National Audit Office

Report
by the Comptroller
and Auditor General

Cabinet Office

Investigation into members' experience of civil service pension administration

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Investigation into members' experience of civil service pension administration

Report by the Comptroller and Auditor General

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Sir Amyas Morse KCB
Comptroller and Auditor General
National Audit Office

9 February 2016

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The administration of the civil service pension payroll and certain other services moved from Capita to MyCSP in September 2014. Following these changes many scheme members and participating employers expressed dissatisfaction with the services provided by the pension administrator (MyCSP). Our investigation focuses on the quality of pension services provided to members and participating employers of the civil service pension schemes. It examines the nature and causes of the dissatisfaction, the steps taken to recover the situation and the challenges that remain to be overcome.

Investigations

We conduct investigations to establish the underlying facts in circumstances where concerns have been raised with us, or in response to intelligence that we have gathered through our wider work.

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Summary

What this investigation is about

1 This investigation examines the quality of pension services provided to members of the civil service pension schemes and government employers over the past 18 months. MyCSP administers the civil service pension schemes, which have 1.5 million current and former public sector employee members (**Figure 1**). In September 2014, MyCSP brought pension payroll and certain member administration services in-house. These were previously provided by Capita under a contract assigned to MyCSP by the Cabinet Office. At the same time MyCSP also introduced Compendia, its new pension administration IT system, which provided the platform to administer the pensioner and deferred members.

2 Following these changes, we heard reports of problems with the quality of services from MyCSP. These included cases of missed and delayed payments to pensioners and cases of poor communication that prolonged uncertainty about members' entitlement, causing hardship and distress. Two scheme members contacted the Chair of the Committee of Public Accounts, who referred the matter to the Comptroller and Auditor General.

3 There are a number of stakeholders involved in the delivery of the administration of the civil service pensions. MyCSP depends on the participating employers and, where applicable, their shared service providers, for the provision of complete and accurate membership data on a timely basis. Where this is not provided, delays in providing quotations or making awards will occur that are not of MyCSP's making but members may perceive MyCSP as being at fault. To illustrate the range of stakeholders and the interfaces and dependencies involved, **Figure 2** on page 6 provides an example of the award process for active members.

4 Most employees of the National Audit Office (NAO), including those who conducted this investigation, are civil service pension scheme members. Some employees of the NAO were personally affected by the matters investigated in this report. The audit team were not personally affected.

5 This investigation sets out:

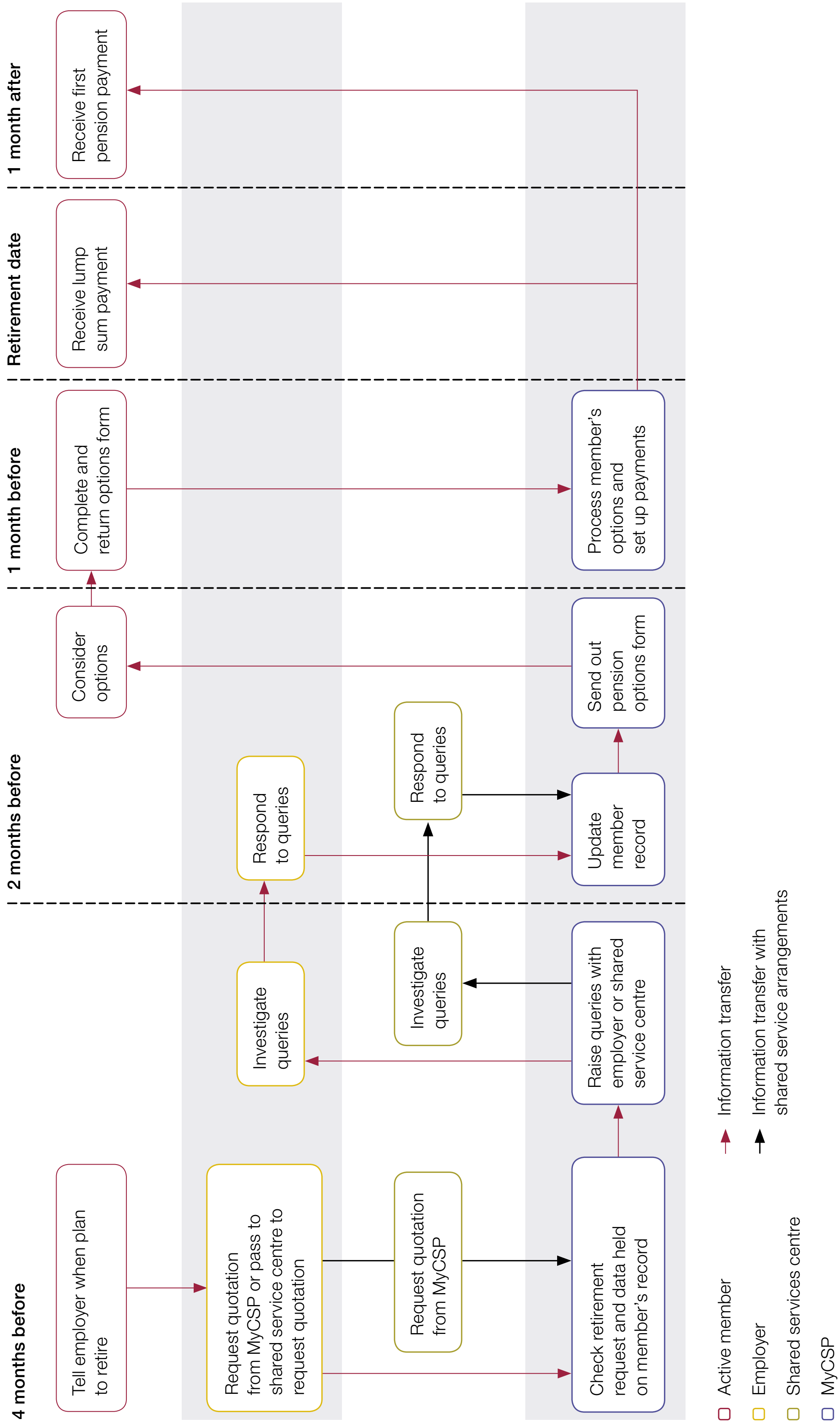
- **the problems experienced by members and employers** (Part One);
- **the cause of these problems** (Part Two); and
- **ongoing issues and challenges** (Part Three).

