

**CAMBRIDGESHIRE  
PENSION FUND**



**Pension Fund Board**

**Date:** 19 March 2015

**Report by:** Deputy Head of Pensions

|                              |   |
|------------------------------|---|
| <b>Subject:</b>              | <b>Pensions Service Level Agreement</b>   |
| <b>Purpose of the Report</b> | To update the Pension Fund Board on the Service Level Agreement being finalised between LGSS and the administering authority of the Cambridgeshire Pension Fund   |
| <b>Recommendations</b>       | <b>That the Board notes the terms of the Service Level Agreement and the proposed financial management of the Pensions Service budget, including the sharing of efficiency savings between the Cambridgeshire Fund and LGSS</b> |
| <b>Enquiries to:</b>         | Name: Mark Whitby, Deputy Head of Pensions<br>Tel: 01604 368502<br>E-mail: <a href="mailto:mwhitby@northamptonshire.gov.uk">mwhitby@northamptonshire.gov.uk</a>   |

**1. Background**

- 1.1 A service level agreement (SLA) to support the current pension administration arrangements between LGSS and the administering authorities of the Cambridgeshire Pension Fund and Northamptonshire Pension Fund has been in development for some time.
- 1.2 The form of the service level agreement and the associated charging structure has been considered previously by the LGSS Management Board, the respective Pension Fund Boards and a Task and Finish Group, established by the Pension Fund Boards to consider the proposals.
- 1.3 The Task and Finish Group reported in June 2014. Subsequent to this work has progressed on the drafting of the SLA to take account of the concerns of the Task and Finish Group and to facilitate improved financial management of the Pensions Service. In the meantime it has also been agreed by the respective parties that the final SLA will be agreed directly by LGSS and the Chief Executives of the two administering authorities.

- 1.4 The development of the SLA comes with a backdrop of increased transparency and information exchange over public sector costs and increased scrutiny following the introduction of local pension boards, which will increasingly challenge decisions made by LGPS administering authorities.
- 2. Final form of the revised SLA**
- 2.1 The proposed final form of the revised SLA is set out in **Appendix 1**. This SLA is currently in the process of being agreed by LGSS and the Chief Executives of Cambridgeshire County Council and Northamptonshire County Council.
- 2.2 The main body of the SLA is principally unchanged, but significant amendments have been made to Schedule 1 which sets out the mechanism for charging the Annual Fee to each of the two Pensions Funds and the sharing of future efficiency savings provided by LGSS to the two Pension Funds.
- 2.3 Previous drafts of the SLA proposed a charging mechanism whereby the actual costs of administering the Scheme were compared from one year to the next and any decrease, or increase, in the annual fee were shared between LGSS and the two Pension Funds. Whilst this principle was stated, the SLA did not actually contain a clause stating how increases in costs would be shared.
- 2.4 It was also proposed that efficiency savings generated by LGSS undertaking the administration of pension services related to the two Pension Funds should be shared between LGSS and the respective two Pension Funds. Originally the ratio of cost sharing was proposed to be 50% to LGSS and 50% to the combined Funds. This has now been revised to an equal split between LGSS and the two Pension Funds; one third each.
- 2.5 Schedule 1 replaces the previous charging mechanism with the following:
- Actual administration costs are charged to the two Pension Funds, but based on an agreed three year rolling budget
  - Any cashable efficiencies related to the service provided to the two Pension Funds are identified annually and shared as agreed in 2.4 above, unless agreed otherwise with the two Pension Funds
  - Two thirds of the cashable value of the efficiency contributes towards a reduction in the LGSS administration budget for the two Pension Funds going forwards
  - One third of the cashable value of the efficiency is treated as a recurring income line to LGSS
- 2.6 Such an approach provides LGSS with fair and transparent motivations to deliver economies of scale via growth and to strive for greater efficiencies by LGSS benefiting directly from only genuine cashable efficiency savings as a result of more efficient pensions administration, alongside the respective two Pension Funds.
- 2.7 The SLA continues to require performance to be measured with reference to the Key Performance Indicators set out in the Administration Strategy, agreed annually by the

two Pension Fund Boards. This ensures that delivery of efficiencies will never be at the expense of service standards.

### **3. Financial management of the Pensions Service**

- 3.1 A key aspect of delivering pensions administration to the two Pension Funds in line with the SLA will be strong and transparent financial management of the Pensions Service budget.
- 3.2 From April 2015 the Pensions Service will effectively operate a single consolidated account wherein all expenditure relating to pensions administration under the SLA is captured. This will include staff costs, non staff costs such as IT and communications and overheads. Elements excluded from this account will be charged directly to the Pension Funds; these elements relate to governance, investment and actuarial activity. For clarity, the treatment of pension activity is set out in **Appendix 2**.
- 3.3 The account will also capture income generated by the Pensions Service through activity such as administration of the Cambridgeshire Police Pension Scheme and Firefighters' Pension Scheme and non-statutory activity that may be chargeable. As the gross income is being credited to the consolidated account, any surplus over the resource costs will be treated as an income line to LGSS.
- 3.4 The proposed pensions service budget is set out in **Appendix 3**. The total cost to be recovered from the two Pension Funds would then be proportioned to each Fund in accordance with their total scheme membership as at 31 March of the accounting year to which the costs relate, as set in Schedule 1 of the SLA.
- 3.5 Any directly chargeable costs, as set out in Appendix 2, will also be chargeable to the Funds on the same proportional basis, unless they clearly relate to a single Fund only.
- 3.6 For information, and as requested by the Task and Finish Group and Pension Fund Boards, Overheads are as set out in Appendix 3. It should be noted that these costs have been reassessed for the 2015-16 year with the exception of payroll costs, which are being recalculated based on a revised methodology by the relevant service area – the current payroll cost should therefore be considered a placeholder and are expected to be less than the amount stated.
- 3.7 Monitoring against the Pensions Service administration budget for the current year will be regularly reported to the two Pension Fund Boards in each Business Plan Update. The rolling 3 year budget will be reassessed and reset if necessary annually.
- 3.8 Permanent efficiencies that will reduce the Pensions Service administration budget for future years and, subject to agreement, deliver recurring income lines to LGSS, will be agreed between LGSS Officers and the two Pension Fund Boards at the end of each financial year.

#### 4. Relevant Pension Fund Objectives

| Perspective                   | Outcome   |
|-------------------------------|---|
| <b>Communications</b>         | <ul style="list-style-type: none"> <li>• Promote the Scheme as a valuable benefit.</li> <li>• Deliver a clear and consistent message; that is simple, relevant and impactful, uses plain English throughout and engages all levels of stakeholders' understanding.</li> <li>• Provide clear information about the Scheme, including changes to the Scheme, and educate and engage with members so that they can make informed decisions about their benefits.</li> <li>• Seek and review regular feedback from all stakeholders about communication and shape future communications appropriately.</li> <li>• Look for efficiencies in delivering communications including through greater use of technology and partnership.</li> </ul>  |
| <b>Administration</b>         | <ul style="list-style-type: none"> <li>• Provide a high quality, friendly and informative administration service to the Funds' stakeholders.</li> <li>• Administer the Funds in a cost effective and efficient manner utilising technology.</li> <li>• Ensure the Funds and its stakeholders are aware of and understand their roles and responsibilities under the LGPS regulations and in the delivery of the administration functions of the Funds.</li> <li>• Put in place standards for the Fund and its employers and ensure these standards are monitored and developed as necessary.</li> <li>• Ensure benefits are paid to, and income collected from, the right people at the right time in the right amount.</li> <li>• Maintain accurate records and ensure data is protected and has authorised use only.</li> <li>• Understand the issues affecting scheme employers and the LGPS in the local and national context and adapt strategy and practice in response to this.</li> </ul> |
| <b>Funding and Investment</b> | <ul style="list-style-type: none"> <li>• To ensure that the Fund is able to meet its liabilities for pensions and other benefits with the minimum, stable level of employer contributions.</li> <li>• To ensure that sufficient resources are available to meet all liabilities as they fall due.</li> <li>• To maximise the returns from its investments within reasonable risk parameters.</li> </ul>   |
| <b>Governance</b>             | <ul style="list-style-type: none"> <li>• To have robust governance arrangements in place, to facilitate informed decision making, supported by appropriate advice, policies and strategies.</li> <li>• Ensure the Fund and its stakeholders have the appropriate skills and receive training to ensure those skills are maintained in a changing environment.</li> </ul>  |

## 5. Finance & Resources Implications

- 5.1 The SLA and financial management approach outlined in this report should provide greater transparency and financial control of pensions administration service delivered to the two Pension Funds and enable improved governance of this function.

## 6. Risk Implications

a) Risk(s) associated with the proposal

| Risk   | Mitigation   | Residual Risk |
|--|--|---------------|
| In seeking efficiencies there is potential for administration performance to decrease. | Administration performance is closely monitored through the KPIs identified in the Fund's Administration Strategy. | Green         |

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

| Risk  | Risk Rating |
|---|-------------|
| Without a formal SLA there would be less robust and transparent control of pension service costs. | Amber       |

## 7. Communication Implications

|                              |  |
|------------------------------|--|
| <b>Direct Communications</b> | Chief Executives to agree SLA. Feedback to be provided to the Board once agreed. |
|------------------------------|--|

## 8. Legal Implications

- 8.1 Specialist pensions legal advice from Eversheds has already been provided to the Pension Funds in connection with previous versions of the SLA and charging mechanism.

## 9. Consultation with Key Advisers

- 9.1 There has been no further consultation with professional advisers in the writing of this report.

## 10. Alternative Options Considered

- 10.1 The current form of the SLA is an update to the previous version considered by the Task and Finish Group and reported to the Pension Fund Board in June 2014.

