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Programme	Finance
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Programme Lead, Programme Board, PMO, PIB, JIE, Shadow Executive North, Shadow Executive West	
Purpose of this document	
To provide information to support decision making on the future Pensions Administering Authority	

Document Control

Version History (please see version control guidance)			
Date	Version	Author	Brief Comments on Changes
10/7/20	0.1	Mike Willis	1 st draft of report
20/7/20	0.2	Mark Whitby	Full review and updated options overview
22/7/20	0.3	Mark Whitby	Updated options overview following discussion with Barry Scarr
27/7/20	0.4	Mike Willis	Format updated to FN Information Paper

Distribution (For Information, Review or Approval)	
Name	Resp⁽¹⁾
Mark Whitby – Head of Pensions (reviewed 22/7/20)	R
James Smith - Assistant Director – Strategic Finance (NCC) (reviewed 27/7/20)	R
Barry Scarr – Executive Director of Finance (NCC) (reviewed 28/7/20)	R
PMO	R
Finance Programme Board	R/A
LGPS Pensions Committee	I
Programme Implementation Board	A
Joint Implementation Executive	A
North Shadow Executive	A
West Shadow Executive	A

(1) Responsibility: I=Information, R=Review, A=Approval

1. Introduction

The Pensions service will be operated under a ‘Lead Authority’ model in line with the approved Future Northamptonshire Blueprint. The decision regarding the Pensions Administering Authority is separate, but somewhat interlinked. The Pensions Admin Authority can reside separately to the

Pensions Service base (although to do so would introduce inefficiencies). The decision on which authority will be the administering authority will need to be decided in enough time to be included in the Consequential Order legislation (draft document to be prepared in September 2020).

The Shadow Councils will prepare recommendations to the unitary authorities as well as providing the required information to MHCLG for the laying of a Consequential Order before Parliament regarding, inter alia the future administering authority arrangements for the Northamptonshire Fund, so this can be made law before April 2021. MHCLG are looking to draft this 'mopping up' order in September 2020. The administering authority decision will drive a number of key pieces of work, essential to the timely transition of the Pensions service into Unitary;

- Administering body sign inter-authority agreement re ACCESS asset pool
- Fund strategies and policies updated and reviewed
- Update of Funds documentation and websites
- Internal dispute resolution procedure identified and established (including adjudicators)
- Scheme of delegation designed/approved
- Establishment of a Pensions Committee and Investment Sub-Committee
- Establishment of a Pensions Board
- Pensions Committee Members trained/ ongoing support in place
- Scheme members are informed of Unitary changes
- Systems and Processes in place to enable data transfer from the scheme perspective
- Systems and Processes in place to enable financial control/operation of the fund
- Supplier arrangements transferred to the admin authority
- Unitary Authorities contribution rates agreed and implemented
- Scheme employer transfers identified and planned

To be able to plan in and work through the above pieces of work, it is vital a decision on the administering authority is made quickly.

2. Background

The Northamptonshire Structural Changes Order 2019 was laid before Parliament in October 2019. The draft Order sets out how two new unitary authorities, West Northamptonshire and North Northamptonshire will be formed to replace the existing eight Northamptonshire councils with effect from 1st April 2021. The Future Northamptonshire Programme is tasked with realigning, shaping and transforming the County, District and Borough functions and services into the future authorities.

The Pensions Service is one such area which must seamlessly transition into new administration arrangements whilst continuing to support its key stakeholders, LGPS scheme members and scheme employers, and meet its obligations, statutory and otherwise, through the transition period. The scheme manager for the Northamptonshire Pension Fund, known as the 'administering authority', is currently Northamptonshire County Council (NCC). The Northamptonshire Pension Fund includes hundreds of scheme employers across the Northamptonshire region, in addition to NCC, including other local authorities, academies, higher education bodies, charities and outsourced service providers.

An LGPS administering authority must be identified to support professional and transactional functions including:

- Pensions Fund Management (currently valued at £2.6bn)
- Fund accounting and statutory reporting
- 'Cradle to grave' fund administration

- Employer functions including admissions and cessations
- Support and oversight of scheme employers in respect of their own pension duties
- Fund governance including preparation of papers for s101 Committees and Pension Board
- Member skills and knowledge training
- Preparation of Fund strategies and policies
- Fund communications, including annual benefit statements and newsletters
- Pension systems and development

This information paper sets out the potential options regarding an administering authority for the Pensions service.

3. Supporting information

The following options concerning the future Pensions Administering Authority are outlined below;

Option 1 – Do Nothing

This cannot happen. Northamptonshire County Council as the existing administering authority will cease to exist on 01/04/21, and therefore a new administering authority must be identified and powers transferred ahead of this date.

Option 2 – Split the Fund into North and West and have two separate Administering Authorities

This would be hugely counter-productive. The Government's approach to local government reorganisation in situations where an administering authority has been replaced has been consistent; to retain a single Pension Fund administered by a single new administering authority.

Furthermore, the Government's direction of travel regarding LGPS management and administration is greater aggregation of assets, the most obvious example being the LGPS asset pooling agenda.