Figure 1
Background and glossary

The civil service pension schemes (The schemes)	There are two civil service pension schemes. The Principal Civil Service Pension Scheme (PCSPS) is the unfunded, defined benefit, contributory public service occupational pension scheme for civil servants made under the Superannuation Act 1972. PCSPS consists of four scheme sections (Classic, Classic Plus, Premium and Nuvos) with differing benefit structures and scheme rules. The Civil Service and Others Pension Scheme (known as Alpha) is the new unfunded, defined benefit, contributory scheme that came into force from 1 April 2015. Many PCSPS members transferred to Alpha on that date, while others will transfer over the next few years. The PCSPS is now closed to new members.
Scheme members	As at 31 March 2015 there were 1.5 million pension scheme members, made up of 639,000 pensioners, 493,000 contributing employees and 341,000 members who no longer contributed to the scheme but had preserved pension entitlements (deferred members).
MyCSP	The schemes are administered by MyCSP. MyCSP is owned in part by the Cabinet Office on behalf of the government (24%), in part by its employee partners (25% held in trust for them by MyCSP Trust Company Ltd) and in part by the private sector partner and investor Equiniti (51%). For further background see Appendix Two.
The migration of services	Before its creation in 2010, MyCSP's functions had been part of the public sector, with a complex and fragmented delivery model. The Cabinet Office contracted out pension payroll services and deferred member administration to Capita. That contract was assigned to MyCSP in 2012. The intention was that when the contract ended in October 2013, all services would be brought in-house and operated by MyCSP. This was postponed and the contract was extended to September 2014.
The new pension administration system	MyCSP's new pension administration IT system, Compendia, was launched at the same time as the migration. This involved amalgamating all member records, previously held in six separate data centres, plus the Capita payroll database, and transferring them to a single database accessible across all MyCSP sites.

Source: National Audit Office

Figure 2
End-to-end active member pension administration process



Source: National Audit Office analysis

Key findings

The performance issues

6 **Some scheme members have experienced serious problems with the way their individual cases have been processed**. Our initial enquiries with employers led us to dozens of individual stories of hardship, distress and inconvenience caused by late payment of pensions, difficulty in getting in touch with MyCSP and failure to provide accurate and timely information on pension entitlement. These were caused by four different sets of problems with the administration of pensions over the past 18 months (**Figure 3** on pages 8 and 9):

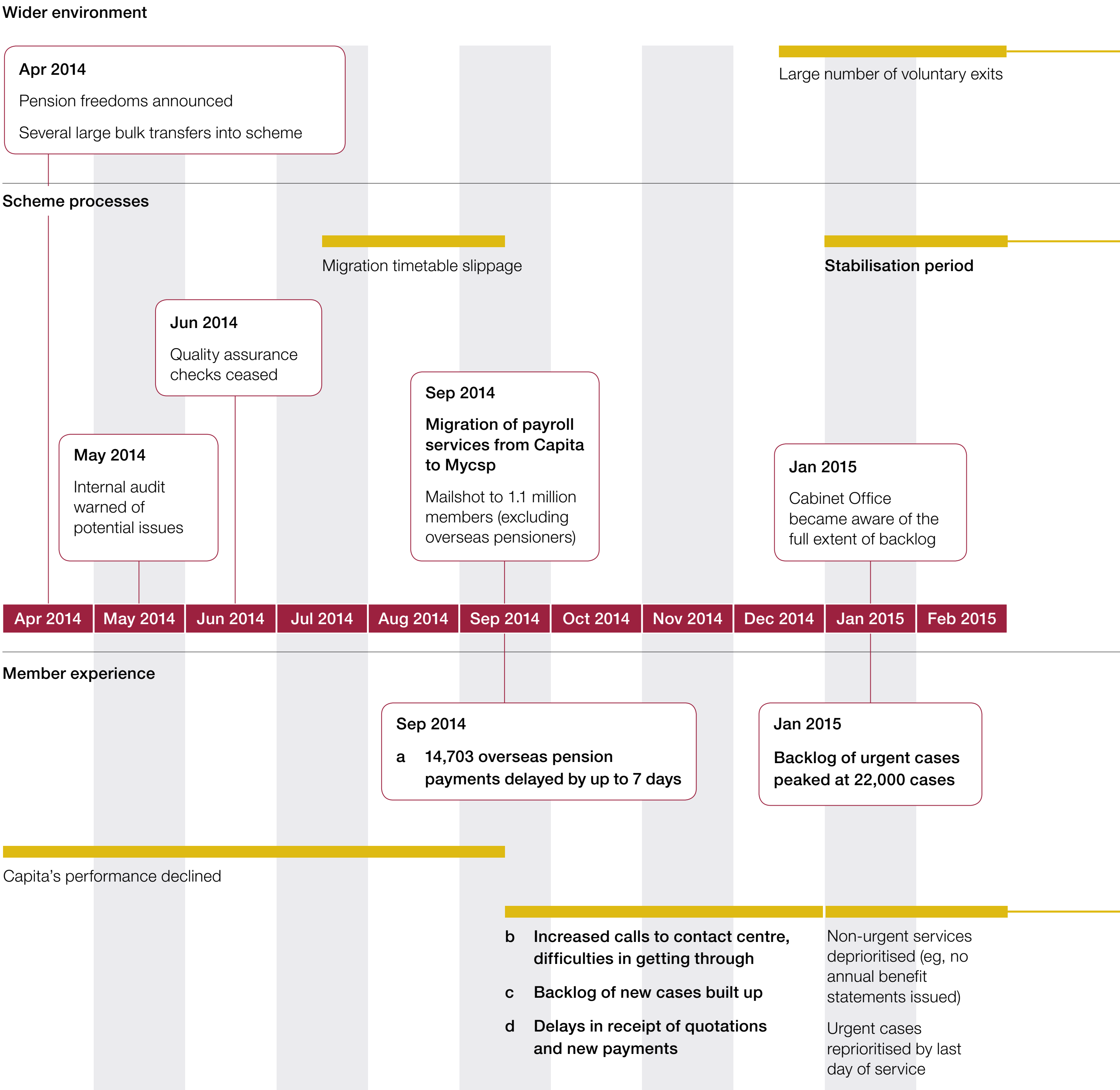
a **When MyCSP ran the payroll for the first time in September 2014, 14,703 pensioners who lived overseas were paid their pensions up to 7 days late and 99 were not paid at all in September.** MyCSP did not fully understand Capita's payment practices. This meant it did not issue the payments before the due date to allow for the extra time needed to make an international payment. In the case of the 99 who were not paid in September problems with the members' banking details meant that MyCSP had to request new banking mandates from these members before payment could be reinstated (paragraphs 2.15 to 2.17).

