

Market update on the future of NHS Pension Scheme administration and payroll service

Background

The NHS Business Services Authority (NHSBSA) is responsible for the administration of the NHS Pension Scheme. The scheme is open to all NHS employees and employees of other approved organisations covering England and Wales, with approximately 2.4 million members. The NHS Pension Scheme receives contributions in the region of £9 billion per annum and makes payments of around £8 billion. It is the largest centrally administered pension scheme in Europe.

In late 2015, the NHSBSA had taken preliminary steps to go to market for services connected to its pensions function. This included a Supplier Bootcamp held on 7-9 October 2015, as advertised by a prior information notice published on 25 September 2015 (2015/S 186-337145), relating to the provision of payroll services. At that Supplier Bootcamp, the NHSBSA indicated to interested market operators that its intention was to publish a contract notice advertising a contract for the payroll services in April 2016.

This prior information notice is published to explain why such a contract notice has not been published, and why the NHSBSA's procurement strategy has changed. It is also published to invite market operators to attend a briefing session with the NHSBSA, details of which are below. For completeness, procurements are on-going for the provision of various other services currently provided under the current Equiniti service contract. This includes the procurement of Hard and Soft FM service providers (which have been awarded, to go live July 2016) and Medical Service providers (PQQ issued, to go live July 2017), meaning that the existing services contract has been essentially disaggregated.

Following the Supplier Bootcamp, the NHSBSA determined that its provisional preferred strategy was to procure a supplier to provide payroll services and to take pensioner administration in-house, subject to further exploration of a split payroll and pensioner administration model.

The result of that exploration is that the NHSBSA has identified significant risks to service delivery posed by the split model. Given the importance of this service to Europe's largest centrally administered pension scheme, serving several million current and ex-public servants, the NHSBSA has concluded that the risks are such that the split model is not viable operationally. The NHSBSA has changed its strategy accordingly.

In particular, the NHSBSA identified concerns about the viability of: (i) disaggregating pensioner payroll and pensioner administration and (ii) aggregating pensioner administration with the NHSBSA's existing active/deferred member administration, in the required timescale.

The exploration undertaken by the NHSBSA has identified complexity of such a level that the previously envisaged split could result in a disjointed model, damaging the customer experience and posing a material threat to continued service delivery.

At the previously held Supplier Bootcamp, the NHSBSA was also made aware by potential suppliers of concerns about the practical problems of taking on a payroll service at a time when the administration service was being aggregated, and within a challenging transition timeframe. The NHSBSA has listened to these concerns, which have been validated by the subsequent analysis carried out by the NHSBSA. The NHSBSA sees such transition challenges as increasing the threat to service delivery posed by the previously envisaged split model. This also means that the market may well not have been presented with a viable opportunity had the proposed procurement gone ahead. Indeed, the previously envisaged split model may have posed serious commercial and reputational risks for any supplier, as well as the NHSBSA.

As a consequence, the NHSBSA has modified its strategy to insource both the "gross to net" payroll and the pensioner administration services. This will create a unified administration service, deliver a single member journey and ensure service continuity. The NHSBSA is also keen to reflect the lessons to be learnt from National Audit Office reports and recommendations on pensions administration. This includes the "Investigation into members' experience of civil service pension administration" report dated February 2016. As a result, the modified strategy will also ensure that the transition timetable allows for a number of dry run migrations before go live, and provide for a period of stabilisation following any system changes.

As part of implementing this strategy and taking the services in-house, the NHSBSA will engage with the existing service provider under its current agreement for services relating to the NHS Pension Scheme, Paymaster (1836) Ltd (Equiniti). This engagement will take the form of the termination and post termination assistance that Equiniti is contractually obliged to deliver under the terms of that agreement. That assistance is currently expected to commence before 22 July 2017, the expiry date of the current agreement, and continue up to July 2018.

This assistance will involve implementing a detailed phased transition plan. Details are set out below, but in summary this plan will assist in transferring knowledge to the NHSBSA, developing the necessary skills within the NHSBSA, as well as the short term continued provision of some payroll and pensioner administration services, as necessary, to ensure continued service delivery during the 'in-housing' transition process.

