

Meeting of the Board 17 September 2020

Pension administration market and complexity

Introduction

1. The Scheme Advisory Board (the Board) has previously been invited to consider the complexities and challenges of the local administration that underpins the administration of the Firefighters' Pension Scheme (FPS).
2. Each Fire and Rescue Authority (FRA) is considered the scheme manager and is responsible for the operation and management of the scheme, this includes appointing an administrator to undertake the administration.
3. Administrators DO NOT make decisions on behalf of the FRA, the responsibility for decisions such as pensionable pay and ill-health remain the responsibility of the FRA.
4. There are currently 18 administrators operating in the English pensions market. They are mostly not for profit organisations, with one known exception, and are often linked to LGPS administrating authorities. We understand this will drop to 16 next year.
5. It is the responsibility of each administrator to contract a software supplier that underpins their solution. The appointment of the software supplier and therefore the deliverability of software solutions is not within the control of the FRA.
6. There are two software suppliers who supply software for the FPS: CIVICA and Aquila Heywood.
7. [A list of FRAs, their administrators and software suppliers can be accessed here](#)
8. When Leicestershire County Council, who administer the FPS for Derbyshire, Nottinghamshire, and Leicestershire Fire Authorities, gave notice in 2018 that they would no longer provide these administration services, the Board were asked to discuss what action they wanted to take with regards to reports that there was a falling market in administration.
9. The Board did not feel that the SAB have a role in deciding on preferred suppliers or influencing the market and agreed to have a watching brief on the development of the marketplace.

Current position

10. More FPS administrators have decided to leave the marketplace due to the rising complexity of the FPS in order to concentrate on the significant change and

development that is also needed for the LGPS with regards to the effect of the age discrimination case.

11. It is understood that when FRAs are approaching other administrators there is limited interest in taking on further business for the Firefighters' scheme.
12. Administrators are mostly not for profit organisations where we understand there to be no commercial interest, and the complexity of the scheme provides a knowledge and resource drain that they feel cannot currently be filled. There is an associated risk of failure to administer the scheme correctly, leading to potential breaches of the law and subsequent financial and/ or reputational damage.

Locally administered schemes

13. Along with the Local Government Pension Scheme (LGPS) and Police, the Firefighters' scheme is a locally administered scheme. This means that each authority is a scheme manager and that scheme manager is responsible for the administration and management of the scheme.
14. In LGPS the scheme manager is the administering authority or "fund", and they are responsible for the administration across multiple Local Government employers. The LGPS is a funded scheme, which means each fund is responsible for investments. The cost of running the scheme can be paid for from the scheme accounts.
15. The FPS is an unfunded, single employer scheme, which means each FRA is solely responsible for their individual scheme and the cost of running this has to be paid from the operating account.
16. The FPS is one of the smaller public service pension schemes with circa 33000 active members, and a total membership approximating 100,000 members including pensioners; this is a similar size to just one of the 86 administering authorities for the LGPS. It can be difficult for small FRAs to gain cost savings with a small membership to divide the total costs by.
17. For schemes such as NHS, Teachers, Civil Service, and MoD, the scheme manager is the relevant government department and is responsible for appointing an administrator. This is known as central administration. In reality these schemes do not change provider very often if at all, due to the complex nature of pensions administration and a relatively small marketplace

Cost

18. The current annual fee charged by administrators was reported to be £1,855,120.00¹ in 2019 when the Board commissioned AON to survey FRAs on their costs. This is an average of £26.28 per firefighter member, however, only 35 of the 44 surveyed FRAs provided cost data.
19. The overall costs of managing and administering the scheme, including special projects was valued at £120.33 per firefighter member.
20. The gaps in the provision of information on scheme costs suggests this information is not readily available for all FRAs.

The pension administration market

21. Across public sector there is a small marketplace for administration. Many of the larger public service schemes have entered into partnerships with their administrators.
22. Traditionally the FPS was administered by the local administering authority, in particular County Council FRAs. West Midlands Fire Service and Greater Manchester FRS are the only two authorities that administer the scheme 'in-house'. They are both large metropolitan FRAs.
23. In recent years we have seen a large number of FRAs look to place their administration elsewhere in order to take advantage of knowledge pools. In particular West Yorkshire Pension Fund (WYPF) now has 18 Fire and Rescue clients.
24. When procuring a new provider, the choices available for Fire and Rescue Services are:
 - 24.1. To delegate to another public service pension administrator, this means to choose a new provider without a competitive tender and does not allow an FRA to test the market.
 - 24.2. OJEU full tender, this can be a time consuming and expensive procedure.
 - 24.3. Through a framework. However, the only framework available is the [National LGPS Framework](#) and only includes one provider of Fire administration services. It is also unclear whether it is legal for FRAs to use this service which has been designed for LGPS.

¹ Appendix One - <http://www.fpsboard.org/images/PDF/Surveys/Aonreportfinal.pdf>

The devolved administrations

25. Scotland and Northern Ireland Fire and Rescue are a single service for the whole of the devolved governments, and each service appoint an administrator. Both of those administrators use Aquila Heywood software
26. Wales has three Fire and Rescue Services; North Wales, Mid and West Wales and South Wales, and are supported by two administrators who use the same Aquila Heywood software. South Wales appoints one administrator and North Wales and Mid and West Wales both appoint another.

The SAB role

27. It is the role of the SAB to consider the cost effectiveness of the scheme. Anecdotal feedback is that there is a potentially emerging risk which will be exacerbated by the implementation of remedy, and that some FRAs may be left without arrangements with administrators.
28. The age discrimination remedy will require retrospective amendment to benefits, often requiring manual calculations, detailed knowledge in respect of complex tax rules, and some decisions which may not be consistent between different authorities and administrators.
29. It is recommended therefore that the SAB consider what options they can recommend to reduce risk to FRAs.

Options for further consideration

Centralise administration

30. This would involve choosing one sole administrator to administrate the scheme on behalf of all 45 English Fire and Rescue Authorities.
31. Central administration would allow for contract management and consistency of approach. It is also likely to provide opportunities for cost savings due to finding economies of scale.
32. However, there are various issues to consider:
- 32.1. No-one owns the administration decision; it is the decision of each FRA to whom they award the administration of the scheme.
 - 32.2. It is not clear whose responsibility it would be to choose or appoint a single administrator.

- 32.3. To reach an agreement to centralise administration each FRA would have to sign up to moving to a chosen provider when their current contract ends.
- 32.4. Central administration does not address the 45 decision makers who instruct the administrator, nor the huge amount of resource needed by FRA officers in their role of scheme manager.
- 32.5. Currently administration does not include a 'policy' role, i.e. a dedicated role to discuss what support can be offered to the employer to ensure they are fulfilling their wider function as scheme manager under the regulations. Resourcing such a role would be challenging due to knowledge of the scheme, currently 'gaps' are often filled with LGPS knowledge.
- 32.6. What incentives would there be to one central administrator to keep and improve standards and to keep innovating to ensure the best use of technology and delivering a high standard of service.
- 32.7. Dependence on one provider could introduce further risk to FRAs.
33. The Board are currently supporting central standards by introducing a template [pension administration strategy](#). Stakeholders were consulted in July and August and the responses have been collated into a [consultation response](#).

Centralise the scheme manager

34. A central scheme manager is where one organisation is entirely responsible for decision making, administration, and governance of the entire scheme.
35. This is how central schemes such as NHS, Teachers, MoD, and Civil Service are managed. It allows the scheme manager to control central decision making, run procurement services and robust contract management.
36. Centralising the scheme manager function would reduce the burden on the Fire Authority officers to administrate and manage the scheme. The AON report showed that the total FTE staff costs of responding FRAs was £34.11 per firefighter member, which was more than the per member cost of administration.
37. A key recommendation from the administration and benchmarking report was to address changes in the scheme structure to reduce the complexity of the scheme.
38. However, the scheme manager is a function of the Fire Authority, and it might be considered politically sensitive to suggest functions could be taken away.
39. Under the scheme regulations a scheme manager is able to delegate the function of scheme manager, and it has previously been suggested could each FRA delegate to a single body.

40. However, it is unclear who that body could be or what powers they would have.

Develop a procurement framework

41. A procurement framework is an agreement put in place with a provider or range of providers that enables buyers to place orders for services without running lengthy full tendering exercises.

42. A procurement framework allows the setting of shared standards and costs, and the service can be divided into lots.

43. A procurement framework avoids selecting one 'preferred' provider and it allows FRAs to make a choice, potentially staying with their preferred software provider.

44. Options for the Fire sector to develop a framework:

44.1. Work with National LGPS framework² to provide a specific Firefighters' Pension Administration framework. This needs sponsors from Fire and Rescue Services and initial discussions appear to suggest these sponsors will be difficult to find.

44.2. Develop an 'in sector' procurement framework for Fire and Rescue Services by working with the sector and building on the sector's own resources and experience of frameworks. This work could be progressed through the Fire Finance Network.

44.3. Go outside the sector and work with independent advisers on a framework.

Next steps

45. In order to make informed suggestions, the Board need to know more about the provision of current contracts and the future of the market.

46. To obtain this further information, the Board are recommended to:

46.1. Ask FRAs to provide details of current contracts with administrators. An example data request is shown below.

	Explanatory notes	
Authority Name	Provide Fire and Rescue Authority name	
Service Provider	Supply name of administrator	
Scope	What benefits are provided, i.e.	

² <https://www.nationallgpsframeworks.org/>

	administration or administration and employer support	
Contract Period	Confirm the start and finish date of the contract	
Extension	Provide details of any extension date	
Method of procurement	Delegation / OJEU/ Framework	
Annual Contract Value	Provide total value of the annual contract	
Annual cost of service	Provide transaction / membership costs	
Total spend to date	Provide break down of costs by fiscal year for last three years (if possible)	
Customers	Number of employees using scheme	
Additional FRA resource needed	I.e. how much FTE resource is supplied by employment at the Fire service	

46.2. Survey administrators and FRAs to understand their views on:

- Taking on more business
- Central administration / merger
- Centralising the scheme manager function
- Procurement
- Natural decline leading to two or three dominant administrators
- Withdrawing from the sector
- Innovation
- Additional support required

Board action

47. For the board to agree the recommended next steps

Board Secretary
September 2020