b **Following migration, MyCSP could not cope with the increase in calls and emails.** Between September 2014 and March 2015, MyCSP failed to answer 99,400 calls. During the migration, there were 59 staff working at MyCSP's contact centre. MyCSP has since increased this to 100. MyCSP also opened the contact centre at weekends at the busiest period to help cope with the demand. Many of the members who were able to get through complained that the contact centre could not say when their request would be dealt with (paragraphs 2.32 and 2.34).

c **A backlog of work grew at MyCSP.** MyCSP did not have sufficient staff to process the 14,000 items of work inherited from Capita and the 40,000 data issues requiring attention caused by migration of the system. A backlog grew between September 2014 and January 2015. This peaked at 22,000 urgent cases in January 2015. The backlog of urgent cases was cleared in March 2015 (paragraphs 2.18 to 2.27).

d **Members did not receive the information they needed on time**. In some cases members who were waiting for a retirement quotation or new payment did not receive their quotation or payment until after they retired. Others could not get a statement of their entitlement to help them with their planning as, with the agreement of the Cabinet Office, production of ad hoc statements was temporarily suspended in most cases (paragraphs 1.1 to 1.4 and 2.29).

Figure 3
Timeline of performance issues



Note

1 References in the figure are to the numbered list in paragraph 1.

Source: National Audit Office analysis

Large number of voluntary exits

Apr 2015

New pension scheme, Alpha, launched

Defined benefits/defined contribution transfer ban becomes effective

Stabilisation period

Jul 2015

Contract penalties resumed

Mar 2015	Apr 2015	May 2015	Jun 2015	Jul 2015	Aug 2015	Sep 2015	Oct 2015	Nov 2015	Dec 2015

Mar 2015

Backlog of urgent cases cleared

Sep 2015

Performance back to pre-migration levels

Dec 2015

Around 95% of active members have received recent annual benefit statement

Aug 2015

Issuing of annual benefit statements resumed

Non-urgent services deprioritised (eg, no annual benefit statements issued)

Urgent cases reprioritised by last day of service

The payroll failures and creation of the backlog

7 **MyCSP was unable to properly test its new pension administration system.** MyCSP's new pension administration IT system, Compendia, was not fully ready at the time of the migration and was not able to make payments until shortly before the migration. MyCSP was also not able to dry-run its administration of the casework transferred from Capita, although it did embed staff at Capita's site. Capita and MyCSP also disagree on the complexity of the cases transferred (paragraphs 2.5 and 2.22).

8 **MyCSP had far more casework to complete following migration than it expected.** MyCSP expected 10,000 to 12,000 items of work in progress casework to be transferred from Capita, such as payment of new awards or notifications of a change in circumstance. MyCSP told the Cabinet Office that there were 54,000 items of work in progress at the point of transfer. These included around 40,000 member records with data issues flagged by its new Compendia system at the point of data migration. These records required a manual intervention to resolve. Capita disagreed that these 40,000 additional cases should be considered as part of the work in progress (paragraphs 2.18 to 2.22).

9 **MyCSP's systems made prioritising clearance of the backlog more difficult.** MyCSP's work management system was configured to reflect and monitor performance in line with the contract requirements. This meant that cases were prioritised based on when they arrived. This was not helpful once the backlog had built up because it did not allow staff to identify and prioritise cases that required urgent action (paragraphs 2.37 to 2.38).

The steps taken to recover the situation

10 **The Cabinet Office told MyCSP in January 2015 to develop a plan to tackle the backlog.** It was only after the Cabinet Office asked MyCSP to manually count the backlog of outstanding work in January 2015 that the Cabinet Office and MyCSP became fully aware of the scale of both the backlog of delayed payment cases and complaints. The Cabinet Office asked MyCSP to prioritise the most urgent items and develop a plan to stabilise the business by the end of March 2015. In agreement with the Cabinet Office, MyCSP stopped some other activities, such as issuing members with annual benefit statements (paragraphs 2.24 and 2.28 to 2.29).

11 **By September 2015 MyCSP had returned the business to the performance levels before migration.** By the end of March, MyCSP had cleared most of the category 1 and 2 items in accordance with its stabilisation plan. By September, MyCSP's monthly progress report showed that it had met all key service levels and that call-handling had improved to pre-migration levels (96%). Complaints, while still high (428 received in the month), were falling (paragraphs 2.27 and 2.39).

12 MyCSP has received no financial penalty for its performance over the migration. The Cabinet Office told us that it suspended contract service credits in the year before migration. If imposed, these would have amounted to around £90,000. The suspension continued until June 2015 because the Cabinet Office asked MyCSP to process cases according to key event dates rather than on the first-come-first-served basis specified in the contract (paragraphs 2.42 to 2.43).

Poor data quality about member entitlement

13 Members and employers continue to report problems in getting accurate and timely information from MyCSP about their pension entitlement. MyCSP agreed with the Cabinet Office to temporarily suspend the issue of benefit statements because of poor data quality and the concern that sending them would lead to a poor customer experience, an increase in member queries and a build up of a new backlog. The production of annual benefit statements recommenced in August 2015 and by the end of 2015 MyCSP were reporting that some 95% of members had received a statement (paragraph 2.29).

14 There is a longstanding issue with the reliability of active member data. The Comptroller and Auditor General qualified his opinion on the civil superannuation pension accounts for the years 2010-11 and 2011-12 and reported on the poor quality of the data in 2011, 2012, 2013 and 2014. MyCSP estimates that 77% of active member records contain inconsistencies or are inaccurate. Many of these data-fails will have no impact on the accuracy of any calculated pension benefit, but 6.5% of the member records are inaccurate such that the annual benefit statement produced would misstate the value of the member's pension benefits (paragraphs 3.2 to 3.8).

15 Inaccurate data should not affect pension payments but prolongs the time necessary to issue quotations and determine new pension awards. MyCSP 'cleans' the data before issuing a quotation or making a new payment. It is often necessary to contact the current and former employers or the member to resolve queries or apparent inconsistencies. Inaccurate data also hampers MyCSP's ability to provide members with accurate benefit statements, which members need to understand the value of their benefits and to plan their financial affairs (paragraphs 3.9 to 3.11).

16 The new civil service pension arrangements require much more robust data. There are a number of developments in civil service pensions which place a greater premium on the availability of accurate data, such as the Annual and Lifetime Tax Allowances and the introduction of the Alpha scheme based on career average salary, which requires MyCSP to collect and maintain accurate data for all years of service. This depends on employers understanding and meeting their responsibilities to provide these data (paragraphs 3.12 to 3.17).

