procurement.

A detailed data improvement plan was developed and agreed. The Pensions Taskforce have been reviewing the data improvement work carried out by SCC and

RBKC and procured a third party to undertake work on the backlog cases recently identified by SCC. This work was agreed under an officer decision report, in consultation with the Chair of the Sub-committee, and is due to commence shortly.

7. In recognising the key risks above, the Taskforce have developed a detailed Project Plan is structured around 9 key areas of activity, which are set out below and for which progress to date is then detailed in the following sections:
- **Workforce and Recruitment:** *including recruitment of a Retained Pensions Manager and other new positions (permanent and project-based), transfer of existing roles in shared team;*
 - **Procurement:** *including the procurement of new service provider with parallel consideration of potential for public-public partnership, extension of existing system/software provider, procurement of specialist support for transition/data improvement work;*
 - **Data Improvement Programme:** *including data improvement programme provided by SCC, backlog issue identified by SCC, undecided leavers review by carried out by the RBKC Retained Team, relationship with the Pensions Regulator;*
 - **Legal/Contractual:** *including serving of 12 Months' Notice on SCC to terminate and reaching agreement on the fee proposal from SCC;*
 - **Transfer of Retained Functions from RBKC:** *including agreeing a transfer/handover plan, carrying out pre- and post-transfer activities including data and casework transfers;*
 - **SCC Exit Plan:** *agree Exit Plan, regular monitoring against plan with SCC;*
 - **Governance Arrangements:** *reporting/assurance to SLT and Members;*
 - **Communications:** *with stakeholders at key milestones including transfer of retained functions and implementation of new provider;*
 - **Budget:** *current budget and additional costs from SCC, exit/transition period cost, new steady state service budget.*

Progress since November 2020 on project workstreams

Workforce and Recruitment

8. Recruitment to the Retained Team structure is well advanced with one remaining post currently being advertised. All other members of the team commenced either side of Christmas and are settling in well, picking up all of the retained functions previously managed by RBKC.
9. The structure for the new Retained Pensions Team, including temporary positions, will ensure there is sufficient resource to run the service on a day to day basis, to progress the data improvement work which is already in hand, to manage the exit from the SCC arrangement and to plan and implement the new service with LPPA.
10. As previously reported, agreement has been reached with RBKC to retain two specialist roles which were part of the shared retained team, with the Council securing the services of the two individuals and providing them on a recharge basis to RBKC following the transfer of functions on 31 December 2020. The specialist roles cover matters relating to Admitted Bodies (including admission agreements, bonds, cessations and TUPE transfers) and the Teachers' Pension Scheme. This means that key skills required in the new Retained Team have been secured and will not need to be recruited to. However, it is anticipated that this specialist knowledge will be shared

amongst the team to ensure robustness and ensure the team is able to maintain service in times of absence.

Procurement

Pensions administration service

11. At its meeting on 3 February 2021 the Sub-committee received a detailed report setting out the consideration of options for procuring the pensions administration service from both private sector and public-public providers. The Taskforce evaluation of these options found that the public-public provider route was most likely to meet the HFPP objectives and lead to the appointment of and an experienced LGPS provider where the HFPP would play an active role in the partnership governance and development of the service.
12. Following a detailed evaluation of three public-public providers, as presented to the Sub-committee on 3 February 2021, officers recommended entering into a delegation agreement for the service to be provided by LPPA (hosted by Lancashire County Council), with a clear and achievable timetable proposed to ensure the new service can go live on 1 February 2022.
13. Following an initial project start meeting with colleagues from LPPA following the Sub-committee's approval, a formal resolution was put to the full Council meeting at Lancashire County Council on 25 February 2021 to propose that Lancashire County Council agrees to the London Borough of Hammersmith and Fulham delegating its pension fund administration function to Lancashire County Council pursuant to section 101 of the Local Government Act 1972. This is subject to both parties entering into an appropriate legal agreement. Officers are working with LPPA to ensure that this agreement is put in place.