## 11. Background Papers

- 11.1 Cambridgeshire Pension Fund Board Report - Proposed LGSS Service Level Agreement (SLA) – 26 June 2014

## **12. Appendices**

- 12.1 Appendix 1 – Service Level Agreement
- Appendix 2 – Treatment of Pensions Activity
- Appendix 3 – Proposed Pension Services Rolling Budget
- Appendix 4 - Overheads

| <b>Checklist of Key Approvals</b>  |  |
|--|--|
| Is this decision included in the Business Plan?                              | No   |
| Will further decisions be required? If so, please outline the timetable here | No   |
| Is this report proposing an amendment to the budget and/or policy framework? | No   |
| Has this report been cleared by Section 151 Officer?                         | Chris Malyon – 06/03/2015                            |
| Has this report been cleared by Deputy Head of Pensions?                     | Mark Whitby  |
| Has the Chairman of the Pension Fund Board been consulted?                   | Councillor Count – 19/02/2015                        |
| Has this report been cleared by Legal Services?                              | Laurie Gould on behalf of Quentin Baker – 02/03/2015 |

**Appendix 1 – SLA**



## Appendix 2 - Treatment of Pensions Activity

### **Pensions Administration Costs – Actual Costs Indirectly Chargeable to the two Pension Funds via Main Account**

#### **Principal costs:**

- Staff Related
- Altair system
- Communications
- Overheads e.g. payroll, accommodation, support service costs
- IT Costs
- Other Non Staff costs

### **Other Pensions Administration Income –Surplus on Income to LGSS not related to the two Pension Funds**

#### **Principal income sources:**

- Fire Pensions Scheme administration
- Police Pension Scheme administration
- Non statutory pensions administration

### **Governance Costs – Directly Chargeable to the two Pensions Funds**

#### **Principal costs:**

- Actuarial
- Legal – Governance Related
- External Audit
- Subscriptions - Governance
- Trustee Related Costs, including Skills and Knowledge Training

### **Investment Costs -Directly Chargeable to the two Pensions Funds**

#### **Principal costs:**

- Fund Manager Fees
- Fund Advisory Costs
- Fund Monitoring Costs
- Fund Custodian Costs
- Investment Related Subscriptions
- Legal – Investment related

### Appendix 3 – Proposed Pension Services Rolling Budget

|  | Budget<br>2014-15<br>£ | Forecast<br>2014-15<br>£ | Budget<br>2015-16<br>£ | Budget<br>2016-17<br>£ | Budget<br>2017-18<br>£ |
|--|------------------------|--------------------------|------------------------|------------------------|------------------------|
| <b>Staff Related</b>                       | <b>2,130,450</b>       | <b>2,148,700</b>         | <b>2,110,800</b>       | <b>2,089,300</b>       | <b>2,001,900</b>       |
| <b>Non Staff Related</b>                   | <b>747,701</b>         | <b>717,740</b>           | <b>654,600</b>         | <b>655,570</b>         | <b>686,860</b>         |
| <b>Overheads</b>                           | <b>1,249,574</b>       | <b>1,599,000</b>         | <b>1,276,250</b>       | <b>1,301,790</b>       | <b>1,327,850</b>       |
| <b>Statutory Income</b>                    | <b>-75,140</b>         | <b>-146,000</b>          | <b>-3,500</b>          | <b>-3,500</b>          | <b>-3,500</b>          |
| <b>Total Cost Pre Adjustments</b>          | <b>4,052,585</b>       | <b>4,319,440</b>         | <b>4,038,150</b>       | <b>4,043,160</b>       | <b>4,013,110</b>       |
| <b>Adjustments for Income/Efficiencies</b> |                        |                          |                        |                        |                        |
| Non LGPS and Non Statutory Income          |                        |                          | -140,000               | -150,000               | -160,000               |
| Surplus Income to LGSS                     |                        |                          | 90,000                 | 100,000                | 110,000                |
| Efficiencies to LGSS                       |                        |                          | 0                      | 26,000                 | 79,000                 |
| <b>Cost Recovered from two Funds</b>       |                        | <b>4,319,440</b>         | <b>3,988,150</b>       | <b>4,019,160</b>       | <b>4,042,110</b>       |

## Appendix 4 - Overheads

|                                | Charge<br>2014-15<br>£ | Charge<br>2015-16<br>£ |
|--------------------------------|------------------------|------------------------|
| Payroll Recharges              | 739,367                | 612,000 *              |
| Accommodation                  | 226,019                | 117,640                |
| Democratic Services            | 22,662                 | 48,840                 |
| Departmental Support<br>Costs  | 240,936                | 127,770                |
| Pensions SLA<br>Management Fee | 370,000                | 370,000                |
| <b>Total</b>                   | <b>1,598,984</b>       | <b>1,276,250</b>       |

\*subject to revised modelling by relevant service area