

**CAMBRIDGESHIRE
PENSION FUND**



PENSION FUND BOARD

26 June 2014

Report by: THE LGSS SERVICE LEVEL AGREEMENT WORKING GROUP

Subject:	Proposed LGSS Service Level Agreement (SLA)
Purpose of the Report	To feedback the work of the Task And Finish Group and to consider next steps
Recommendations	<p>That the Pension Fund Board:</p> <ol style="list-style-type: none">1. Notes the conclusions of the Task and Finish Group2. Agrees that the existing proposed SLA is not accepted3. Agrees that the key principles as noted in point 3.4 below developed by the Group and consider whether these should be the basis of any SLA with LGSS4. Continues to use external independent legal advice to assist with commenting on future drafts of the SLA5. Considers if the Task and Finish Group should continue to assist in the development of the SLA6. Considers the appropriate governance structure for future consideration of changes by LGSS and monitoring of the SLA7. Notes the need for regular reports to the Board of performance against key performance indicators (which is already in progress by officers)8. Considers the need for greater understanding as to how the County Council recharges are calculated and approved.
Report Author and Enquiries to:	LGSS Service Level Agreement Task and Finish Group (Chairman – Councillor Maurice Leeke, Cambridgeshire County Council)

1. Summary of Report

- 1.1 LGSS has provided back office support to the Council in its capacity as Administering Authority ("AA") to the Cambridgeshire LGPS Pension Fund ("CPF") since October 2010. A Service Level Agreement ("SLA") was put forward by LGSS for agreement by the Board in March 2014. A Task and Finish Group was established to consider the principles of an SLA and report back to the Board. This report outlines the conclusions of the Task and Finish Group and recommends a way forward.

2. Background

- 2.1 In October 2010 LGSS began to provide the back office support (Governance, Administration, Investments, Employer Services etc) to the Board. During this time LGSS has converged the two areas originally servicing Cambridgeshire and Northamptonshire Pension Funds into one service. The service has been completely modernised with the provision of Altair administration software, new procedures and the relocation on to a single site.
- 2.2 A draft SLA put forward by LGSS was considered by the Board at the April 2014 meeting with the intention of formalising the working arrangement between the Boards and LGSS. A copy of this is attached as Appendix 1.
- 2.3 Although it was agreed by the Board that it was appropriate and good practice to put the service on a more formal service agreement footing, both in relation to the agreement of service standards and also more clarity about the calculation of pension fund charges from LGSS, the Board expressed concern about some of the contents of the SLA. Similar concerns were raised by the Northamptonshire Pension Fund Board and, accordingly, it was agreed to establish a joint Task and Finish Group to review the contents of the SLA and to discuss and agree the key principles as to how the SLA should work.

3. Findings of the Task and Finish Group

- 3.1 The Task and Finish Group considered the following as the key points for their discussion:
- Conflicts of interest
 - Flexibility
 - Not allowing the SLA to distract from the core responsibilities of running the Pension Fund
 - The impact of additional LGPS Funds joining LGSS
 - Concern over the level of County Council recharges
 - Whether a joint (NPF and CPF) sub-committee or other arrangement should be established to manage the relationship between the Boards and LGSS
 - Where responsibility for decisions would be sited
 - The legal standing of the respective parties and who would take responsibility for the SLA.

- 3.2 As part of their discussion, the Task and Finish Group considered an independent report commenting on the proposed SLA that had been produced by Eversheds and Aon Hewitt which is attached as Appendix 2. In addition, illustrations showing a range of potential recharging structures were requested, developed and considered by the Group to aid their understanding of the impact of the proposed SLA charging mechanism.
- 3.3 The Group's key concern in relation to the SLA was that it did not reflect a partnership, and in particular, the 50/50 recharge mechanism was one sided. It was particularly noted that neither LGSS nor the Funds have any control over costs in relation to external matters (e.g. changes in legislation) but under the SLA, the Funds have no or little control over internal costs or savings which will then impact their recharges.
- 3.4 To assist in considering any amendments to the SLA, the Group agreed the following key principles:
- The level of service provided should be as agreed by the Boards (i.e. through the Funds' Administration Strategies) – it is recognised that the draft SLA is trying to achieve this.
 - The level of service should be subject to ongoing monitoring.
 - LGSS must not seek efficiencies at the expense of service standards.
 - The methodology for delivering that service should be agreed between the respective parties with a mechanism put in place to consider changes.
 - The preferred option is that recharges should remain as they are in the main with no sharing of efficiency savings. However if it is considered that any sharing should be adopted, then it should be on a reciprocal basis i.e:
 - including payments from LGSS to the Funds in the years when there is an increase in costs, and
 - the sharing of the cost of any additional investment between the relevant Fund(s) and LGSS.
 - Any project type costs relating to taking on or losing customers or partners should be excluded from the cost recharged to CPF or NPF and, further, the SLA should include a facility for it to be reviewed when a new customer or partner comes on board to ensure that the existing Funds are not detrimentally affected.
 - If there is a cost that relates to an individual Fund, it should be recharged directly to that Fund; and any cost relating to multiple Funds should be recharged in relation to those Funds proportioned in relation to the number of scheme membership records.
 - Though it is recognised that LGSS is not a legally established body, there is however need for an exit strategy including a review mechanism and termination clause, which would allow recourse if LGSS fails to meet the agreed standards and, for example, LGSS (as a whole) cease to exist (e.g. a change in political aims).