From a funding and investment perspective it would create two smaller size LGPS funds (the Northamptonshire Fund is already the second smallest in the ACCESS asset pool behind the Isle of Wight) that would require an unprecedented (in local government) disaggregation of investment assets and lead to dis-economies of scale. From a stakeholder perspective it would likely create significant governance and administration dis-benefits including increased costs and potential duplication of workflow, as well as a doubling of work required to service two Pension Committees and Local Pension Boards, all of which risk the quality of service scheme members and scheme employers receive.

Such an approach was discussed with the Fund's actuarial, governance and benefits consultants in advance of a report for the March 2020 Pensions Committee (cancelled due to the COVID-19 pandemic). They unanimously advised against such an approach.

Option 3 – Northamptonshire West as the future Pensions Administering Authority

- Northamptonshire West will become the largest scheme employer within the Northamptonshire Pension Fund and therefore would be the natural administering authority, having the largest financial and risk exposure in connection with the Northamptonshire Pension Fund. Under modelling undertaken by the Fund Actuary, Hymans Robertson, Northamptonshire West will be larger on all relevant metrics (figures used for the 31 March 2020 valuation as at 31 March 2019):

Unitary Authority	Northants West	Northants North
Asset share (£000)	951,376	802,222
Total liability (£000)	1,066,259	866,521
Active payroll	88,890	82,472
Gearing (liability/pay)	1200%	1050%
Pensions in payment (£000)	35,833	27,717

These figures exclude the removal of assets and liabilities relating to the Children's Trust as it has not yet been determined the funding approach to be taken, and therefore the residual assets and liabilities that will remain with NCC for disaggregation into the unitary authority shares. However, the Trust is relatively immaterial, representing approximately only 2% of NCC's total liabilities. These numbers have been prepared assuming that NCC's assets and liabilities are split between the two unitaries on a 55% West: 45% North basis in line with the local tax base. A split based on local population would be very similar 54% West/46% North.

It should be noted that even ignoring the impact of the disaggregation of NCC assets and liabilities into the two new unitary authorities, from an asset share/total liability perspective the West remains larger than the North, principally due to the scale of NBC:

Unitary Authority	Northants West	Northants North
Asset share (£000)	Daventry 63,129 NBC 201,640 South Northants 51,825 Total 316,594	Corby 83,817 East Northants 45,046 Kettering 101,785 Wellingboro 52,207 Total 282,855
Total liability (£000)	Daventry 68,249 NBC 262,914 South Northants 69,376 Total 400,539	Corby 94,457 East Northants 52,011 Kettering 108,461 Wellingboro 66,912 Total 321,841

- It would be hugely beneficial for the Pensions Service to be co-located with Payroll, Business Systems and IT, and clearly be optimal for staff undertaking day-to-day administering authority responsibilities to be situated within the same unitary authority to which formal responsibility is assigned by Government.

Northamptonshire West is the current location of 100% of the Pensions staff undertaking the management and administration of both the Cambridgeshire and Northamptonshire Pension Funds, within offices at One Angel Square.

LGPS administration is a highly specialist Council activity that mixes professional and transactional activity. There is an acknowledged skills shortage nationwide that makes

retention of key staff essential during and beyond the transition period. The chosen unitary authority remains responsible for pensions activity in connection with the Cambridgeshire Pension Fund, as well as the Northamptonshire Pension Fund, during a multi-year period over which not only will the impact of local government reorganisation feed through to workflows, but the impact of other major programmes of work will also be felt – for example, the McCloud remedy, GMP reconciliations, data improvement initiatives and pensions dashboard. Retention of key staff is more vital than ever.

Co-location with Payroll is an important factor, which based on Blueprint recommendations will be a lead authority model delivered by West Northamptonshire. Whilst the Pensions Service is responsible for the payment of pensions to Cambridgeshire and Northamptonshire pensioners, it uses LGSS Payroll to physically run the payroll utilising a module of the altair pensions administration platform. The Head of Pensions has oversight responsibilities in connection with this arrangement.

Note the 36,000 total pensioners in the Cambridgeshire and Northamptonshire Funds represent the largest payrolls run by LGSS and they are the only local providers familiar with the altair payroll system. It would be a major project to migrate the pension payrolls from this platform as it is integrated with the administration system and feeds the annual pensions uplift process. Furthermore, the Cambridgeshire and Northamptonshire Pension Committees both consciously took the decision to select the altair platform as the chosen pension payroll.

Option 4 – Northamptonshire North as the future Pensions Administering Authority

- Northamptonshire North will not be the largest employer of the two unitaries as set out under Option 3. Northamptonshire North does not have the same financial exposure and therefore pension risk as Northamptonshire West. It would also make employer representation on the Pensions Committee extremely difficult as the number of representatives of this quasi-trustee body ordinarily would follow pension metrics, such as those summarised under Option 3, whilst still provided the balance of power to the administering authority. This would clearly be difficult to achieve if the largest employer was not the administering authority.

4. Conclusion

This paper outlines key information to help support decisions regarding the future Pensions Administration Authority.

Formal approval on the future Administration Authority is required so as to feed into the Consequential Order laid by Parliament. The draft order is to be produced in September, and so a decision on the pensions Administration authority is required in August.

It is recommended that West Northamptonshire is designated as the Administration Authority.