



**DORSET & WILTSHIRE
FIRE AND RESCUE
AUTHORITY**

Item 7

MEETING	Shadow Policy and Resources Committee
DATE OF MEETING	17 September 2015
SUBJECT OF THE REPORT	Pension Administration
STATUS OF REPORT	For open publication
PURPOSE OF REPORT	For discussion
EXECUTIVE SUMMARY	<p>Current pensions administration is provided for both the Firefighters' Pension Scheme and the Local Government Pension Scheme under separate arrangements for both schemes, in both Fire Authorities; in Dorset it is provided by the Dorset Pension Fund (under Dorset County Council), and in Wiltshire, pensions administration is provided by the Wiltshire Pension Fund (under Wiltshire Council). It has been recognised that there could be efficiencies and economies of scale if the schemes administration was brought under one administrator.</p> <p>The paper explores the options available in relation to how pensions administration could be undertaken for the new authority beyond April 2016.</p>
RISK ASSESSMENT	There are significant financial risks with moving to a single pensions administration provision, alongside the risks of inefficiency, duplication of effort and inconsistent practice being perpetuated long term if no change was made.
COMMUNITY IMPACT ASSESSMENT	No separate impact assessment has been carried out in bringing forward this report.
BUDGET IMPLICATIONS	There are significant costs associated as a result of this paper should decisions be made regarding moving to a single pensions administration provision. Indicative costs have been broadly identified separately in the report, where applicable. Early indicative costs of a full cost/benefit analysis are estimated to be approximately £7,000-£10,000.
RECOMMENDATIONS	A full cost benefit analysis be commissioned to identify whether it would be beneficial to have one LGPS administrator and what the

	future revenue service impacts are likely to be, and for further work be undertaken to identify a suitable timescale for implementation should the decision be made to move to a single administration.
BACKGROUND PAPERS	None
APPENDICES	None
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1. Introduction

- 1.1 The administrations of the Firefighters' Pensions Scheme (FPS) and the Local Government Pensions Scheme (LGPS) are carried out through different arrangements, and in respect of different legislation, for the two authorities, Dorset Fire Authority and the Wiltshire and Swindon Fire Authority. Currently the FPS and LGPS administrations for Dorset Fire Authority are provided by Dorset Pensions Fund (within Dorset County Council) and likewise by the Wiltshire Pension Fund (within Wiltshire Council) for the Wiltshire and Swindon Fire Authority.
- 1.2 The FPS is an unfunded scheme, i.e. does not hold any assets, and is a 'pay as you go', scheme underwritten by the Department of Communities and Local Government.
- 1.3 The LGPS scheme is a funded scheme i.e. holds assets and liabilities. Assets and liabilities are held by the LGPS scheme in the Dorset Pension Fund re: DFA, and likewise assets and liabilities are held in the Wiltshire Pension Fund re: WSFA.
- 1.4 In combining the two Fire Authorities, it would appear that there are obvious opportunities for efficiencies in combining pension administration resulting in longer term savings. By bringing the administrations of the two FPSs under a single arrangement and similarly, the two LGPSs under a single arrangement, duplication of effort could be avoided, consistent practice applied and annual costs should be less, however in doing so, there are legislative, practical and administrative considerations to be taken into account.
- 1.5 This paper identifies the main issues for Member discussion, and seeks views from Members on the future service provision of pension administration for the new Fire Authority after 1 April 2016.

2. Current Pension Administration Arrangements

- 2.1 For Dorset Fire Authority, the Firefighters' Pensions Scheme, which is operated in relation to uniformed staff (excluding Control staff), is administered under contract with Dorset County Council (DCC), and likewise, Wiltshire and Swindon Fire Authority has a contract with Wiltshire Council (WC). The contract with the pensions administrators (DCC and WC) are local contracts for administering, collecting and assigning pension contributions, and

calculating and paying individual pensions. Both services pay an annual fee agreed under contract for this service.

- 2.2 In general, employer contribution rates for the FPS are nationally established, and when charged, fall to the Fire Authority in respect of salary payments made to currently employed uniformed staff whom have opted to belong to the pension scheme. In some aspects, where the Authority has some discretion, the pensions liabilities arising from these decisions also fall to the Authority. Most other costs, except for the local administration costs, are underwritten by the Department of Communities and Local Government who centrally administer the FPS nationally.
- 2.3 For Dorset Fire Authority, the Local Government Pension Scheme, operates in respect of all other staff not eligible to join the FPS, and is administered through its scheduled body status to the Dorset Pension Fund, which operates under Dorset County Council (DCC), and, likewise for Wiltshire and Swindon Fire Authority, the LGPS is administered by the Wiltshire Pension Fund (operating under Wiltshire Council (WC)).
- 2.4 The pension funds held by each Authority in their respective LGPSs are administered, operated and valued on different bases, depending on the scheme administrator, the actuarial valuations of the funds and the principles and processes adopted within each scheme, albeit the LGPS being a national scheme. Costs of scheme administration are charged to the fund and are taken into account, when determining the policies adopted by the scheme on behalf of the Authority, in particular in assessing the employer contribution rates payable.

