

	<p style="text-align: center;">London Borough of Hammersmith & Fulham</p> <p style="text-align: center;">COUNCIL</p> <p style="text-align: center;">28 JANUARY 2015</p>
<p>BI-BOROUGH LGPS PENSION ADMINISTRATION SERVICES FROM 1 APRIL 2015</p>	
<p>Report of the Cabinet Member for Finance: Councillor Max Schmid</p>	
<p>Open Report</p>	
<p>Classification - For Decision</p>	
<p>Key Decision: Key</p>	
<p>Wards Affected: All</p>	
<p>Accountable Executive Director: Jane West, Executive Director of Finance and Corporate Governance</p>	
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1. EXECUTIVE SUMMARY

- 1.1. On 1 October 2011 the Local Government Pension Scheme (LGPS) Pension Administration Service for H&F was outsourced to Capita via a four (4) year framework agreement, underpinned by a call-off contract between H&F and Capita. The framework arrangement's expiry date is 30 September 2015. RBKC joined the framework arrangement on 1 September 2012.
- 1.2. The annual value of the call-off contract is currently £214,000 for H&F and £139,000 for RBKC, reflecting the split of pension scheme membership numbers, movement activity and current pensioners across both boroughs.
- 1.3. This report sets out the business case for terminating the call-off contract with Capita by mutual agreement on 31 March 2015 and entering into a new service provision arrangement with Surrey County Council (SCC) from 1 April 2015 for an initial period of five (5) years. This is the earliest date that can be achieved due to the technical and operational requirements of accurately transitioning all aspects of the service to the new supplier.

- 1.4. A requirement of using SCC's service is that a new pension administration software system must be acquired and licensed. This will be done through a specific/call-off contract being called-off under a framework arrangement established by Northumberland County Council (NCC) in May 2014. Approval to enter into a specific/call-off contract for each borough with the software supplier for a period of five (5) years was given by H&F's Cabinet on 1 December 2014 and by RBKC's Cabinet on 20 November 2014.
- 1.5. The delegation of the pension administration service to Surrey is permitted under section 101 of the Local Government Act 1972. This requires the approval of the full Council. A report to this effect was approved by RBKC's Council meeting on 3 December 2014. The same recommendation is now being put to LBHF's full Council meeting on 28 January 2015. SCC has confirmed it will accept this service delegation.

2. RECOMMENDATIONS

- 2.1. For H&F Council to approve and make arrangements for the discharge of its functions under section 101 of the Local Government Act 1972 and to delegate the H&F pension administration service and pensioner payroll service to SCC from 1 April 2015, for an initial period of five (5) years. (An agreement will be drafted with SCC to formalise the arrangements between the parties. It is anticipated that the agreement will contain a minimum four (4) month termination clause).

3. REASONS FOR DECISION

- 3.1. The call off contract with Capita defines a range of monthly performance criteria against which the quality, accuracy and timeliness of the service is measured, all requiring 100% levels of performance. A background paper has been separately circulated to Councillors that assesses historic and recent Capita performance against the agreed criteria.
- 3.2. Given the rationale explained in the Councillors' background paper (this is an exempt paper), officers have concluded that there is no advantage to be gained in waiting for the call off contract to expire on 30 September 2015, and that it would be preferable to seek a new provider as quickly as possible in order to mitigate on-going financial and operational risk.
- 3.3. Capita has been advised of the Councils' intention to terminate the contract by way of mutual consent, and has accepted this proposed way forward. Advice from Legal Services does not identify any obvious

obstacles to this approach, subject to the completion of a Deed of Termination to be signed by all parties.

