

PENSIONS COMMITTEE

Subject Heading:

Pensions Administration Budget 2025/26

ELT Lead:

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Policy context:

Local Government Pension Scheme
Regulations 2013.

Financial summary:

The proposed budget for 2025/26 is
£0.740m to be met by the Pension Fund.
This is an increase of £92,000 on the
original budget set for 2024/25

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

| | | |
|-----------|---------------------------------------------------|-----|
| People | Supporting our residents to stay safe and well | [x] |
| Place | A great place to live, work and enjoy | [x] |
| Resources | Enabling a resident-focused and resilient Council | [x] |

SUMMARY

The administration of the Havering Local Government Pension Scheme (LGPS) is provided via a shared service agreement with Lancashire County Council (LCC) who delegate the function to the Local Pensions Partnership Administration (LPPA).

This report details the LPPA's proposed budget for 2025/26 financial year of £0.740m, an overall increase of 14.14% from 2023/24, for agreement by Committee.

RECOMMENDATIONS

The Committee are asked to:

- Approve the 2024/25 budget of £0.740m for the provision of the LPPA pension administration service.

REPORT DETAIL

1. Background

- 1.1 From 1 November 2017, the London Borough of Havering delegated the pension administration service to Lancashire County Council who have engaged the Local Pensions Partnership Administration (LPPA) to undertake their pension portfolio. The Local Pensions Partnership was formed in 2016 through a collaboration between Lancashire County Council and the London Pensions Fund Authority and provides pension services to the Local Government Pension Scheme, Police and Firefighter Schemes
- 1.2 LPPA is a non-profit making entity and our contract with LCC is set on a full cost recovery basis, i.e. any surplus against the annual budget is refunded and any deficit is charged to the fund at the end of the financial year. LPPA on behalf of LCC, will propose the annual budget and it will be presented to officers, who will review before presenting to committee for approval.
- 1.3 Within the service agreement, officers of the Havering Pension Fund (the Fund) have the option not to agree the proposed budget, in such case the budget will be set at the current budget plus an increase based on Consumer Price Index (CPI) as at January. As set out in the terms of the arrangement, LCC operate a full cost recovery, so if LCC's actual costs are in line with their forecast and LBH agree to a lower budget based on CPI, LBH will be invoiced for the difference between the actual costs and the budget that was actually agreed.

- 1.4 Following receipt of the budget proposal officers met with the Operations Manager and Director of Finance in March 2025 to discuss the budget in further detail seeking to gain a full understanding of the rationale for the increase.
- 1.5 Due to timing of the session and subsequent information requested, officers were unable able to present a final budget position at March 2025 committee.

2. Budget Proposal for 2024-25

- 2.1 LPPA on behalf of LCC has proposed a budget for 2025-26 of £0.740m this is an increase of 14.14% on 2024-25, the increase is split in two parts;
- Increase in membership numbers
 - Increase in price per member

- 2.2 Table 1 below provides a summary of the split;

| | Number of Members | Rate per Member | Total Cost |
|------------------------------------|--------------------------|------------------------|-------------------|
| 2024-25 LPPA Administration Budget | 21,149 | £30.64 | £648,005.36 |
| 2025-26 LPPA Administration Budget | 22,078 | £33.50 | £739,613.00 |
| Difference (Amount) | 929 | £2.86 | £91,607.64 |
| Difference (Percentage) | 4.39% | 9.33% | 14.14% |

- 2.3 Membership numbers are taken in August of each year and used as the basis for the forthcoming budget proposal. The increase has been expected due to the continued growth in membership across the Havering pension fund, as reported in LPPA's quarterly performance reports.
- 2.4 The increase in price per member has been driven by a variety of factors' for the purpose of the report it has been grouped by;
- Inflationary/Increase in Employer National Insurance
 - Service Development
 - Data Quality
 - Legislative and Compliance Requirements

Inflationary Pressures

- Inflation related
 - Average wage increase has been 3%

- ii. Average contract and Third Party Supplier cost increase – 2.6%
- b. National Insurance Employer Cost
 - i. In the 2024 Autumn Budget, Chancellor Rachel Reeves announced the rate of employers' National Insurance Contributions will increase from 13.8% to 15%, from April 2025. The level at which employers start paying NICs (the secondary threshold) will also reduce from £9,100 to £5,000 per year
 - 1. Factoring the early point for commencing paying National Insurance and the higher rate, LPPA estimate an approximate increase to their salary costs of 3%

Service Development

- c. Demand on LPPA's services continue to increase each year, over the annual increase in membership numbers.
 - i. The membership numbers of the fund have increased by 4.39%, but the volume of cases and workload has increased above that number

| | |
|-------------|-------|
| Deaths | 8.6% |
| Retirements | 8.8% |
| Refunds | 24.1% |
| Deferred | 50.2% |

- d. Investment in technology supporting LPPA's Efficiency and Service Programme (ESIP) is how LPPA is seeking to mitigate the demand increases, the ESIP programme has seen;
 - i. Additional functionality for portal development for employers and members including recent introduction of employer self service estimates. Giving more oversight and control over data held by LPPA.
 - ii. Improvements to the monthly returns process, now means Employers no longer have to;
 - 1. Submit any starter or change of contract forms or leaver forms for members under the age of 55. This will have a positive impact on the member experience
 - 2. Submit a separate contribution reconciliation report to the Fund in addition to uploading their monthly return to LPPA.
- e. Additional budget continues to be ring-fenced for training and development to support resilience within workforce as experienced local government Pension Administration positions become more competitive to source.
- f. Positively LPPA are seeing reward for their training and development strategy with an improvement of 11% in their staff turnover, allowing them to remove the previous vacancy factor.