In order to facilitate the in-housing, Equiniti will be engaged to adapt existing IT systems to add additional functionality, where necessary, to allow the NHSBSA to deliver the services in-house.

The NHSBSA is therefore not intending to go to market to procure the payroll, or any pensioner administration, services at this time. However, once the transitional in-housing phase is complete, the NHSBSA will be in a position to consider future service delivery models, based upon a stable environment. This will complement any potential future outsourcing of the payroll and member (active, deferred and pensioner) administration services as a cohesive, one platform service. The NHSBSA believes this would be a more attractive potential opportunity for the market than offered under the original split model.

Market operators are invited to a further briefing session which the NHSBSA is hosting on 22 August 2016 at Stella House, Goldcrest Way, Newburn Riverside Business Park, Newcastle upon Tyne, NE15 8NY. At this briefing session, the NHSBSA will explain its revised strategy consistent with this update. This session will start at 10am, until 11.30am. If you would like to attend, you are required to register by 15 August 2016 by contacting Linda Lambert (PA to Tony Waldron) via email on linda.lambert2@nhs.net. There is a maximum of 1 attendee per organisation allocated for the briefing session. Individual briefing sessions will not be held.

Additional information

This note is published for information purposes only.

The termination and post termination assistance that Equiniti will be engaged to deliver (anticipated to begin shortly and end by approximately July 2018), as referred to above, is to comprise: (i) interim provision of payroll and pensioner administration services and a period of parallel/shadow running for key elements of the service, where appropriate; (ii) development of service knowledge and necessary skills for NHSBSA staff/management (expected to include the development of training materials, running training sessions, embedding of NHSBSA staff in Equiniti's current operations, and assisting the NHSBSA's business analysts with the development of process maps/models and operations manuals); (iii) the potential novation of licences for associated software for related functions including accounting, BACS and work management, to be used by the NHSBSA for an interim period during stabilisation of the in-house service, and creating associated interfaces; (iv) data migration and associated data cleanse, including from Equiniti's current PACE pensioner administration and payroll engine, to allow the data to be used on the NHSBSA's Compendia system; (v) assistance with the development of appropriate disaster recovery systems to support transition for the in-house service; and (vi) project management resource and associated development/implementation resources, to include facilitating the NHSBSA in developing specifications for related requirements (e.g. scanning equipment) and process mapping to help design the optimal in-house processes.

To complement the other post termination assistance, Equiniti will be engaged to adapt and update the NHSBSA's existing administration software (Compendia), for which the

NHSBSA already has a licence in perpetuity, to provide pensioner administration and payroll functionality, with associated support and maintenance going forward. In the current circumstances, the NHSBSA considers that the relevant services can be supplied only by Equiniti in order to protect Equiniti's exclusive rights in Compendia, including intellectual property rights, and due to the absence of competition for technical reasons. The NHSBSA has been unable to identify a reasonable alternative or substitute to making the changes to Compendia in order to deliver the in-house service. The parameters of the NHSBSA's requirement therefore cannot be widened.

In particular, the version of the Compendia software system used by the NHSBSA is necessarily heavily 'bespoked', reflecting the specific requirements of the NHS Pension Scheme, and frequent legislative changes, including the creation of a new statutory scheme in 2015. As such, the adaptation and updating services require access to core Compendia intellectual property rights, so it is Equiniti's development staff that will be required to make the necessary changes. These services are essential to make it possible for the NHSBSA to exit Equiniti's provision of the actual payroll and administration service, transitioning the service in-house in an orderly manner.

Adapting and updating Compendia will include migrating functionality and data from PACE (the payroll engine currently used by Equiniti in its delivery of this service), which is approaching end of life and will be difficult to support in the long term. In addition, moving this functionality to Compendia will complement the platform for administration and payroll services. The NHSBSA also intends to enter into a software support and maintenance agreement with Equiniti in respect of Compendia (which is in accordance with the terms of the existing perpetual licence).

The above described assistance may also include the provision of resources by Equiniti (test managers, business analysts, IT architects, system developers, and specialist payroll managers/process engineers), creating the associated development environment and creating resilient links (WAN/LAN, network). It will also involve assistance in replacing end of life systems/IT hardware (including cabling, fire walls and telephone system).