Pensions Administration Software Contract

14. LBHF have a direct contract with the Aquila Heywood who are the software providers of the pension administration system, Altair, which is used by SCC to administer the LBHF pension fund. The contract grants the LBHF a licence to use the Altair software (in this instance via SCC). The contract term was originally for 5 years, with the option to take up two one-year extensions. The RBKC Retained Team extended the contract for one year from March 2020.
15. The Pensions Manager has progressed, discussions with Aquila Heywood, and a further one-year extension, agreed by means of an officer decision report which maintains LBHF in contract until March 2022 and allows the Altair software to continue to be used for the remainder of the SCC pension administration delegation agreement term.

Caseload backlog project

16. To carry out key data improvement work during the transition period, officers sought and received quotations with a view to engage a provider to support the delivery of the Data Improvement Programme, specifically for the review and remediation of backlog cases previously identified by SCC.

17. A contract has been awarded by the Director of Resources, in consultation with the Chair of the Sub-committee, to ITM, for a maximum cost of £70,000. ITM will carry out the remediation of each case on a fixed fee basis and the number of cases will be confirmed when the actual number of backlog cases currently held is provided shortly by SCC.
18. Given the nature and complexity of this work, it is expected that the project will take an estimated 6 months to complete. This is in line with the overall project plan being discussed with LPPA.
19. A separate report is being presented to the Sub-committee on the same agenda regarding SCC's performance.

Undecided leavers

20. As reported in September, the shared RBKC Retained Pensions Team had undertaken an exercise to review data quality concerns in respect of undecided leavers. Fund members are identified as such when they leave the Council's or an admitted body's employment but do not confirm whether they wish to defer their pension or to transfer it to another scheme.
21. The Retained Pensions Team had collated data for around 800 cases, which has recently been uploaded by SCC into the pensions administration system. Following the upload, about 600 cases were successfully updated and further work is being done to address the remaining cases.

Backlog issues

22. As reported previously, a further matter came to light in August 2020 relating to a backlog in processing core casework by SCC in relation to leavers' records for the LBHF Fund. This was identified when SCC provided a costed proposal to deal with the backlog in casework.
23. The backlog relates to four processes mainly related to those leaving the Fund, namely: frozen refunds, refunds, deferred pensions and aggregations. Following a request for quotations, ITM have been appointed to carry out the work required on backlog cases, which was previously estimated in February 2020 to account for just under 1,700 leaver records (covering LBHF and its fund employers). The work will cover analysis and enquiries to collate data required and uploading new data to the member records at a cost of up to £70,000.
24. The Pensions Manager has negotiated a reduction in some of the fees to ensure that the work is completed within the estimated budget and is working with ITM to commence processing of the backlog. Separate updates on the progress of the project will be provided to the Sub-Committee and Pensions Board in future meetings.

Legal/Contractual

25. Following the Committee's approval of the recommendation to serve 12 months' notice of termination on SCC, the Taskforce assessed the key risks to ensuring a smooth transition to a new service provider to determine the optimum time to serve notice on SCC. Based on the assessment of risks and factors including the likely mobilisation period required for a new provider, the Taskforce agreed to serve notice on SCC in December 2020 so that the agreement with SCC would come to an end on 31 January 2022 with a new service provider being in place by 1 February 2022.
26. Discussions are ongoing with SCC in respect of the fee for the service from 1 September 2020 and also to consider any additional costs likely to arise from the exit process (as per the delegation agreement). The outcome of discussions on these matters will be reported back to the Committee in due course.

Transfer of Retained Functions from RBKC

27. Having agreed a detailed plan for the transfer of functions from RBKC to the new LBHF Retained Team this plan was successfully executed, including training of staff, transfer of data and live caseload. All functions and data were successfully transferred to LBHF by 31 December 2020. Communication was provided to all fund employers and stakeholders to ensure they were aware of the transfer to the LBHF Retained Team from January 2021.

SCC Exit Plan

28. Under the delegation agreement with SCC, a draft Exit Plan needs to be agreed within two months of notice of termination being served by the Council. The delegation agreement allows for SCC to charge reasonable costs relating to the exit process. An indication of potential exit costs was provided by SCC in July 2020, along with the framework (headings) for the exit plan which has been part of the ongoing discussions. The Director of Audit, Fraud, Risk and Insurance and Pensions Manager are working with SCC to develop and agree an exit plan, in consultation with colleagues from LPPA

to ensure that all key activities, responsibilities and timescales are documented and agreed.