Improvements required to the governance of the end-to-end service

17 Resolving the data issues will require coordinated cross-government action. The active member data is provided by employers, and they will need to participate in any exercise to correct the historical data. This will be a major exercise (paragraph 3.18).

18 The Cabinet Office is working to improve governance of the scheme. The Cabinet Office has established a joint improvement plan with MyCSP. This covers a range of initiatives aimed at improving overall governance of the scheme, such as restructuring key roles within the Cabinet Office, creating a contract management group forum and enhancing monthly performance management information. This work needs to be extended to ensure that governance enables the effective working together of employers, Cabinet Office and MyCSP (paragraphs 3.19 to 3.30).

Recommendations

19 The Cabinet Office and Civil Service Pensions Board need to:

a work with employers and MyCSP to produce a plan as to how data will be cleansed and properly maintained. This includes determining who pays for the data cleanse;

b continue to reform the governance of the Civil Service pension schemes to ensure that employers are properly involved;

c performance manage MyCSP and involve employers in that management;

d consider and disseminate the lessons from the migration and the subsequent problems for the wider programme of shared services across government, where the centre is responsible for managing outsourced services on behalf of other central government services, and the wider programme of mutual joint ventures; and

e define clear roles, responsibilities and interfaces for the complex end-to-end process of civil service pension administration based on the outcome of the recommendations above.

Part One

Member and employer dissatisfaction

1.1 This part of the report provides an illustration of the range of complaints and issues raised by members and employers we spoke to.

We spoke to scheme members

1.2 Complaints about the administration of civil service pension schemes started to increase following the migration of the payroll service from Capita to MyCSP in September 2014. Many of these members who had not received their payments as usual or who were having difficulty in contacting MyCSP reported being significantly inconvenienced and feeling distressed; some reported experiencing serious problems and hardship. Some started to report their concerns on social media. There were also a number of press articles describing members' concerns, in the *Guardian*, *Civil Service World* and the *Professional Pensions Journal*. Some wrote to their MP to complain, and two wrote to the Chair of the Committee of Public Accounts, who asked the Comptroller and Auditor General to investigate.

1.3 To better understand the range of concerns and to illustrate the impact on members, we spoke to six employers to understand the issues they had encountered. We also asked for them to identify members who would be able to provide us with an account of the issues they had faced. We have not sought to verify the facts of these cases, nor has MyCSP commented on the facts of each case. The purpose of these accounts is to highlight the impact on members arising from the performance issues and known data quality issues. It is possible that the concerns arose due to legacy data issues or to failures by the member, MyCSP or the employer, or both. However, the cases illustrate the potential impact of the issues within the administration of the civil service pension schemes. We set out some anonymised examples in **Figure 4** on pages 14 and 15, in which members experienced:

- financial hardship due to, or exacerbated by, late payment of their pensions;
- members reported feeling emotional distress, including feeling frustrated, worried or upset by the poor service; and
- being unable to make plans or decisions because they lacked information.

Figure 4

Examples of how scheme members say they have been affected by poor service

Case study 1

Inaccurate quotation hinders ability to make decisions about taking early retirement

Sam was a civil servant for 32 years. In the summer of 2014, her employer offered a voluntary exit scheme as part of a restructuring exercise to reduce the number of civil servants. Sam's human resources (HR) department asked MyCSP for an early retirement quotation on her behalf. MyCSP provided a quotation but did not include a breakdown of Sam's employment history. Sam spent some time working out her reckonable service and found that the quotation from MyCSP was inaccurate. She informed her HR, and they informed MyCSP. However, MyCSP did not provide a revised quotation until after the application date for the voluntary exit scheme.

Sam made the decision to retire early without confirmation of her pension entitlement. After making this decision she received a revised and accurate quotation based on the reckonable service that Sam herself had calculated. Then 10 days before she was due to take early retirement, Sam received a statement from MyCSP in which both her lump sum and monthly pension payment had reverted back to the original inaccurate quotation. Sam telephoned MyCSP and was told there was nobody available to speak to her, but that someone would call back the next day. Sam did not receive a call-back, and so she notified her HR team, which tried to contact MyCSP three times. Neither Sam nor the HR team received a response from MyCSP before Sam retired.

Sam retired at the end of March 2015. Sam continued trying to contact MyCSP after her retirement, but when she spoke to an adviser she was told her calculations were with another team, and the issue remained unresolved. Sam was going through a divorce at the time of her retirement. As part of this, she was required to provide full disclosure of her pension in March 2015. She was unable to do this. When Sam was paid in mid-April the payments were correct. Sam told us she found the experience very stressful and frustrating.

Case study 2

Failure to provide a benefit statement hinders ability to make decisions about taking early retirement

Polly had been a civil servant for 13 years before taking early retirement as part of a restructuring exercise to reduce the number of civil servants. Before that, she worked in local government and had transferred her local government pension into the civil service pension scheme. Polly had been considering taking early retirement for some time so that she would be able to spend more time with her son before he went to university. She planned to use her annual benefit statement to inform her decision about taking early retirement. Her annual benefit statement arrived in November 2014 and Polly realised it significantly understated her entitlement.

Polly tried to contact MyCSP on a weekly basis by both telephone and email. She often waited a long time for an answer, and when she did get an answer she was told she would receive a call-back, but was not called back. Eventually, Polly did speak to an adviser at MyCSP. They corrected the benefits accrued, but did not provide a corrected benefits statement. Polly requested a full statement but was told she would receive it 4 to 6 weeks before she planned to draw her pension. She had to give her employer 3 months' notice.

In the absence of an accurate benefit statement from MyCSP, Polly decided to take early retirement based on her own estimation of what she would receive. MyCSP provided her with a full statement in July 2015, just weeks before she planned to draw her pension. Polly told us that she found being unable to plan effectively during these months an anxious and stressful experience.

Case Study 3

Failure to pay death-in-service payments on time

MyCSP's contract states it should issue death-in-service forms within 2 days of notification of the death and pay the lump sum death benefit within 2 days of receiving valid forms. Mark was an active member of the scheme and died in 2014. His line manager arranged for the employers' forms to be sent to MyCSP and MyCSP issued a death-in-service pack to Mark's family. Ten days after MyCSP was notified of his death, Mark's line manager visited his family and helped them fill in the necessary forms to claim the death-in-service lump sum and widow's pension. The forms were sent to MyCSP on the same day, along with Mark's death and marriage certificates.

Four weeks later, Mark's widow notified the line manager that she had not received any correspondence or payment from MyCSP. The manager reported that Mark's widow was distraught and angry as she had spent a considerable amount of time on the phone to MyCSP and had not even had a letter telling her how much she would receive. The manager also reported that the widow had no income to pay bills, could not pay the funeral costs and was having to rely on help from her family. The lump sum was finally paid 39 days after the death-in-service was notified.

