

Warwickshire Local Pension Board

Review of Pension Administration Costs

20 October 2020

Recommendation(s)

1. To note the work that has been undertaken to ensure the accuracy and quality of CIPFA benchmarking data.

1. Executive Summary

- 1.1 The LPB has previously expressed concerns about Pension Administration costs in general, and specifically, about WCC payroll costs charged to the Fund.
- 1.2 Findings reported to the LPB in February 2020 concluded that although the total service cost per member was broadly in line with that of the CIPFA statistical comparator group for a Fund of its size, there were wide variations in the component elements.
- 1.3 Further assurance work has now been completed on the quality of the 2019/20 CIPFA benchmarking data, to ensure it is consistent with the comparator group. The adjustments now made indicate that the overall unit cost of the service is considerably lower than the 2018/19 figure for Warwickshire, and would also be more in line with the average 2018/19 cost of the comparator group.

2. CIPFA Benchmarking Exercise

- 2.1 The CIPFA Benchmarking exercise analyses the cost of Pensions Administration per member by its component parts. Work has now been completed to ensure that the correct costs are being included in each element of the cost per member. Figure 1 below summarises the costs included under each element:

LGPS Admin Cost Per Member

Direct Costs

Indirect Costs
Organisation overheads

Income

Benefits Processing

Estimates, payments, asset transfers

Employer Engagement

Data and contribution collection

IT / Systems

Systems devpt, contracts, software

Pensioner Payroll

Payment of monthly pensions and payslip distribution

Membership Engagement

Benefits statements, newsletters

- 2.2 Following the 2018/19 benchmarking exercise, the CIPFA benchmarking club conducted a review of the guidance to member authorities and as a result has developed new guidance that will apply to the 2019/20 return. The club's review was commissioned in recognition that there were disparities between members in the way unit costs were being calculated. It is likely that there will be a second review when the 2019/20 report has been published to further refine the integrity of the data. It is therefore worth noting that data consistency has been a club-wide and not just a Warwickshire issue.
- 2.3 The intention is that the new guidance will drive greater consistency across the member Funds' returns and give greater assurance regarding the reliability of comparisons between authorities. The club-wide review undertaken to date is expected to shift the average unit costs in the 2019/20 returns, and Warwickshire's comparative position will therefore change. It is anticipated that Warwickshire's cost per member will be more in line with the average as a result.
- 2.4 The re-categorisation of costs to the component parts of the benchmarking exercise has been checked with a sample of other members of the benchmarking club, to ensure that Warwickshire is taking a consistent approach and that future data will be comparable and reliable.

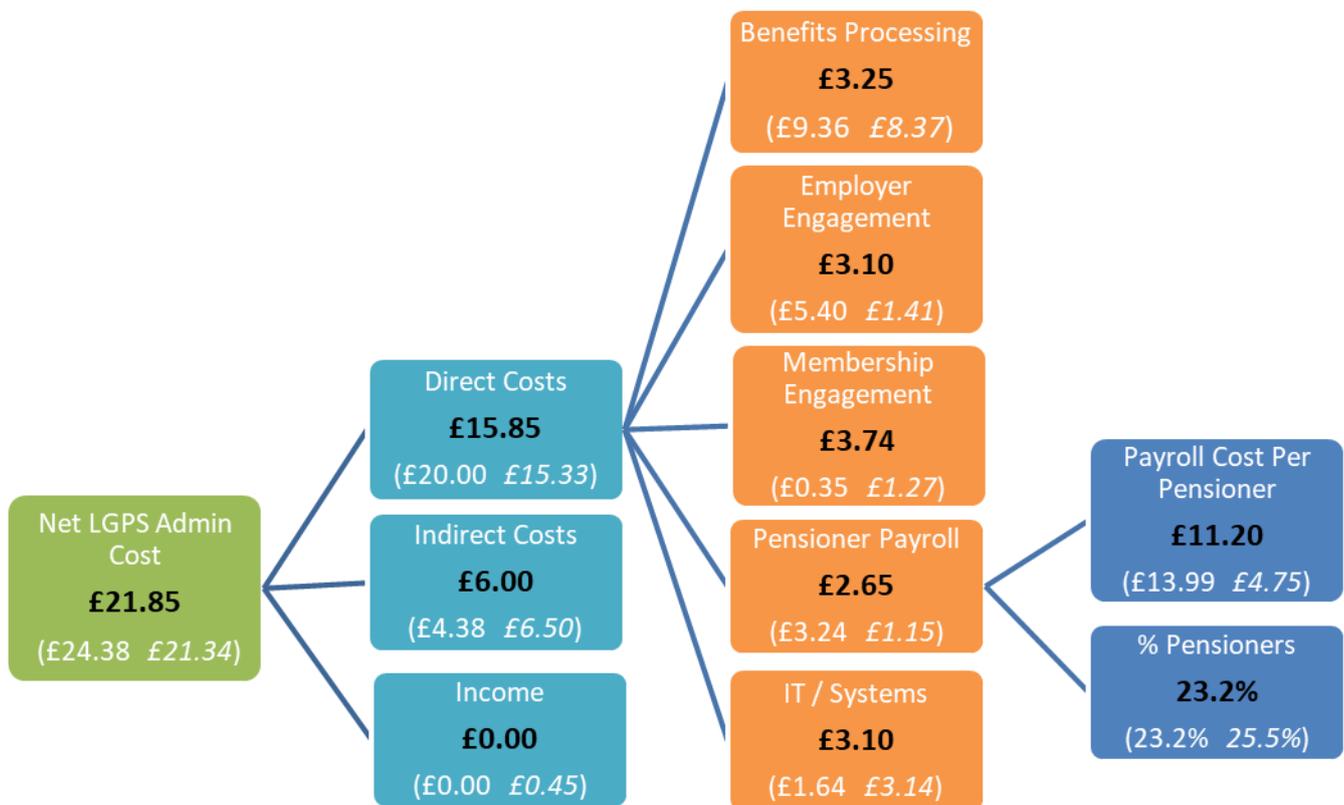
3. Review of Warwickshire Benchmarking Data