29. The Pensions Taskforce will carry out regular monitoring against the exit plan when agreed and will ensure regular meetings are held with SCC to monitor and progress the implementation of the agreed plan. Update reports on progress against the plan will also be provided to Members.

Governance Arrangements

30. The Pensions Taskforce will provide the day to day oversight for the project, reporting on a regular basis to the Chief Executive (and Statutory Accountabilities Board) on progress. Update reports will be provided to Members of the Sub-Committee against the nine key areas in the project plan identified above. Update reports will also be provided to the Pensions Board.

Communications

31. A key part of the project will be ensuring appropriate communications with stakeholders at key milestones during the project. An initial communication was sent to current Members of the scheme and admitted bodies when the Pensions Manager commenced in early November.
32. Communications were prepared jointly with the RBKC Retained Pensions Team to go to all fund employers in early December, to ensure that there is a smooth transition to the new retained team and that all fund employers are clear about points of contact with the new service and the need to submit monthly returns to the LBHF Retained team for their December payroll runs.
33. The Pensions Manager is reviewing the Pension Fund website contact pages to ensure that active members, deferred members and pensioners are provided with appropriate information regarding the new service, including ways of contacting the Team and providing information relating to their pension records.

Budget

34. The costs of pensions administration are met by the Pension Fund. The Pensions Manager will work with the Treasury to manage the budget. Budget accountability will sit with this role and the Assistant Director, Transformation, Talent and Inclusion.
35. Discussions are ongoing with SCC in respect of the fee for the service from 1 September 2020 and any likely additional costs arising from the exit plan to be agreed with SCC.
36. Budgets will be agreed with Finance for the transition period up to the new contract being awarded and then the steady state service budget required from February 2022. Performance against the agreed budget will be subject to regular monitoring with Finance in the usual manner.

Implementation timetable

37. An indicative implementation timetable provided by Local Pensions Partnership Administration (LPPA) was set out in the report to the Sub-committee on 3 February

2021. This is set out for information in Appendix 1. Officers are working closely with LPPA to develop a detailed project plan, which also includes elements of the exit plan being discussed with SCC, to ensure a smooth transfer from SCC and implementation of the new service with LPPA on 1 February 2022.

Risk Management Implications

38. The report sets out the key risks being managed on the project and the main mitigations being progressed by officers are set out throughout the report.

Risk: Pension provider record keeping and administration provisions:

39. The Council is the accountable body responsible for ensuring that members of the Pension Fund receive the best possible service which is in compliance with regulations. It continues to act at pace following identification of the risks and issues involved. Performance of the Pensions Administrator was affected by a combination of administrative, data quality and contract risks discovered by the Council in late 2019. These risks are being managed by the Pensions Taskforce in accordance with the council's Programme Management Office approach.

Implications verified by Michael Sloniowski, Risk Manager, tel 020 8753 2587.

List of Appendices:

Appendix 1: Draft Project Plan provided by LPPA showing a detailed breakdown of key activities and milestones

Month	Key Activities/Milestones
Mar 2021	<ul style="list-style-type: none">• Project Manager assigned to project & governance set up• Definition phase begins• System configuration stage begins• System configuration stage complete• Communications plan drafted for stakeholders (members & employers)
Apr 2021	<ul style="list-style-type: none">• Definition phase complete• Data migration and UAT begins• Business process review begins
May 2021	<ul style="list-style-type: none">• Data cut 1 signed off• Member web – CMS scoping begins
Jun 2021	<ul style="list-style-type: none">• Data cut 2 begins• Employer web (EAS) scoping begins• Communication plan agreed including member web registration and employer web on-board
Jul 2021	<ul style="list-style-type: none">• Business process sign off• Training plan for employers drafted and agreed
Aug 2021	<ul style="list-style-type: none">• Data cut 2 signed off
Sep 2021	<ul style="list-style-type: none">• Ongoing migration & UAT• H&F meet key members of the LPPA operations team
Oct 2021	<ul style="list-style-type: none">• Member web sign off• Employer web sign off
Nov 2021	<ul style="list-style-type: none">• Data extracts, parallel runs for payroll begin
Dec 2021	<ul style="list-style-type: none">• UPM and web released into operations• Issue welcome letters to members
End Jan 2022	<ul style="list-style-type: none">• Go-live