Figure 4 *continued*

Examples of how scheme members say they have been affected by poor service

Case study 4

Late payment of pension

Marie-Ann worked as a civil servant for 14 years. Before that, she worked in local government for many years, and transferred her local government pension into the civil service pension scheme when she joined the civil service. Marie-Ann told MyCSP in April 2015 of her intention to take early retirement in July 2015.

Marie-Ann did not receive a statement or quotation before she retired in July. MyCSP told her that they were not issuing annual benefit statements and that they would not give her a statement or quotation for how much she would receive until 4 to 6 weeks before she began claiming her pension. This meant she had to give her employer notice without knowing exactly how much pension she would receive. Marie-Ann told us that she attempted to contact MyCSP many times (around 20 to 30) over a period of several months between May and September. She received a statement in August 2015, a month after she retired, but no indication of when her pension would be paid.

Marie-Ann told us that when she got through to the MyCSP contact centre, she found MyCSP very difficult to communicate with:

- Each time Marie-Ann telephoned she was told she would receive a call-back, but only once did MyCSP actually call her back. They left a message with no direct number for her to call back.
- Each time Marie-Ann spoke to MyCSP she had to start again at the beginning. She never got through to the same person twice, and had to explain things from the beginning.
- On two occasions, MyCSP wrote to Marie-Ann telling her they had enclosed a form that wasn't enclosed and on one occasion sent her what appeared to be a standard letter telling her should would receive her lump sum on her 60th birthday, despite having been informed months in advance that Marie-Ann was taking early retirement and expecting the lump sum before then.
- MyCSP told Marie-Ann repeatedly that they were waiting on information from her employer. Marie-Ann's employer told her MyCSP had come back to them multiple times for different information. When Marie-Ann asked MyCSP when they had requested the information they needed they could not tell her. They finally admitted they had not yet requested some of it.
- MyCSP sent Marie-Ann a letter 8 days after her pension should have been paid. They told her that her employer had not provided information that they needed, that they would not chase her employer any more, and that if the information was not provided within 10 days they would temporarily suspend her case.

In September, Marie-Ann sent an email to MyCSP telling them she wanted to make a formal complaint but received no response. Five days later she sent a second email telling MyCSP that she wished to make a formal complaint. This time MyCSP telephoned her and told her they were collecting information about her case and would process it, but that this could take several weeks. The email was signed with a first name only (no surname or contact details) so Marie-Ann could not chase this up or ask any questions. Marie-Ann wrote a third email telling MyCSP that she was desperate and had no income. MyCSP finally responded telling Marie-Ann she would receive her lump sum and monthly pension arrears in the next few days. It was finally paid at the end of September, two months late.

Marie-Ann said her experiences had an impact on her in a number of ways and made her wonder if MyCSP was deliberately stalling her case. She had to use her savings, and cash in an investment that she had not wanted to cash in. There was also a big emotional impact, drawn out over several months. Marie-Ann told us she felt powerless and that she had nobody to turn to as she couldn't go to work or to her union as she had left work. Marie-Ann said she found this very stressful and was moved to tears of frustration on one occasion.

Notes

1 All names have been changed.

2 We spoke to these members and have summarised their experience here as it was told to us. We have not verified the accuracy of their accounts. However, these cases align with the issues occurring within MyCSP at the point of migration and the ongoing issues around data accuracy and benefit statements.

Source: National Audit Office interviews with scheme members and their former employers

We spoke to employers

1.4 We also spoke to 6 employers, together representing around 30% of the active membership, about their views on the service they, their employees and their former employees experienced.

- They had mixed views on how well services were provided before the migration, but all agreed that the service became much worse after migration.
- Employers reported services improved over the period up to September 2015. Some of the employers noticed improvement earlier. However, 5 of the 6 expressed some continued dissatisfaction with the service provided.
- The employers complained that members could not contact MyCSP, and that payments and information were late or inaccurate, or both, especially in the case of early exits (voluntary redundancy and early retirement). In some cases, employers said that MyCSP was given months of notice but still provided information or made payments late.
- MyCSP assigns a service delivery manager to each employer. Three of the employers we spoke to said they could usually contact their service delivery manager, but two reported some difficulties. In terms of the service provided to the employers, the most common complaint was that MyCSP asked for data the employers said they had already provided.

Part Two

Problems with the administration of pensions

2.1 This part of the report sets out the things that went wrong within the administration of the civil service pension schemes over the past 18 months.

Planning for the migration did not test the full end-to-end system

MyCSP managed the migration alongside a number of other things

2.2 The migration took place during a time of considerable change in the way civil service pensions are administered. The key changes were:

- implementation by 1 April 2015 of the new Alpha scheme, as required by the Public Service Pensions Act 2013. Under the Alpha scheme, unlike most of the sections of PCSPS, member benefits are based on career average earnings rather than a member's final salary at retirement;
- arranging for a number of large bulk transfers of members into the scheme as part of the policy of reducing the number of public sector pension schemes (for example, the Lighthouse Authority and House of Commons Administration Schemes were brought into the scheme in 2014-15); and
- there were a number of early exit schemes. For example, following discussions with MyCSP, the Department of Work & Pensions (DWP) announced a voluntary early exit scheme in October 2014, which saw 3,834 staff leave the department by June 2015. This meant MyCSP had to provide almost 4,000 early retirement and early exit (redundancy) quotes at the same time as it was clearing the backlog.

2.3 MyCSP had to manage these changes alongside the longstanding issue of having to update or correct the records of active members before giving them a quote or initiating a new pension award. This issue has arisen because the data held on members contain a high number of inaccuracies. Responsibility for developing and funding a plan to cleanse the member records rests with the Cabinet Office.

The timetable had to be delayed because Compendia was not ready

2.4 MyCSP had planned for the migration since the end of 2012. The Cabinet Office had hoped that the migration would occur in September 2013, but MyCSP had argued that its new pension administration IT system (Compendia) would not be ready in time. The Cabinet Office agreed to extend Capita's contract by a year but set this as the final deadline for migration. MyCSP agreed to aim for a migration in July 2014. MyCSP then twice recommended that the migration be postponed because Compendia was not ready, first from 7–8 July to 22–25 August and then to 16 September 2014. All of these dates and the decision to go live were signed off by the Civil Service Pensions Board.

2.5 MyCSP's testing was constrained because the systems were not ready. In the run-up to migration, MyCSP embedded 4 staff in Capita's Darlington offices to understand Capita's processes and the sort of issues that pensioners raised. MyCSP and Capita also rehearsed the data migration three times in the months before migration. However, these only covered the transfer of data. They did not test the processing of payments or work on Compendia as Compendia was not yet fully functional and did not have payment functionality until shortly before the migration.

MyCSP knew that there would likely be a surge in calls

2.6 MyCSP expected a general increase in calls and work following the migration, equivalent to the rate of calls and work processed by Capita in the months leading up to migration. It recruited 46 new administrators to administer the payroll, replacing the 46 administrators previously employed by Capita. MyCSP also recruited 24 additional contact centre staff to manage additional calls from deferred and pensioner members to replace the 14 full-time equivalent staff previously employed by Capita.

2.7 In addition to the general increase in calls and work, MyCSP expected an immediate surge in calls following the migration. The Government Internal Audit Agency conducted a pre-migration 'health check' in May 2014. It warned MyCSP of a potential increase in call volumes after members were notified of the change in administrator. However, it also noted that MyCSP had contingency of up to 20 full-time equivalent staff in place if its contact centre could not cope with this increase. MyCSP told us that it used 8 of these staff in its Liverpool centre and also used up to 4 staff in its Cheadle centre.

2.8 The Government Internal Audit Agency also recommended that MyCSP monitor both the type and the volume of cases being handled by Capita more closely. MyCSP asked Capita to provide weekly reporting of the type and volume of work in progress, but Capita felt this was unnecessary and would divert resources from managing the migration.

Capita’s service levels had declined in the period before migration

2.9 Capita’s performance in managing the payroll declined in the six months running up to the migration in September 2014. The Cabinet Office had agreed that some service levels would be relaxed for the civil service pension payroll and associated services in the immediate weeks before migration. However, Capita told us that MyCSP’s postponement of the migration from July to September 2014 made it harder for it to retain staff and meet the agreed service levels because staff had made plans to leave at the original migration date. Capita had agreed that the transfer of resources would be managed to ensure that, where possible, staff would be kept in place. The Cabinet Office provided funding for this.

2.10 Capita missed a number of contractual targets in the period April to September 2014:

- The target of paying 95% of new and revised lump sums within service level agreements was not met from April 2014 onwards (achieved on average over the period April to mid-September 2014 89% for new lump sums and 66.5% for revised lump sums).
- The target of paying 95% of existing pension payments within service level agreements was not met in April and May 2014.
- The targets for responding to written and voicemail correspondence within service level agreements was not met from April 2014 onwards.
- The proportion of telephone calls answered (before being abandoned) dropped from around 95% in March 2014 to 79% in September 2014.

2.11 In recognition of the extra work undertaken by Capita in support of the migration, MyCSP did not impose the full value of the contract payment deductions that Capita incurred during August and September.

2.12 As part of the migration planning Capita agreed to endeavour to process all pensions up to, and including, 5 September 2014 provided that the member’s last day of service was no later than 29 September 2014. Due to uncertainty about the volume of such cases, Capita felt that it could not guarantee to process all such cases and therefore agreed with MyCSP to work on a best-endeavours basis.

2.13 In the event, 1,260 cases that MyCSP had sent to Capita in accordance with the migration agreement were not processed by Capita and were passed back to MyCSP at migration as part of the work in progress. MyCSP has said that it was not expecting to receive these cases and they caused additional unplanned work.

2.14 Capita recognises the 1,260 cases but believes that not all of these were high-priority cases. In addition, Capita considers that MyCSP passed over higher than usual volumes of cases for processing shortly before migration.

MyCSP's first run of its payment system failed to reach international pensioners on time and some were missed

There was a failure to notify pensioners of the change in pension administrator and the late payment of pensions

2.15 MyCSP ran the payment system for the circa. 625,000 UK-based pensioners following migration with no reported issues. However, there were 14,703 pensioners living overseas at the time of the migration. International pensioners were not informed that their pension administrator had changed. Before the migration, Capita sent a letter (on behalf of the Cabinet Office) informing deferred and pensioner members of the change. We were told that, following a misunderstanding with its printers, Capita did not send the letter to pensioner members living overseas. When their payments were delayed, a large number called Capita, at which point they were redirected to MyCSP.

2.16 The 14,703 international pensioners were paid up to 7 days later than they were used to the first time MyCSP ran its payroll in September 2014. MyCSP did not fully understand Capita's payment practices. MyCSP assumed that money for international pensioners should be sent on the payment due date specified by Capita. However, Capita had a working practice of sending payments to international pensioners up to 7 days early to allow time for the money to reach them through the international payment system on their pension due date.

There was a failure to pay 99 international pensioners

2.17 Ninety-nine of the 14,703 overseas pensioners were not paid at all in September 2014, either because the format of their files did not allow the transfer of the file from Capita's bank to MyCSP's bank or because the International Bank Account Numbers (IBANs) were missing when they were transferred across. MyCSP had to request new banking mandates from these members before payments could be reinstated. Of these 99:

- payment was made in 88 cases in October 2014; and
- more time was needed for 11 cases, the last of these being resolved in October 2015.

A backlog developed from September 2014 to January 2015

MyCSP had more to do following the migration than it had expected

2.18 The migration of the data was a complex and iterative process, beginning five months before the final transfer of data. The migration included both member records and items of work in progress. The items of work in progress are cases requiring some sort of manual intervention. These range from an urgent request by a member for a pension quote to the less urgent, such as a member record that requires validation because the national insurance number is missing.

2.19 Capita initially transferred more than 122,000 items of work in progress in April 2014. It estimated that only 10,306 of these would require action at the point of migration – the balance being accounted for by duplicates, internal targets, historical work classifications and completed work. Capita told MyCSP which items to remove, but its final estimate was inaccurate as it had accidentally removed some items that should have been included. MyCSP found that it actually received 14,039 items from the Capita system that required action.

2.20 Following migration, MyCSP grouped the work in progress into four categories:

- 14,039 work in progress items on Capita's work management system. MyCSP initially classified 1,922 of these as urgent because they related to payment (priority 1);
- 17,822 data queries MyCSP identified at migration. MyCSP initially categorised 1,429 of these as priority 1;
- 7,349 data queries MyCSP identified between migration and December 2014. None were considered priority 1, and most were caused by members having more than one surname (5,852 cases); and
- 15,350 items with an invalid National Insurance number: these had no impact on members and were resolved quickly and with very little resource.

2.21 This gave a total of 54,560 items. The initial categorisation took place seven weeks after migration. MyCSP told us that, as it processed the items, it found that more of them should have been considered priority 1.