- 3.1 As a result of the review of Warwickshire's data alongside the Benchmarking Club's exercise, a number of changes have been made to the way Warwickshire Pension Fund's costs are recorded. The key changes are:
- Realignment of costs between service components to reflect changes in team structure and consistency with the benchmarking group;
 - Re-calculation of pensioner payroll costs from first principles, to reflect the actual staffing, system software licence expenses and overheads that are incurred (note that this change will not take effect until 2020/21);

- Removal of actuarial valuation costs. For 2019/20 this will result in the exclusion of £360k from the total costs that would previously have been included. This is therefore a significant factor in the overall reduction in the unit cost of the service;
- Updated rationale for the apportionment of central overhead charges to the Pensions Administration Team in the indirect element of the cost components. (note that this change will not take effect until 2020/21).

3.2 As a result of these changes, and based on 2019/20 costs, provisional benchmarking data is as set out in figure 2 (figures in brackets are Warwickshire’s 2018/19 reported costs, and 2018/19 group average costs are in italics).

Figure 2: Provisional Unit Costs 2019/20



3.3 It should be noted that the figures submitted are subject to a verification and moderation process conducted by CIPFA and are still subject to change.

3.4 Whilst it is not possible to say categorically that the unit cost per member of £21.85 will be significantly lower than the average in 2019/20, because of potential changes in the comparator group, the figures do show that overall, Warwickshire’s Pensions Administration Service is more efficient than indicated by the 2018/19 figures.

3.5 On the face of it, the split between the three key elements of Pensions Administration work (Benefit Processing, Employer Engagement and Membership Engagement) still looks quite different from the 2018/19 comparator group. However, discussions with the Benchmarking Club Review Lead indicate this is simply a reflection of the way

work is organised differently in different Funds. Warwickshire is content that the figures shown are an accurate reflection of the split of work within its service.

- 3.6 Charges from WCC Payroll relating to the i-Trent payroll system have been recategorized as an IT/Systems cost. The payroll cost per pensioner of £11.20 therefore now excludes the IT element, but in aggregate the Unit Cost Per Member reflects the actual cost of £176k that was charged by WCC Payroll to the Pension Fund in 2019/20. This is the same charge as in 2018/19. For the purposes of the benchmarking return we have to reflect what was recorded in the 2019/20 accounts.
- 3.7 Based on the “first principles” review working with WCC’s Payroll team, the true cost of undertaking the pensioner payroll function has been re-calculated at £88k, including payroll system costs. In addition, the Pensions Administration Team undertakes work specifically related to Payroll, and this has been costed at £13k. At the revised total payroll cost of £101k the net admin cost per member would be £20.21 compared to £21.87 that will need to be submitted, and the Payroll Cost per Pensioner would be £4.25.
- 3.8 Previously, indirect costs have been recharged to the Pension Fund based on a corporate allocation model. The model used has been reviewed and costs recalculated based on more up-to-date data. The revised methodology apportions the gross cost of central services to Pensions Administration based on either headcount or budget, as appropriate. This will take effect from 2020/21.
- 3.9 On this basis, indirect costs have been calculated for 2019/20 at £6.00 per member. From 2020/21, using the new apportionment basis, the indirect cost per member would be £6.67. The increase reflects the fact that the overhead charge had remained the same for at least three years.

4. Financial Implications

- 4.1 Financial implications are as set out in the body of this report.

5. Environmental Implications

- 5.1 None

6. Supporting Information

- 6.1 CIPFA Benchmarking Report 2018/19

7. Timescales associated with the decision and next steps

- 7.1 The 2019/20 CIPFA Benchmarking dashboard is expected to be published on 6th November 2020 and the results will be brought to the first available meeting of LPB.

Appendices

1. None

Background Papers

1. None

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

Local Member(s): None

Other members: Councillors Warwick, Singh Birdi, Boad, O'Rourke and Falp