

Warwickshire Local Pension Board Administration Costs

26 February 2020

1. Recommendation(s)

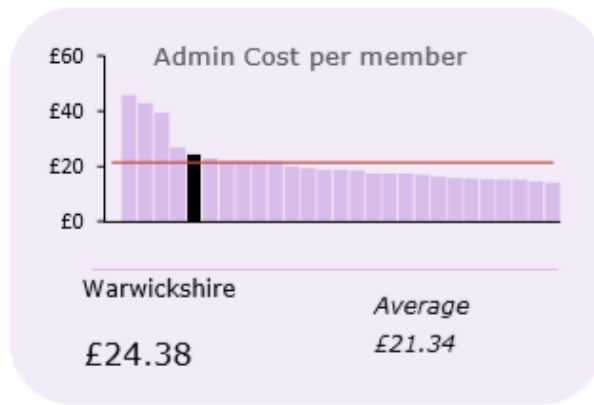
- 1.1 Note that the total cost of Pensions Administration per member is 14.2% higher than the average and the intention is to test whether this is due to economies of scale resulting from Warwickshire being a small Fund compared to the benchmark group.
- 1.2 Note the intention to work with the CIPFA benchmarking club to enhance the consistency and quality of benchmarking data.
- 1.3 Following the work with the CIPFA benchmarking club the service will look for opportunities to improve unit costs and will report back to the Board on findings and activities.

2. Executive Summary

- 2.1 The Board has expressed concerns over a number of meetings about Pension Fund administration costs in general, and specifically, about the WCC payroll costs charged to the Fund. The CIPFA Pensions Administration benchmarking report for 2019 was published in October 2019 and was reported to the Board on 14 November 2019, where it was agreed that further investigation of the benchmarking report would be undertaken with the results to be reported back to the Board.
- 2.2 Further work has been conducted by Ian Coleman, the independent consultant, and this report sets out his findings from that investigation.

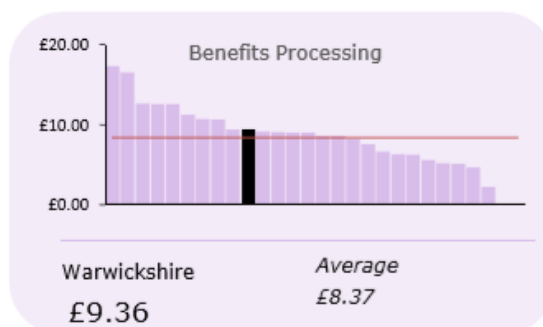
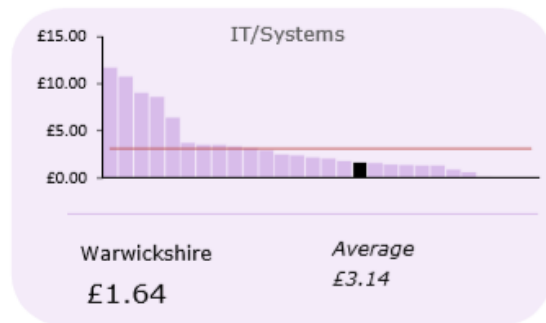
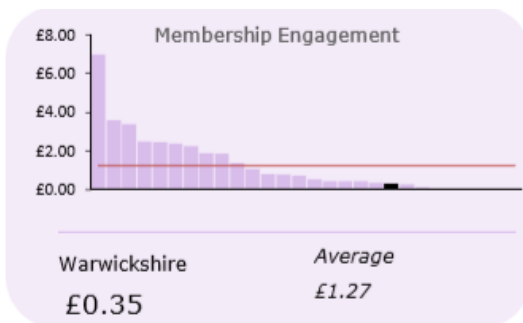
3. CIPFA Pensions Administration Benchmarking Report 2018/19