2.22 Capita disputed MyCSP's claim that there were 54,560 items of work in progress. It believed that only the 10,306 items it recognised on its work management system, and none of the other items within the 54,560 items identified by MyCSP, could be considered work in progress. Capita also disagreed with MyCSP's view that the work in progress items were almost all complex, or would have required senior administrators to process them. Capita considers that the items transferred were no more complex than it had previously discussed with MyCSP, or that MyCSP staff had seen at Capita's Darlington offices. This led to a public disagreement between Capita and MyCSP in the trade journal *Professional Pensions Journal*.

By January the backlog had increased to more than 22,000 urgent cases

2.23 After the migration, MyCSP concentrated on clearing the work in progress inherited from Capita over new incoming work from its contact centre and employers. At the same time, DWP ran a major voluntary exit programme affecting some 3,800 staff which had to be delivered according to deadlines set by DWP and previously agreed with MyCSP. It continued to receive new incoming work from its contact centre and employers, which caused a new backlog of work to build up. This included new awards for active members about to retire, and generated further complaints. It also contributed to increased call volumes as members chased up their initial enquiries or called to complain about the slow service and late payments.

2.24 The Cabinet Office required MyCSP to count its work in progress manually in January 2015 and it was only after this count that the Cabinet Office and MyCSP became fully aware of the scale of the backlog. The count showed:

- 10,408 items of category 1 work (payment-related) versus 475 'priority 1' cases reported in December;
- 11,682 items of category 2 work (transfers, and others);
- 2,398 items of category 3 work (members opting out of the scheme and preserved awards);
- no estimate for category 4 (enquiries) on the assumption they would be largely addressed by categories 1–3;
- 1,954 category 5 items (enquiries requiring a standard letter); and
- 3,223 complaints (1,867 of which had not been acknowledged to the member) versus 206 cases of 'complaints-handling' (that is, complaints that had been closed) reported in December.

2.25 This gave a total of 10,408 urgent cases (category 1) in January 2015, up from 3,351 urgent cases (priority 1) at September 2014. The category 1 and priority 1 cases were classified using different criteria but were broadly analogous in that they both related to issues that might prevent a payment.

MyCSP removed the backlog of urgent cases over the period January to March 2015

The Cabinet Office required MyCSP to put a stabilisation plan in place to remove the backlog and to report against it

2.26 The Cabinet Office then required MyCSP to produce a plan for how it would remove the backlog of work. Between January and March 2015, MyCSP provided the Cabinet Office with weekly reports showing:

- its progress against this stabilisation plan;
- the volume of category 1 and 2 items outstanding;
- new business-as-usual work received and resolved;
- call volumes and call waiting times; and
- complaints received and complaints outstanding.

2.27 The backlog reduced over the period January to March 2015 (**Figure 5** overleaf). MyCSP reported against the stabilisation plan until late March, and resumed standard monthly reporting against the contract in May 2015. Most category 1 and 2 items were closed by the end of March. Those that were not closed had been 'pended' (that is, they required further information and work had been initiated to collect that information). The number of complaints outstanding was still high (1,935, including 1,579 unacknowledged complaints).

MyCSP stopped some other activities to allow it to focus on removing the backlog

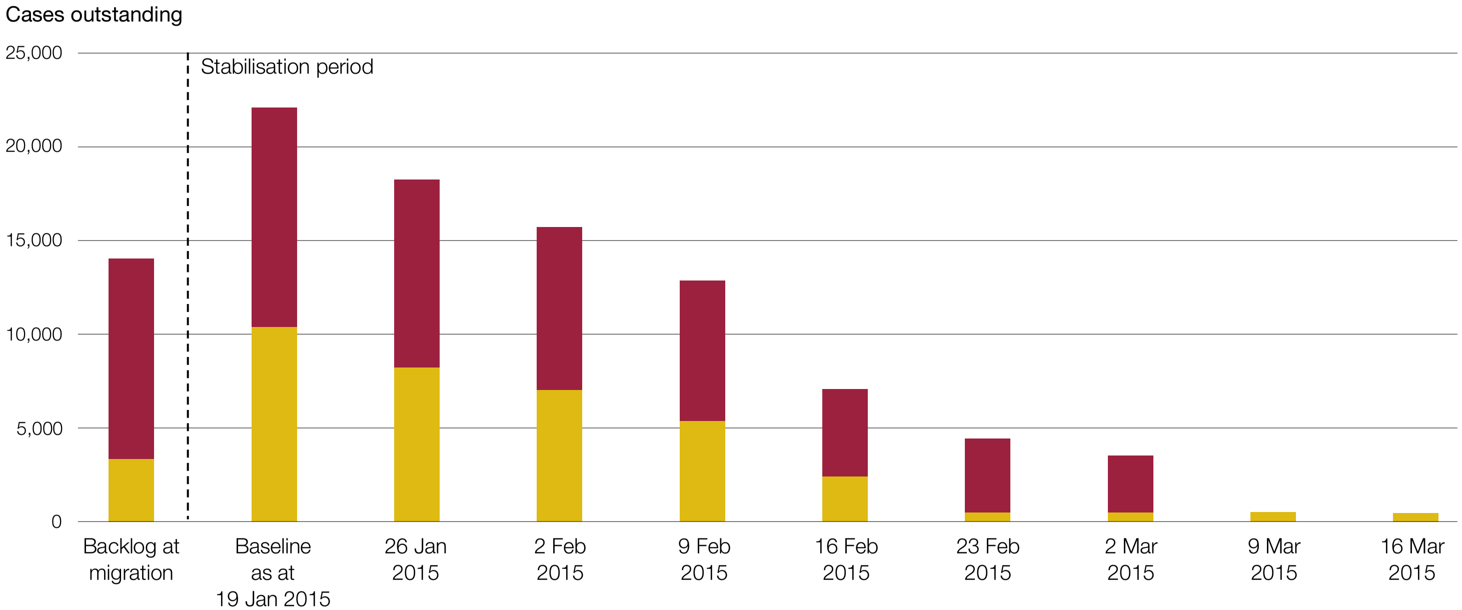
2.28 In addition to deferring items in categories 3–5, MyCSP also stopped some quality assurance testing (the validation of 10% of pension award calculations).

2.29 The Cabinet Office also agreed to a temporary suspension of annual benefit statements, and most ad hoc statements requested by members, in late 2014. MyCSP started producing annual benefit statements again in summer 2015 to certain members, with the target of providing all active members with a statement by the end of the year.

