



PENSIONS COMMITTEE

Subject Heading:	Pension Administration 2021-22 Budget and 2020-21 Balance
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Policy context:	Local Government Pension Scheme Regulations 2013
Financial summary:	2020-21 the pension fund is due to pay an additional £0.094m, as a result of the 50% increase in cost against the 2020-21 budget set for Pension Administration. Agree the revised budget for 2021-22 of £0.504m

The subject matter of this report deals with the following Council Objectives

Communities making Havering	[x]
Places making Havering	[x]
Opportunities making Havering	[x]
Connections making Havering	[x]

Appendix A is not available for public inspection as it contains or relates to exempt information within the meaning of paragraph 3 of Schedule 12A to the Local Government Act 1972. The information is exempt because it relates to the financial or business affairs of any particular person, including the authority holding that information, and the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

SUMMARY

The purpose of this report is to present to Committee the forecasted spend for 2020-21 for the Pension Administration Contract held by Lancashire County Council (LCC) and administered by Local Pension Partnership Administration (LPPA).

As part of the service agreement with LCC any over or underspend is charged or refunded at year end, due to the size of the current forecasted 2020/21 overspend of £0.187m, LCC and the London Borough of Havering (LBH) have agreed a cap of 50% of this figure will be charged to LBH pension fund via a year end invoice.

The report will detail a budget to agree for 2021-22 of £0.504m based on membership as of August 2020 of 19,539.

This does provide a significant increase from the 2020-21 budget of £0.320m, Exempt Appendix A provides a cost benefit analysis, which officers carried out to ensure LBH was still obtaining a competitive price.

RECOMMENDATIONS

The committee are asked to;

1. Note the additional costs LBH are due to pay at the end of the 2020-21 financial year, as a result of the overspend against the agreed 2020-21 Pension Administration Service Budget, equating to an estimated cost of £0.094m.
2. Approve the 2021-22 budget for the main Pension Administration Contract of £0.504m.

REPORT DETAIL

1. Background

- 1.1 In November 2017 the London Borough of Havering entered into a delegated agreement (Local government Act 1972) with LCC, for its Pension Administration service. LCC's pension administration service is provided by LPPA.
- 1.2 Prior to the delegated agreement commencing LBH had an in house pension administration service, but due to staff turnover and difficulty in recruitment, Havering opted to enter into a delegated agreement as a way to provide long term resilience to the service going forward. The agreement is indefinite with the option of either party terminating on 12 month's notice.
- 1.3 In late 2019, LPPA advised the authority that they were planning on increasing costs across all their providers above the previously applied annual uplift of CPI, in response to a £3.4m loss they were reporting for their 2020-21 financial year.
- 1.4 LPPA presented a planned budget to Havering in January 2020, which would increase LBH's standard service price for the financial year 2020-21 (exc. system recharge for Heywood) to £21.85 per member. In 2019-20 the equivalent admin budget was £10.92 and based on a CPI uplift of 1%, LBH would have been expected to have a 2020-21 budget of £11.04 per member (97.92% uplift).
- 1.5 Based on membership numbers for the 2020-21 financial year of 20,349 the increase would have been an above inflation rise of £0.220m. Detailed in the table below is the breakdown of the proposed 2020-21 pricing.

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Year	Service Cost (£)	Service Unit Cost (£)	System Cost (£)	System Unit Cost (£)	Total Cost (£)	Total Unit Cost (£)
2019-20	0.222m	10.92	0.092m	4.53	0.315m	15.46
2020-21 inc. 1% CPI uplift	0.225m	11.04	0.095m	4.68	0.320m	15.72
2020-21	0.445m	21.85	0.095m	4.68	0.540m	26.53
Difference in 2020-21 Budgets	0.220m	97.92%*	0	0	0.220m	68.77%**

* $(£21.85 - £11.04) / £11.04 = 97.92\%$

** $(£26.53 - £15.72) / £15.72 = 68.77\%$

- 1.6 As LCC/LPPA operate on full cost recovery and are a non-profit making organisation, as part of the cost share arrangement within the Service Agreement, LCC will charge or refund the authority based on their performance against the budget agreed with the authority at the start of the contract.
- 1.7 Officers challenged the proposed 97.92% increase to the service element of the contract, on the understanding LPPA would review their pricing and demonstrate commitment to reduce their cost base. As a result LBH and LPPA agreed that for 2020-21 that any cost above the basic budget (increased only by CPI) would not be wholly invoiced to LBH, instead only 50% of the overspend would.
- 1.8 During 2020, officers carried out an options appraisal to analyse alternative Pension Administration services, which is summarised in Exempt Appendix A.
- 1.9 Since the commencement of 2020-21, LPPA have provided LBH with quarterly forecasts on their costs to ensure they deliver within the proposed budget stated in January 2020.
- 1.10 In November 2020, LPPA provided their quarter 2 forecast and at that point the forecasted spend was due to be £0.506m, which compared to the agreed budget of £0.320m, meant a projected overspend of £0.187m. As per the cost share for 2020-21 LBH would be required to fund 50% of the charge equating to £0.093m. It was agreed this would be the maximum LBH would pay for any overspend.

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- 1.11 In December a revised budget for 2021-22, was sent to LBH, based on membership numbers of 19,539 as at August 2020, equating to a per member price of £25.80 equating to a total annual service cost of £0.504m.

2. 2020-21 Additional Service Costs

- 2.1 Within the Service Agreement between LBH and LCC, there is an agreement that any over or underspend would be charged or refunded to LBH after the final actual costs have been realised.
- 2.2 LPPA working on behalf of LCC, to provide its Pension Administration service, presented a £3.4m overspend for its overall service for the financial year 2018-19. As a result LPPA, had to revisit their pricing structure and as such went to each of its clients with over inflationary uplift for the 2019-20 financial year and beyond.
- 2.3 As LBH was presented in January 2020 the financial position of LPPA, it was agreed that any overspend would be met by LPPA, but LPPA planned to fully uplift prices to all of its clients for the 2020-21 budget.
- 2.4 The planned budget for LBH in 2020-21 was £0.320m and the planned uplift would have seen LBH increasing their base budget to £0.539m, which was a total increase of £0.220m.
- 2.5 Due to the timing of the proposal, officers requested LPPA to review its proposal and present cost savings, as a result it was agreed the originally planned budget of £0.319m which included the previously agreed CPI uplift would be used, whilst LPPA provided an update on their pricing.
- 2.6 The service Agreement, states the cost share arrangement which would see any overspend to the agreed budget being paid in full by the authority at the end of the financial year. Due to the size of the planned uplift and projected uplifts for future budgets, it was deemed a staggered budget uplift would take place, seeing only LBH being liable for 50% of the overspend in 2020-21.

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- 2.7 LPPA provided quarterly forecast reports, so that planned savings were monitored and any additional costs were challenged.
- 2.8 In November 2020, LPPA presented their quarter 2 position, which had a full year forecast cost of £0.506m. LPPA agreed to provide certainty for the year to LBH, by agreeing the most LBH would have to fund of any overspend would be based on a maximum outturn of £0.506m.
- 2.9 LBH are therefore required to pay a maximum £0.094m at year end and any additional overspend would be 100% funded by LPPA and if the forecast improved the share of Havering overspend would be reduced.

3. 2021-22 Pension Administration Budget

- 3.1 Within the Service Agreement once a budget is agreed in principle, officers are required to take the budget for the following financial year to its committee.
- 3.2 LPPA on behalf of LCC, presented a budget of £0.504m for the 2021-22 financial year, the budget is based on membership data as at August 2020 of 19,539, this equates to £25.80 per member.
- 3.3 In 2020-21, LBH budget was £0.320m and are due to fund an agreed 50% of the 2020-21 overspend which is estimated to be £0.093m, providing a total cost of £0.413m.
- 3.4 As stated in the option appraisal as part of Exempt Appendix A, although a significant price increase the benefits to continue our partnership with LPPA are;
- a. At the revised price, the current LCC/LPP model was still one of the most competitively priced options for annual costs, and the most competitive option once set up and implementation costs were taken into account.
 - b. Havering are already live with its Employee Self-Service module, with a change of provider who did not use Altair, would create difficulties for members.
 - c. LPPA have launched a number of improvements to their service

- i. Launch of a new website with online chat facility
 - ii. A new telephone system was implemented in June 2020, which enabled call types to be tracked.
 - iii. Mortality screening now takes place monthly
- d. During the COVID 19 pandemic LPP, still delivered a service in line with SLA's.
- e. Continuing with LPP would avoid the potential implementation issues that a change to service provision would cause;
 - i. Time for new provider to adapt to Havering practices
 - ii. Data transfer and cut over issues, for outstanding cases.
- f. LPPA are working with the authority and the actuary on the upcoming changes in the law anticipated out of;
 - i. McCloud
 - ii. Exit Cap/Regulation Changes
- g. An in-house option, would present significant risk to the Fund and its members, as it would require a successful large scale campaign targeting experienced pension professionals, and would have the additional challenges any change of provision would bring.

3.5 In summary, the risks to moving to an in house or alternative provider have been considered and overall the 2020-21 price is still one of the most competitive annual prices for a Pension Administration service. Therefore the 2021-22 budget of £0.504m is being presented to committee for approval.

IMPLICATIONS AND RISKS

Financial implications and risks:

The additional 2020-21 cost of £0.094m, will be funded via the pension fund. Failure to pay the balance would be in breach of the service agreement which sets out any under or overspend is charged or refunded to the authority. Being in breach of the agreement would risk LPPA issuing 12 months' notice, and then there would be additional costs associated with procuring an alternative provider.

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The 2021-22 budget of £0.504m, is a slight reduction to the forecasted spend for 2020-21, however in 2020-21 LBH were only charged the initial approved budget £0.319m and the subsequent 50% of the overspend £0.094m, as a result the increase in cost to the fund for 2020-21 would be £0.090m.

Year	Service Cost (£)	System (£)	Initial Budget (£)	Additional Cost (£)	Total Charge to Pension Fund (£)
2020-21 Spend	0.225m	0.095m	0.320m	0.094m	0.414m
2021-22 Budget	0.404m	0.100m	0.504m	0.000m	0.504m
Est. Difference in cost from 2020-21					0.090m

If LBH does not agree to the 2020-21 additional contribution (50% of the planned overspend), and/or not agree to the budget for 2021-22, the likely outcome would see LPPA issue 12 months' notice to LBH.

Legal implications and risks:

The Council has delegated its pension administration functions to LPPA by an agreement which provides for termination on either party giving 12 month's notice but is otherwise indefinite.

The provisions relating to price are as follows:

For the duration of this arrangement, in September of each year Lancashire will send to Havering a proposed budget for the next financial year including detail of any increases or efficiency savings from previous years.

Havering will either agree or offer an amended budget proposal. In the absence of agreement by both Parties the budget will remain as per the previous year plus an inflationary uplift per CPI as at the September prior to the commencement of the budgetary year.

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Once the proposed budget is agreed in principle, Havering will refer the proposed budget to its Pension committee or other appropriate body for approval. If approved the annual budget will be ring-fenced for Lancashire and transferred to Lancashire in twelve (12) equal monthly instalments.

The actual budget spend will be monitored and reimbursed through a quarterly review process. At the end of each financial year any budgetary over or underspends will be adjusted accordingly.

As result LPPA can propose a budgetary uplift of any value. As they are set up for full cost recovery the difference in the budget and the actual spend will always be adjusted with the authority.

The various options available should the Authority decide not to accept the budget proposals are set out in the Appendix.

Human Resources implications and risks:

There appear to be no HR implications or risks arising directly as a result of this report.

Equalities implications and risks:

There appear to be no Equality implications or risks arising directly as a result of this report.

The Public Sector Equality Duty (PSED) under section 149 of the Equality Act 2010 requires the Council, when exercising its functions, to have 'due regard' to:

- (i) The need to eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Equality Act 2010;
- (ii) The need to advance equality of opportunity between persons who share protected characteristics and those who do not, and;
- (iii) Foster good relations between those who have protected characteristics and those who do not.

Note: 'Protected characteristics' are age, disability, gender reassignment, marriage and civil partnerships, pregnancy and maternity, race, religion or belief, sex/gender, and sexual orientation.

The Council is committed to all of the above in the provision, procurement and commissioning of its services, and the employment of its workforce. In addition, the Council is also committed to improving the quality of life and wellbeing for all Havering residents in respect of socio-economics and health determinants.