

ITEM No ...7.....

REPORT TO: PENSION SUB-COMMITTEE OF THE POLICY & RESOURCES COMMITTEE & PENSION BOARD – 5TH JUNE 2017

REPORT ON: APPOINTMENT OF 3RD PARTY ADMINISTRATION SERVICE FOR GUARANTEED MINIMUM PENSION (GMP) RECONCILIATION WITH HMRC RECORDS

REPORT BY: EXECUTIVE DIRECTOR OF CORPORATE SERVICES

REPORT NO: 197-2017

1 PURPOSE OF REPORT

This report seeks approval to appoint a 3rd party administration service to carry out scheme/GMP reconciliation for the Tayside Pension Fund for members with GMP and contracted out service, including active members, with all specified work completed by 31st December 2018.

2 RECOMMENDATIONS

It is recommended that:

Equiniti be appointed as the service provider for Tayside Pension Fund. They will be required to carry out the following to ensure a successful and timely conclusion:

- Stage 1 – Initiate exercise, carrying out data collection and analysis.
- Stage 2 – Initial reconciliation, resolving bulk issues (e.g. members who are incorrectly included in HMRC records and vice versa).
- Stage 3 – Individual reconciliations - including identifying any cases that may have been underpaid and overpaid, and ensuring that all records are certified with the correct GMP and contracted out information.
- Stage 4 - Rectification – benefit correction (including drafting individual letters to scheme members with under and overpayments), and carry out final Altair (pensions system) update and production of files for updating ResourceLink (payroll system).

3 FINANCIAL IMPLICATIONS

The estimated contract cost of £434,287 is calculated on an assumed caseload based on an initial comparison of Tayside Pension Fund records against HMRC which was recently carried out. Whilst all bidders were required to provide assumptions on volumes, these differ, and all are estimated. Thus the figure above is indicative and will be subject to change dependant on caseload arising. The Sub-Committee will receive regular updates on caseload as well as costs as part of their progress reports. The price comparable on project costs is provided in the conclusion.

The implications of failing to undertake this exercise are difficult to precisely estimate as HMRC and LGPS data has never been fully reconciled, however to enable understanding, the table below annotates the annual financial implications of 3 “what if” scenarios where percentage of TPF annual payroll value differs from HMRC. It is also important to note that these figures could either be in favour of TPF or HMRC, but the cost could be as high as over £42m over the next decade if not undertaken thoroughly,

Estimated Potential Financial Implications of Discrepancies p.a.	
Annual Payroll	£ 85,392,942.00
1%	£ 853,929.42
2%	£ 1,707,858.84
5%	£ 4,269,647.10

4 **BACKGROUND**

The Guaranteed Minimum Pension (GMP) is the minimum pension which a United Kingdom occupational pension scheme has to provide for those employees who were contracted out of the State Earnings-Related Pension Scheme (SERPS) between 6 April 1978 and 5 April 1997.

In 2008 it was discovered that a small minority of pensioners who worked in the public sector were getting a larger than expected increase in their pensions year on year. This is because increases on the GMP element of their pension were erroneously being paid twice – once by the pension scheme administrator and once by the Department for Work and Pensions (DWP).

In Scotland, this was corrected via the introduction of the Local Government Pension Scheme Amendment (Increased Pension Entitlement) (Scotland) Regulations 2009, and as a result most Scottish LGPS Funds (including Tayside) investigated and reconciled the GMPs held on their system at that time. This exercise however only considered limited criteria and caseload, and as a result of this, HMRC require all pension funds to undertake a full reconciliation for all membership categories, and make appropriate settlement following the outcome by 31st December 2018.

The Pension Administration Performance Report, following the review of operations undertaken by AON Hewitt (Article VII of the minutes of the Pensions Sub-Committee and Pension Board meeting of 6th June 2016, Report 217-2016 refers) highlighted this requirement and assessed that due to existing resources and ongoing workload constraints, that this one off exercise could not be undertaken within the timescales demanded without having an extreme detrimental impact on service delivery and performance and that due to the complex nature of the exercise and level of knowledge and experience that would be required to be committed to this exercise, success would be better achieved if outsourced.

5 **PROJECT OBJECTIVE**

The outcome of the project will be that all of the Fund's GMP and contracted out records are individually reconciled with HMRC's records and HMRC records incorrectly associated with Tayside Pension Fund are updated to remove this incorrect association, resulting in an accurate reflection of the Fund's contracted out liability.

Pensions records will be reconciled within a tolerance level £2 per week, and the cost of any discrepancies which are not found in the fund's favour will have to be borne by the fund. There is no estimated cost available, however Sub-Committee and Board will be kept updated as to progress.

6 TENDERING EXERCISE

The procurement exercise was initiated in March 2017, with subsequent evaluation and interviews held on 27th April 2017.

In response to an advertisement of mini-competition on Procurement Scotland Portal, responses were received from the following 6 suppliers:

Capita	JLT
Equiniti	Hymans Robertson
ITM	Spence

The two highest responders (JLT and Equinity) were invited to make presentations.

Tender evaluations were undertaken by Senior Pensions Officers and a Specialist Pension Administration Advisor from AON Hewitt.

The tender criteria was assessed over 3 categories and weighted as follows:

Quality	40%
Service Fit	40%
Price	20%

7 CONCLUSIONS

The results of the evaluation described above are as follows:

Provider Name		Capita	Equiniti	ITM	JLT	Hymans	Spence
Overall Summary	Weighting	Provider 1	Provider 2	Provider 3	Provider 4	Provider 5	Provider 6
Quality Score	40.0	18.0	32.0	28.0	27.0	24.0	17.0
Service Fit Score	40.0	24.0	32.0	24.0	32.0	24.0	24.0
Pricing Schedule Score	20.0	20.0	20.0	7.8	19.0	9.1	0.1
Total	100.0	62.0	84.0	59.8	78.0	57.1	41.1

Project Costs	Capita	Equiniti	ITM	JLT	Hymans	Spence
Initiation, Data Collection and Analysis	£9,000.00	£2,500.00	£6,000.00	£25,000.00	£35,000.00	£40,000.00
Initial Reconciliation and Resolution of Bulk Issues	£26,500.00	£31,000.00	£131,000.00	£35,000.00	£250,000.00	£120,000.00
Individual Reconciliation	£15.82	£39.00	£55.00	£25.75	£60.00	£168.00
Rectification	£27.15	£43.75	£85.00	£26.00	£60.00	£130.00

Equiniti's overall approach provided officers with reassurance of their depth of resource, experience and their internal controls and risk management processes. They were able to demonstrate that their approach was tailored to suit the needs of the fund, fully meeting requirements, and reflecting good practice. Both material delivery and presentation were considered superior and on a set of standard assumptions, their contract estimate was the mid-range price.

8 POLICY IMPLICATIONS

This report has been screened for any policy implications in respect of Sustainability, Strategic Environmental Assessment, Anti-Poverty, Equality Impact Assessment and Risk Management.

The major issues identified relate to Risk Management and these are addressed in the Risk Register.

9 **CONSULTATION**

The Chief Executive and Head of Democratic and Legal Services have been consulted in the preparation of this report.

10 **BACKGROUND PAPERS**

None

MARJORY M STEWART
EXECUTIVE DIRECTOR OF CORPORATE SERVICES

26 MAY 2017