3. Issues for Consideration – Pensions Administration

- 3.1 It would appear sensible to bring the two FPSs administration under one contract as soon as practical and possible. At present, the two Authorities contract under separate agreement for FPS administration. As they are contractual arrangements, there appears to be no issues, other than a procurement process would be undertaken to bring this under one contract, however consideration will need to be taken regarding data/information transfer, management capacity and resources, costs and timing. This, in principle, should not be too difficult to achieve. As there are only contractual and procurement considerations, it would be practical and pragmatic to consider moving to a single provider for FPS administration, at the same time as moving the LGPS to a single provider if considered appropriate.
- 3.2 Alongside considering bringing administration for the FPS under one contract, it would also be sensible to consider having one LGPS administrator, rather than two. Advice has been sought from the Department of Communities and Local Government (DCLG) and one of the scheme's advisors (Actuary) in this respect as to the options that would be available to the new Authority in respect of the LGPS arrangements.
- 3.3 Principally, there are two options available in respect of LGPS pensions administration going forward: -

- Continue with current arrangements, i.e. have two LGPS funds administered by two separate administrations (status quo – little or no change)
 - Operate one LGPS (for the new Authority) for the new service (in either Dorset or Wiltshire) with a number of variations in relation to active members, deferred members and pensioners participation in either one or the other.
- 3.4 Maintaining the current arrangements is likely to be the least cost option, i.e. there would be no costs of transferring data, no requirement for additional actuary valuations and internal procedures would remain largely unchanged.
- 3.5 The obvious disadvantages are that duplicate processes/procedures would continue as well as current service level agreements (no savings due to economies of scale) and that dealing with staff queries and enquiries would be more complicated due to two separate scheme administrations. In addition to this, different employer contribution rates would be maintained in respect of employees in two funds, reflecting differing funding levels, policies and investment experience.
- 3.6 If the current arrangements for administration continue, employer contributions and triennial valuations would continue for the respective schemes and not much else would change, although agreement would have to be made regarding joiners to the scheme about which scheme they would join, i.e. either the Dorset LGPS or the Wiltshire LGPS, or whether only one scheme remains open to new entrants.
- 3.7 There is no requirement at this time to move to one single administration, and therefore there is no immediate need to change and initial research has identified significant considerations, costs and implications for operating with one LGPS administration.
- 3.8 Under this scenario, whilst the current two LGPS administrations would remain, decisions would need to be made regarding the membership within the LGPS, in respect of:-
- New Active Members
 - Existing Active Members
 - Deferred Members
 - Pensioner Members.
- 3.9 As long as both employers remain open to new entrants, there will be no cessation valuations and therefore no additional costs. If one employer closes to new entrants, this will likely to be an immediate increase in the employer contribution rates, and eventually when the last active member leaves the employer or retires a cessation event and cessation payment will be triggered.
4. Operating with One LGPS Administration
- 4.1 In order to move to a single scheme administration, a common consent agreement would need to be reached by the two current LGPS administrators on which scheme would continue on transfer, to provide such services. Failure to reach agreement, an application

could be made by either administration stating their preference. The scheme administrators, in both cases could apply to the Secretary of State for a Substitute Direction, who would then consult with the two administrators, prior to making a Direction.

- 4.2 DCLG have provided guidance on the details required by the SoS in order to make a Direction substituting an appropriate fund. The information required would involve detailed actuarial work and valuations and will potentially have a sizeable impact on the ongoing revenue costs i.e. changes to employer contribution rates. Actuaries would need to be employed on both funds to negotiate and reach agreement of any subsequent liabilities, transfer values and/ or exit payments if applicable. It would be preferable for any transfer be carried out at the valuation date, which is usually undertaken every three years. However, the next triennial valuation is due in early 2016/17 as at the end of March 2016. It should also be noted that any decision made by the SoS would be permanent.
- 4.3 A cost benefit analysis would be required in order to make the decision to apply for the Direction. If the decision is then to have one LGPS and apply for the Direction, a detailed plan would be required which would involve a significant amount of work in data cleansing, data transfer, coding and payroll changes, and require the negotiation of service level agreements with the single administrator for the new Authority. It is recommended that any implementation to a single LGPS administrator, should also be considered in light of any payroll contract renewal, as the project work entailed is likely to be very similar and efficiencies and economies of scale could be achieved as a result.
- 4.4 Again as with the status quo option, (i.e. maintaining two LGPS administrations), should one LGPS administration option be considered, decisions would need to be made regarding the membership within the LGPS, in respect of:-
- New Active Members
 - Existing Active Members
 - Deferred Members
 - Pensioner Members.
- 4.5 New Active Members and Existing Active Members would join the new fund. Deferred or Pensioner Member could remain in their current fund or transfer, subject to the Secretary of State approval.
- 4.6 There would need to be a considerable amount of communication and consultation undertaken with scheme members to communicate proposed changes, again would result in additional costs.
- 4.7 Under this scenario the funding and long term administration impacts would be considerable and would need careful consideration when the decision is taken on which administration would ultimately be in operation. Initial indicative costs are estimated to be around £60,000 to £70,000, to move to one single administration, to include fund valuations on both funds, LGPS administration costs of managing and arranging the transfers, data cleansing, system costs etc. Fund performance and ongoing revenue impacts e.g. employer contribution rates would also heavily influence the decision, dependent on the

new authority's strategy going forward. This would need to be determined by one of the schemes Actuaries. In order to move to a single administration and receive a Secretary of State Direction, the full cost benefit analysis would be required. Early estimates (to be confirmed) for a full cost/benefit analysis to be carried out by an Actuary indicate this is likely to be of the order £7k-10k.

- 4.8 At present employer contribution rates are 13.2% and 17.0% plus lump sum payments of £0.132m and £0.181m for Dorset and Wiltshire respectively, and these reflect the differing strategies, practices and policies of each Authority. If the administrations are brought together under one fund, the ongoing employer contribution rates would change as would the lump sum, which would need to be determined with the actuary.

5. Recommendations

- 5.1 It is recommended that a full cost benefit analysis be commissioned to identify whether it would be beneficial to have one LGPS administrator and what the future revenue service impacts are likely to be, and for further work be undertaken to identify a suitable timescale for implementation should the decision be made to move to a single administration.

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