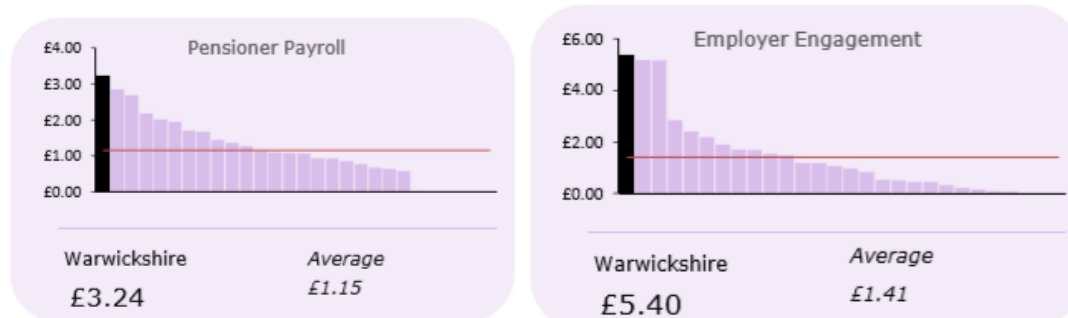
- 3.1 The key cost comparator for Admin Cost per Member is set out below:



3.2 The cost elements on which the total costs are based are set out in Table 1 below, with further information set out in the charts:

Table 1: Analysis of Admin Costs of the Warwickshire Pensions Service Compared to Other Pensions Administration Functions 2018/19		
	Warwickshire Cost per Member £	Average Cost per Member £
Membership Engagement	0.35	1.27
IT/Systems	1.64	3.14
Benefits Processing	9.36	8.37
Pensioner Payroll	3.24	1.15
Employer Engagement	5.40	1.41
Indirect costs	4.38	6.50
Income	0.00	(0.45)





4. General Analysis of Results

- 4.1 The total service cost per member of £24.38 is above the average of £21.34. However, the average represents a significant variation in the size and structure of pension funds. Not all pension funds partake in the benchmarking exercise. The detailed information for other Funds is not available in a public document. Nevertheless, from information held by CIPFA, it is possible to conclude that a comparison of the total costs of the Warwickshire Fund with funds of a comparable size and structure shows that the total costs of service provision are in line with other funds.
- 4.2 Although the total costs are in line, there are wide variations in the component elements. This can only be explained by the completion of the benchmarking exercise at WCC being undertaken on a different basis to how the return has been completed at most other Funds. A better understanding of the component elements is required when submitting cost information for comparative purposes.
- 4.3 Recently, CIPFA has arranged a meeting for the members of the benchmarking club to discuss issues. One of the key aims is to obtain greater consistency in the submission of data. It is anticipated that, with this clarification, and with a greater understanding of the costs, more consideration can be given to the submission of data in future.

5. Pensioner Payroll Costs

- 5.1 The Board has been particularly concerned about the pensioner payroll costs which show as a cost per member of £3.24 for WCC against an average of £1.15. This discrepancy is much reduced from what it has been in previous years. Working with the HR Service Centre, it has been possible to analyse the payroll costs and the recharge to pensions administration.
- 5.2 As the Board is aware, the charge from payroll to pensions administration had been a fixed £375,000 for many years. In 2018/19, following the implementation of iTrent, this was reviewed, and the charge reduced to

£168,000. This is the main reason for the variation in cost being reduced from previous years.

- 5.3 Initial analysis of the pensioner payroll costs of £3.24 per member has revealed that £0.87 relates to direct IT costs which should have been classified as IT costs. It is likely that other elements of this cost should be classified elsewhere.
- 5.4 The Board has expressed some concerns about total payroll costs. Analysis of the CIPFA Payroll benchmarking report shows that the net cost per payslip is £3.50 for WCC against an average of £3.37; and the net cost per employee is £28.94 for WCC against an average of £33.59. Analysis of the individual elements of the payroll benchmarking shows general consistency across all cost centres.

6. Financial Implications

- 6.1 Financial implications are set out in sections 3 to 5 above.

7. Environmental Implications

- 7.1 None

8. Timescales associated with the decision and next steps

- 8.1 A further report will be brought back to the next meeting of the Local Pensions Board to provide an update on work with the CIPFA benchmarking club.

Appendices

1. None.

Background Papers

1. CIPFA Pensions Administration Benchmarking Report 2018/19.

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The report was circulated to the following members prior to publication:

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Other members: