

PENSION FUND COMMITTEE – 3 DECEMBER 2010

SEPARATE PENSION FUND BANK ACCOUNT

Report by Assistant Chief Executive & Chief Finance Officer

Introduction

1. At the Pension Fund Committee meeting held on 19 March 2010, the implications of changes to the Local Government Pension Scheme Management and Investment of Funds Regulations were reported. (Agenda Item 13). The report referred to the requirement for the administering authority to hold all monies held on behalf of the Pension Fund in a separate bank account from 1 April 2011. It was noted that the operation of a separate bank account would require changes to financial systems including SAP but the implications were not known at the time of the meeting. A further report was to be presented to the Pension Fund Committee at a later date.
2. This report notes the progress to date in meeting the regulatory requirement for a separate bank account and provides an update of the implications of the change to the Council's financial systems.

SAP Changes

3. A separate bank account was opened in the name of the pension fund, with the Council's bank, in April 2010. However, in order for pension fund transactions to be routed directly through the new account, major changes are required to the existing financial systems. A project team was formed to identify the technical and procedural changes required in order to direct the transactions via the new bank account. Finance and ICT staff are working with Serco (the County Council's contractor for the provision of systems and application support for the SAP system) to implement the required system changes.
4. The project team has considered two technical solutions which could enable the separate bank account to be operational by 1 April 2011. These are discussed below. The key differences are in relation to the use of a separate 'company code' for the pension fund. The 'company code' indicates to which part of an organisation the transaction relates.

Option A – Use Existing Company Code

5. Pension Fund transactions could be routed through a separate bank account with continued use of the County Council's existing 'company code' on SAP. This option would require the least amount of work by Serco to implement the technical changes and a portion of the costs of the development would be borne by Serco under existing contractual obligations.

6. This solution would meet the minimum legislative requirements but would require additional administrative work. In order to operate the separate bank account within the existing 'company code', new procedures for invoicing, cash receipting and reconciling would need to be developed and maintained.
7. Operating separate processes and procedures for Pension Fund transactions would result in one-off and ongoing implications for staff training, procedural manuals, internal controls, audit testing etc. Use of different processes would also have ongoing consequences for the organisation in relation to transferability of staff and business continuity. Although this is the cheaper option, it is less desirable in terms of the final solution. It is less efficient operationally and could introduce internal control weaknesses.
8. The latest budget estimate of Serco costs for option A, is £15,300, based on Serco's standard day rates. Negotiations are ongoing, the final costs may be lower. This charge would be at least £10,000 higher without the existing contractual provision with Serco.

Option B – New Company Code

9. This option involves operating the Pension Fund bank account from a newly created 'company code'. All pension fund transactions would have a new 'company code' identifier which would be separate from the existing Oxfordshire County Council 'company code'.
10. Other local authorities using SAP are implementing a separate 'company code' for Pension Fund transactions. This is seen as the best practice solution to the new requirements. Use of a separate 'company code' provides a comprehensive solution and enables the continued use of existing financial procedures. It also provides for greater transparency in terms of reporting and year-end accounting.
11. The separate 'company code' solution is considered to be the most efficient solution operationally and allows an improved level of separation of transactions for accounting and audit purposes.
12. The latest budget estimate of Serco costs for option B, is £27,900, based on Serco's standard day rates. Negotiations are ongoing, the final costs may be lower. This charge would be at least £10,000 higher without the existing contractual provision with Serco.

Other Costs

13. In addition to the Serco costs outlined above, both options would incur a charge from the County Council's ICT department. The ICT recharge relates to technical work which will be undertaken in-house and project management costs, including significant testing of the final solution. The latest estimate of the County Council's ICT costs for the project is £20,000 to £25,000.

14. As a result of the requirement to operate a separate bank account for the pension fund, additional staff resources will be required to undertake separate daily dealing procedures and administrative and accounting functions on an ongoing basis. This workload is estimated as equivalent to 0.5 FTE.

Next Steps

15. The project team agreed that the increased costs of option B are outweighed by the benefits of more efficient, transparent processing and recording of transactions. The risks associated with the requirement to set up separate financial procedures to operate the bank account with the County Council's 'company code' in option A should be avoided.
16. The County Council will work with Serco to implement the technical changes required to SAP to enable the use of a separate 'company code' for Pension Fund transactions from 1 April 2011 and use of a separate bank account.
17. The timeframe for completion of the project, including testing and go-live, is challenging but is currently considered achievable. Estimates of the cost of this project were not available when the Pension Fund Budget for 2010/11 was agreed and were therefore not included in the budget. However, the 2010/11 forecast for Pension Fund consultancy fees was a £45,000 underspend. The additional ICT and Serco costs relating to this project therefore result in a current forecast of an overspend of approximately £8,000 for the Pension Fund consultancy fees budget, subject to fees negotiation with Serco.

RECOMMENDATIONS

18. **The Pension Fund Committee is RECOMMENDED to note the report and the action taken to meet the requirements of a separate bank account.**

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Background papers: Nil

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