- There is a need to consider an appropriate governance structure for consideration of changes and monitoring of the SLA. The potential of a joint sub-committee as mentioned in 3.1 might serve this purpose. It is critical that the members involved in the governance structure are able to demonstrate that they have no or minimal potential conflict of interest, and that any potential conflict of interest can be appropriately managed.
- Whilst aiming for these principles, for the Boards and LGSS to continue to maintain the spirit of partnership and, in particular, to try to ensure that the SLA involves an element of pragmatism as well as a flexible, open and transparent working relationship

3.5 The Board are asked to consider whether they agree with these principles and wish to take them into account in agreeing an SLA with LGSS.

3.6 It was also noted at the Task and Finish Group that the ongoing assistance of a Pension Fund external legal adviser in commenting on the SLA on their behalf was key to ensuring that the interests of the Funds were safeguarded and the key principles embedded. A number of less fundamental points were identified as part of the Group discussions that could be fed into the next draft SLA.

3.7 The Task and Finish Group also identified two other areas that they would recommend the Board considers further:

- The need for regular reports of performance against key performance indicators to be developed for the Board (which is already in progress by officers)
- The need for greater understanding as to how the County Council recharges are calculated and approved.

4. Managing any Potential Conflicts of Interest

4.1 The Working Group would wish to remind the Board of the potential conflicts of interest in this matter for some members of the Pension Board. It should also be noted that the majority of officers are also officers of LGSS and therefore may also be managing potential conflicts when commenting on this report.

5. Relevant Pension Fund Objectives

Perspective	Outcome
Administration	<ul style="list-style-type: none"> • Provide a high quality, friendly and informative administration service to the Funds' stakeholders. • Administer the Funds in a cost effective and efficient manner utilising technology. • Put in place standards for the Fund and its employers and ensure these standards are monitored and developed as necessary.

Perspective	Outcome
Governance	<ul style="list-style-type: none"> To have robust governance arrangements in place, to facilitate informed decision making, supported by appropriate advice, policies and strategies.

6. Finance & Resources Implications

6.1 The financial implications will be considered as part of the ongoing development of the SLA.

7. Risk Implications

a) Risk(s) associated with the proposal

Risk	Mitigation	Residual Risk
SLA does not meet the needs of the Board	SLA wording to be reviewed	Amber
SLA is not sufficiently flexible	SLA wording to be reviewed	Amber
Members and officers may have a potential conflict of interest	Use of Task and Finish Group and ongoing recognition and management of potential conflicts	Amber

b) Risk(s) associated with not undertaking the proposal

Risk	Risk Rating
Relationship between Pension Fund Board and LGSS becomes strained impacting on ongoing delivery of services	Amber
SLA not signed resulting in uncertainty over costs and service standards	Amber

8. Communication Implications

8.1 Not applicable.

9. Legal Implications

9.1 Independent corroboration has been sought and received from Eversheds and they did not raise any significant legal issues with the SLA proposals except for the appropriate management of conflicts of interest.

9.2 Although standard procedure is to use internal legal support, the Task and Finish Group recommend continuing to use Eversheds for external independent legal advice to the Pension Fund Board on this issue.

10. Procurement Implications

10.1 The advice from the Head of Procurement is that nothing in the proposed SLA will raise any procurement issues, as the provider and receiver of the service are not separate legal entities. Should the owner of LGSS change then the position will need to be reviewed.

11. Consultation with Key Advisors

- 11.1 Eversheds and Aon Hewitt, acting on behalf of the Pension Fund Boards, have produced an independent report to provide appropriate transparency given the potential conflicts of interest.

12. Alternative Options Considered

- 12.1 An option is to carry on under the present charging policy based on membership but with the existing risks.
- 12.2 A much more radical option would be to procure third party administration services via a private sector provider or consider another local authority shared service arrangement, but this is likely to result in considerable additional cost, upheaval and additional risks.

13. Background Papers

- 13.1 April 2014 - Service Level Agreement between Pension Board and LGSS

14. Appendices

Appendix 1 – Draft Service Level Agreement

Appendix 2 – Independent report on SLA (by Eversheds and Aon Hewitt)

Checklist of Key Approvals	
Is this decision included in the Business Plan?	NO
Will further decisions be required? If so, please outline the timetable here	YES – Consideration of any further SLA.
Is this report proposing an amendment to the budget and/or policy framework?	NO
Has this report been cleared by The Director of Finance?	N/A* This report was sent however for information and comment
Has this report been cleared by The Head of Pensions?	N/A* This report was sent however for information and comment
Has this report been cleared by the Section 151 Officer?	N/A* This report was sent however for information and comment
Has the Chairman of the Pension Fund Board been consulted?	The Chairman is aware of the report but as the report has been prepared by the Task and Finish Group, it has been signed off by the Chairman of that Group
Has this report been cleared by Legal Services?	N/A* NAME:OF OFFICER: Laurie Gould COMMENTS:

*Due to the nature of the report, the report has been provided to these individuals for information and comments, rather than clearance. Any such comments received are shown above.