4. BACKGROUND

- 4.1. The provision of the local government pension scheme (LGPS) is a statutory function of all local authorities in England and Wales. In recent years there have been a series of legislative changes to LGPS rules, making the service significantly more complex to administer, such that it is now considered a highly specialised function. It is expected that the scheme administration will become even more complex over time due to Government initiatives.
- 4.2. H&F's LGPS pension administration service was provided in-house until 2000 when it was outsourced to the London Pensions Fund Authority for eleven (11) years, and then outsourced to Capita in 2011. RBKC's service has been outsourced to Capita since 2007.
- 4.3. Capita's LGPS pension administration service was selected by H&F and RBKC primarily on grounds of cost compared to alternative providers at that time. Recent experience has shown that service accuracy, quality and timeliness is paramount in ensuring the Councils can meet their statutory obligations and obtain best value from the providers of this specialised function.

5. PROPOSAL AND ISSUES

- 5.1. There are advantages to H&F and RBKC continuing to jointly source a pension administration service, as follows:
 - 5.1.1. **Pension Client Team** – the Pension Client Team has proven its value in monitoring the activities of an external provider. However this team is very small (2.0 x FTE from 1 December 2014) and therefore this expertise is best retained as a single service across H&F and RBKC.
 - 5.1.2. **Internal management** – management of the pension administration contract is undertaken from within the Bi-Borough HR Service, alongside all HR/Payroll operational and policy work. There are strong links between these services; to split them across different pension service providers would cause service inefficiencies and reduce the consistency of service delivery.
 - 5.1.3. **Economies of scale** – two Councils acting together in the sourcing of pension administration services are more likely to obtain greater financial and operational leverage in service provision over the longer term.

- 5.1.4. **Managed Services** – the planned implementation of Managed Services from 1 April 2015 will heighten the need of a pension administration provider to act uniformly with the new Agresso system, particularly in respect of providing monthly interfaces for employee pensionable pay and for pension contributions affecting retirement entitlements. There will also be a need for the pension administration provider to provide interfaces to Agresso accounting modules to account for pensioner payroll costs. Transitioning the pension administration service to SCC by 1 April 2015 will not impact significantly on the Managed Services project and will ensure that only one pension service supplier needs to work with the Agresso system.
- 5.2. There are two options for alternative service provision other than Capita:
- 5.2.1. **Bring the service back in-house** – although the internal Pensions Client Team has significant knowledge and expertise in this field, the Councils have neither the capacity nor the infrastructure to establish a pension administration service within five (5) months. There is also concern in being able to maintain long-term resilience in staff retention and technical expertise in what has become a highly specialised market.
- 5.2.2. **Transition to a new external provider** – changes over recent years in LGPS administration have seen the growth of specialised service providers in London and the south east, namely: the London Pension Fund Authority (LPFA), the London Borough of Wandsworth (Wandsworth) and SCC. Each of these bodies runs LGPS pension administration services for a number of local authorities and they have developed specialised knowledge of LGPS rules and regulations, taking advantage of economies of scale by pooling resources and expertise. In addition they all use the Heywood Altair pension administration system which is the market leading system for the LGPS. Transitioning the service to an alternative external provider ensures the greatest long term security of service provision.
- 5.3. A new provider will need to transition the whole service over a period of no more than five (5) months, going live on 1 April 2015. It cannot be done any sooner than this due to the technical and operational setup requirements and the need to ensure accurate transition of the historical data to the new system. This timescale is achievable so long as the project is managed effectively. The delegated service agreement with the new service supplier will include requirements on them to:
- Manage the project from end-to-end
 - Adhere to strict service performance criteria (see Councillors' background paper)

- Produce the pensioner payrolls
- Provide secure member online access, including the ability to view and update key personal data
- Interface with the new Agresso managed services system

6. OPTIONS AND ANALYSIS

- 6.1. Of the three (3) alternative providers mentioned at section 5.2.2 of this report, H&F have previously used LPFA's service from 2000-2011 its performance was generally acceptable during this period although relatively expensive.
- 6.2. Wandsworth and SCC are the main alternative providers in this specialised service area. Both organisations operate pension administration services on a not for profit basis, have a good track record of efficient pension service provision to their own members as well as to those of other Councils, and have the capacity to take on additional public sector clients. They both also use the market leading Heywood Altair software system. Each was asked to provide a range of comparable information to H&F and RBKC for evaluation and the results of this are given in the Councillors' background paper which has been circulated separately to this report.
- 6.3. From the information in the Councillors' background paper, it can be seen that over the proposed five (5) year term SCC's costs are lower. Service quality standards and levels of performance are also virtually identical between both Wandsworth and SCC and meet defined national minimum standards.
- 6.4. Given the equitability of costs and service quality, SCC has been selected as the preferred provider for the following reasons:
 - 6.4.1. SCC has experience of running pensioner payrolls on Heywood Altair whilst Wandsworth does not.
 - 6.4.2. SCC has experience of supporting secure member online web access to personal pension records whereas this is not currently supported by Wandsworth although we understand they are planning to do so in due course.
 - 6.4.3. Interfaces with the new Agresso Managed Service system have largely been built as part of SCC's pension administration service to WCC. It is expected that these will be portable for H&F and RBKC.
 - 6.4.4. The whole service provision for H&F and RBKC would be brought under the same operational framework as WCC. This will make it easier to plan and monitor the service on-going, and

to bring consistency to the exchange of information with Agresso.

7. CONSULTATION

- 7.1. The H&F/RBKC Chief Executives and the H&F Executive Director of Finance and Corporate Governance both support these proposals.
- 7.2. There has been consultation with WCC in respect of the service performance experienced from SCC since they took responsibility for running WCC's pension administration services from 1 June 2014, which has proven to be highly efficient and has met expectations for effective service delivery.
- 7.3. Consultation has also taken place with the Tri-Borough Pensions & Treasury Services to assess the transitional and on-going estimated service costs in the context of their reasonableness and affordability to the respective borough pension funds. The two other London boroughs linked to the framework arrangement have been assured that the framework agreement from which their contracts are called off will not be affected by H&F's and RBKC's proposals as described in this report.

8. EQUALITY IMPLICATIONS

- 8.1. There are no key equalities issues.

9. LEGAL IMPLICATIONS

- 9.1. With regard to the discharge of a contract by agreement, contracting parties can mutually agree termination of a contract. Upon instruction, Legal Services will advise and assist officers to ensure that the arrangement, including where relevant the various options for dealing with the parties' accrued rights and liabilities under the agreement being terminated, is formally recorded.
- 9.2. With regard to procurement of supply pension administration software, we are advised that this will be achieved by entering into a specific/call-off contract from a Northumberland County Council single supplier framework agreement (the NCC framework). In calling off from the NCC framework, the Council should be satisfied that the particular contract advertisement and contract terms contain adequate provision for participation by the Council.
- 9.3. NCC confirms that the single supplier was appointed onto the NCC framework following successful completion of an EU compliant tendering exercise. The relevant OJEU notice (together with NCC background documents) confirm that the NCC framework is for use by

all UK Contracting Bodies and goes on to list various classes of public body, including Local Authorities.

- 9.4. In terms of any specific/call-off contract entered into under a framework arrangement, these may be let for a period exceeding four (4) years (and so may extend beyond the lifespan of a framework arrangement). The Public Contracts Regulations 2006 (as amended) do not stipulate the duration of a specific/call-off contract awarded under a framework arrangement, however, award should be for a duration which is within the normal course of awarding contracts under the framework arrangement and not in a manner which restricts or distorts competition. The relevant ordering procedure and documents in order to successfully call-off from the NCC framework are provided by NCC. Where instructed, Legal Services will advise and assist officers accordingly.
- 9.5. With regard to provision of pension administration by SCC, section 101 Local Government Act 1972 empowers a local authority to make arrangements for the discharge of its functions by any other local authority. Where non-executive functions such as pension administration are discharged, the determination to delegate to another local authority is within the remit of full Council.
- 9.6. Upon instruction, Legal Services will advise and assist officers to ensure that the arrangement between the two local authorities is formally recorded setting out the precise nature of the delegation, including inter alia the various rights and responsibilities of the parties.
- 9.7. Implications verified/completed by: Rachel Lansdowne, Senior Solicitor (Contracts). Tel. 020 8753 2774.

10. FINANCIAL AND RESOURCES IMPLICATIONS

- 10.1. The transition costs of £258,000 for H&F and £226,000 for RBKC will be incurred in the current financial year.
- 10.2. In addition the new on-going annual contract price of £267,000 for H&F and £208,000 for RBKC represents an annual increase of £53,000 (or 25%) for H&F, and £69,000 (or 50%) for RBKC. The higher percentage increase for RBKC's annual ongoing costs reflects the fact that software charges under the new arrangements represent a much greater proportion of the overall service charge when compared to Capita's arrangements, and are equitable between both boroughs to reflect scheme membership numbers and transactional volumes.
- 10.3. The total additional cost over the five year term of the proposed new call-off contract and service delegation is £265,000 for H&F and £345,000 for RBKC.

- 10.4. All costs relating to the pensions contract are wholly charged to the H&F and RBKC pension fund respectively. There will be no impact on either Council's revenue accounts.
- 10.5. Financial and resource implications verified/completed by: H&F: Caroline Wilkinson, Head of Finance Systems Controls and Payments, 020 8753 1813. RBKC: Lyn Myers, Group Finance Manager for Corporate Services, Planning & Borough Development, 020 7361 2310.

11. RISK MANAGEMENT IMPLICATIONS

- 11.1. Bi-borough Human Resources are responsible for the management of risk associated with the management of the contract and subsequent procurement. The provision of the local government pension scheme (LGPS) is a statutory function of all local authorities in England and Wales and compliance with that function is a strategic risk on the Councils Risk Register, risk number 5. The report proposals support the obligations the Council has to meet the on-going needs and expectations of the service users. Continuity of service, risk number 4 on the Councils risk register is also a strategic risk. Implications regarding transfer of the service have been considered and a way forward agreed. An appropriate exit strategy to mitigate the effects of termination of the contract is being proposed. Information management risk and Information governance will need to be considered throughout the process of the transfer to new providers.
- 11.2. Surrey County Council has long experience of successfully managing pension administration services for local government clients. In addition Heywood has decades of experience in successfully providing the most advanced pension software management system tailored to the LGPS. Surrey County Council will manage the transition project using a proven project management strategy that was most recently deployed in June 2014 in managing the successful transition of Westminster City Council's service. H&F and RBKC will ensure that the project meets its delivery timescale through regular project management meetings.
- 11.3. Implications verified/completed by: Michael Sloniowski, 020 8753 2587, Bi-Borough Risk Manager.

12. PROCUREMENT AND IT STRATEGY IMPLICATIONS

- 12.1. The procurement of the Heywood pension administration software will be managed via a call-off contract from the Northumberland County Council Framework Agreement, in accordance with EU and other procurement legislation. This framework arrangement was established in May 2014 and permits local authorities in the UK to call-off a contract

from the supplier Heywood for its pension administration software. This software is recognised as the UK's market leading system for LGPS administration.

- 12.2. SCC has confirmed that its range of services will be unaffected by the use of a call-off contract from the NCC framework arrangement.
- 12.3. The solution will be evaluated by HFBP and any costs associated taken into consideration although an estimated provision has already been made for this in the existing cost estimates in the Councillors' background paper which has been circulated separately to this report. An analysis will also include whether other secure links or other IT is needed apart from the hosted service are required.
- 12.4. The Aquila Heywood software system will be hosted on Surrey County Council's data centre. Costs for this have been included in the financial implications of this report. Heywood and Surrey County Council have confirmed that this is consistent with the arrangements for other Councils for which Surrey provides the same service.
- 12.5. This is in line with current IT strategy for H&F and RBKC.
- 12.6. Implications verified/completed by: Alan Parry, Procurement Consultant (TTS) telephone 020 8753 2581.

LOCAL GOVERNMENT ACT 2000
LIST OF BACKGROUND PAPERS USED IN PREPARING THIS REPORT

No.	Description of Background Papers	Name/Ext of holder of file/copy	Department/ Location
1.	Cabinet Report from 1 December 2014 meeting		