Data Quality

- g. Efficiencies via, automation and process improvements aim to offset the increase in demand, however one of the barriers to fully realising efficiencies is having accurate and timely data supplied to LPPA.
- h. LPPA have highlighted a growing risk which is the quality and timeliness of data provided by employers of the fund.
- i. This could be employers late with submitting the monthly returns, which may then delay the retirement processes.
- j. As the administering authority we will work with LPPA and engage with Havering employers where there are data issues.

Legislative Requirements

- k. Increase in costs incurred for compliance with statutory and regulatory requirements;
 - i. The McCloud remedy – The first phase of McCloud identified 4875 members who are potentially eligible for underpin addition to their pension. 1928 of these were active members and any underpin will be calculated at the date of the relevant event. The remainder have already had benefits calculated and now LPPA's role is to review each case to establish what, if any, underpin addition is due and recalculate the members' benefits.
 - ii. Pension Dashboard – this will enable individuals to access all their pension information (not just that held with Havering) online, securely and in one place with a view to supporting better planning for retirement. The connection date for public service pension schemes is October 2025, with a public access coming around October 2026.
 - iii. These areas of the budget will be reviewed and challenged due to the need for LPPA to resource to meet dashboard deadline and progress with the remedy, there is expectation in future years the additional resource costs will no longer be required, however there is always the risk of new and regulatory or legal changes being introduced within pensions.
- 2.5 The increase in membership numbers across the Havering Fund correlates to the reported increase in calls to LPPA's contact centre and number of cases across the various areas within LPPA.

3 Benchmarking and Scheme Advisory Board

- 3.1 Cllr Roger Phillips, Chair of Local Government Pension Scheme Advisory Board in January 2025 wrote to Chief Financial Officers, Pension Committee Chairs at Local Government Pension Scheme Administering Authorities, to draw attention to the recommendation in the Good Governance Review.
- 3.2 The recommendation, “each administering authority must ensure their committee is included in the business planning process. Both the committee and LGPS senior officer must be satisfied with the resource and budget allocated to deliver the LGPS service over the next financial year”
- 3.3 The letter acknowledges the pressures councils are facing in delivering their services and how this should not impact decisions made on the level of funds made available. To ensure service delivery by the pension fund, acknowledging Pension is a specialist area.
- 3.4 LPPA take part in an annual CEM Benchmarking Survey, which reviews the cost per member rates across 15 pension administrators (with 10 administering LGPS). Details of the latest survey results are found in Exempt Appendix 1.
- 3.5 The price per member rate for administration services, is the same rate per the other 10 local authority funds where LPPA provide LGPS administration services.
- 3.6 All LGPS are responsible for providing data on membership and financial data of the funds as part LGPS Funds Account Return (SF3), which reports administration and management costs of LGPS funds to Ministry of Housing, Communities & Local Government (MHCLG). Reviewing the latest data available (2023-24) Havering rank in the lower mid quartile based on Management costs per member. Note data includes Investment and Administration costs. This will act as another benchmark on the value for money of Havering’s fund administration.

4 Summary

- 4.1 The budget paper was presented at April’s Local Pension Board meeting, where the contents was discussed and approval given for the paper to be presented at the next meeting of the Pension Committee for approval.
- 4.2 Officers continue to meet LPPA monthly to discuss, performance, service requirements and overall contract management including future costing of the service to ensure value for money for the fund.

IMPLICATIONS AND RISKS

Financial implications and risks:

The cost of pension administration is recharged annually to the Fund, this cost is made up of the LPPA service contract and internal administration costs (2024-25 internal administration recharge cost £0.120m, this figure exclude the cost to administer the pensions payroll). The contract costs from LCC and internal administration costs are factored into the budget and any increase in contract or internal administration costs, once agreed, the budget will be increased and the additional cost met within the Fund.

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 months' notice but is otherwise indefinite.

The provisions relating to price are as follows:

- i. 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 September prior to the commencement of the budgetary year.
- ii. 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 a 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.

It is open to the Council to not agree the budget proposal in which case it will be increased by CPI.

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:

An EHIA (Equality and Health Impact Assessment) has not been completed and is not required for this decision. The Council seeks to ensure equality, inclusion, and dignity for all. There are no equalities and social inclusion implications and risks associated with this decision.