Figure 5

Volume of MyCSP work-in-progress at migration and throughout the stabilisation period

The work in progress backlog peaked at 22,000 cases in January and was cleared by the end of March 2015



Notes

1 The backlog at migration is the 14,039 items of work in progress inherited from Capita at 16 September 2014.

2 The backlog at migration is not categorised on the same basis as the backlog during the stabilisation period. However, MyCSP refers to 3,351 'priority 1' items at migration as being items that impact on payment. These are therefore broadly analogous to category 1 items in the stabilisation period, which are also items relating to payments. For the purposes of this chart, all other items at migration have been classed as being analogous to category 2 items.

3 At the end of March 2015, MyCSP had 467 category 1 items it had not cleared. They were 'pended' – that is, they required further information and work had been initiated to collect that information. After this point they were absorbed into business as usual and not tracked any further.

Source: MyCSP

MyCSP was not able to reply to almost 100,000 member calls between September 2014 and March 2015

The increase in calls was much higher than expected

2.30 MyCSP experienced a much higher surge in calls in the months following migration than it had expected. MyCSP told us that many of these calls were from deferred members enquiring about their pensions. Deferred members have yet to retire and draw their pension but no longer pay into the schemes, for instance because they are working for another employer. MyCSP believes the letter sent to deferred and pensioner members notifying them of the change in administrator 'woke up' deferred members by reminding them of their pensions. These letters were sent between 24 and 30 September – immediately after the migration. We were not able to verify where the calls were from as MyCSP does not record this.

2.31 MyCSP also told us that the Chancellor's 2014 announcement regarding new pension freedoms may have contributed to this surge. This announcement was in March 2014, and the new freedoms do not apply to defined benefit schemes such as the civil service schemes.

MyCSP dropped almost 100,000 calls between September 2014 and March 2015

2.32 MyCSP's contact centre could not cope with the increased volume of calls following the migration in September 2014, and up until March 2015. During this time, 99,400 calls were abandoned before they were answered (**Figure 6** overleaf). Additionally, it is possible that a proportion of the callers chose to visit the MyCSP website after calling the MyCSP helpline.

2.33 MyCSP asked employers to manage members' expectations and to encourage them to use the website, rather than telephone the contact centre. Before the migration, Capita offered a limited self-service facility on its website that allowed pensioner members to download and view their pension payslips and P60s. This was discontinued on migration and led to increased calls from pensioners expressing their dissatisfaction at the loss of the website functionality and requesting payslip information that they had previously been able to access online. MyCSP had initially proposed to submit plans to offer a much more comprehensive self-service facility to all members by the end of 2014, but this was not taken forward.

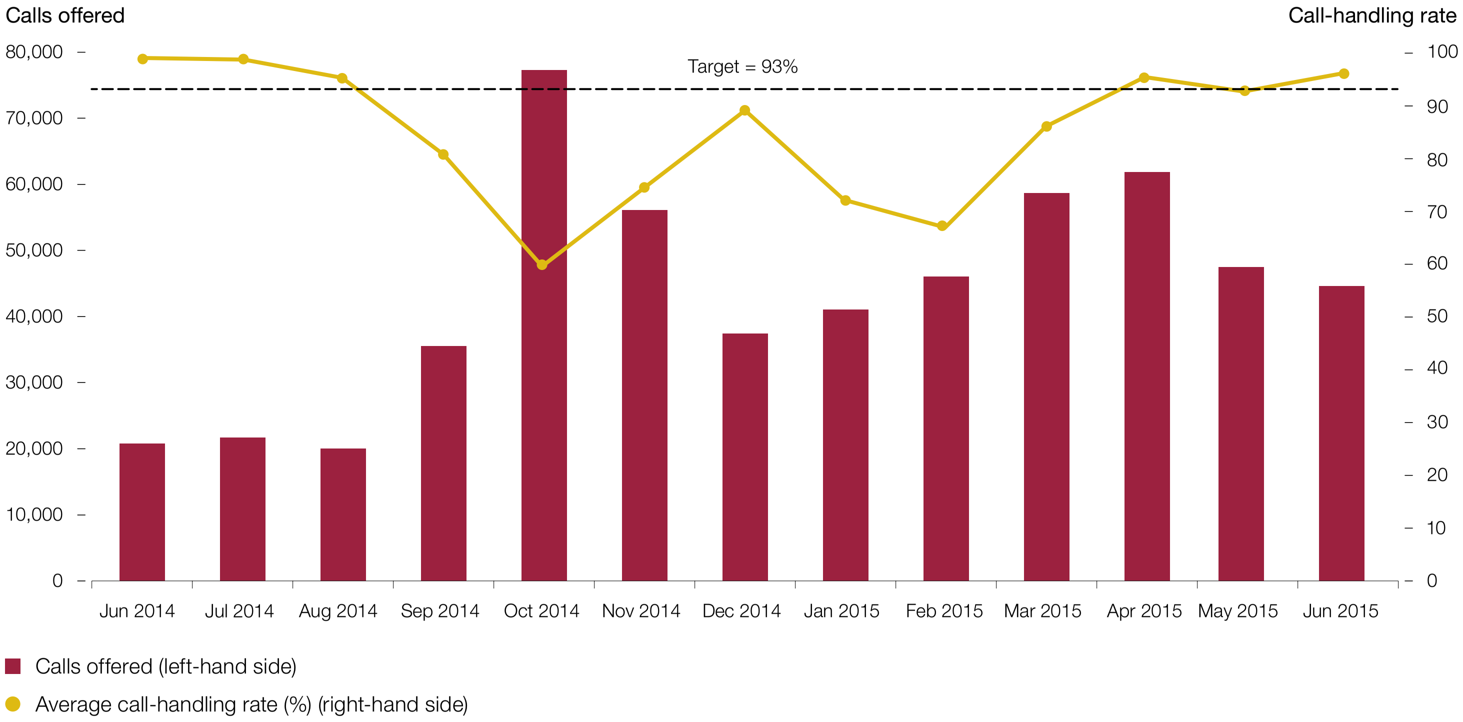
MyCSP realised that it needed more capacity

2.34 MyCSP increased its original estimate of the staff necessary to run the contract in the months before migration. MyCSP realised that the backlog and the dropped calls meant it did not have enough staff. Since then it has recruited an additional 84 full-time equivalent staff to work on the administration of the deferred members and payroll functions and the call centre transferred from Capita, bringing the total to 154 new staff. Capita told us they had previously had a total of 60 staff to manage these functions (**Figure 7** on page 27).

Figure 6

Volume of calls offered and the call-handling rate before and after migration

MyCSP received more calls than expected and dropped 99,400

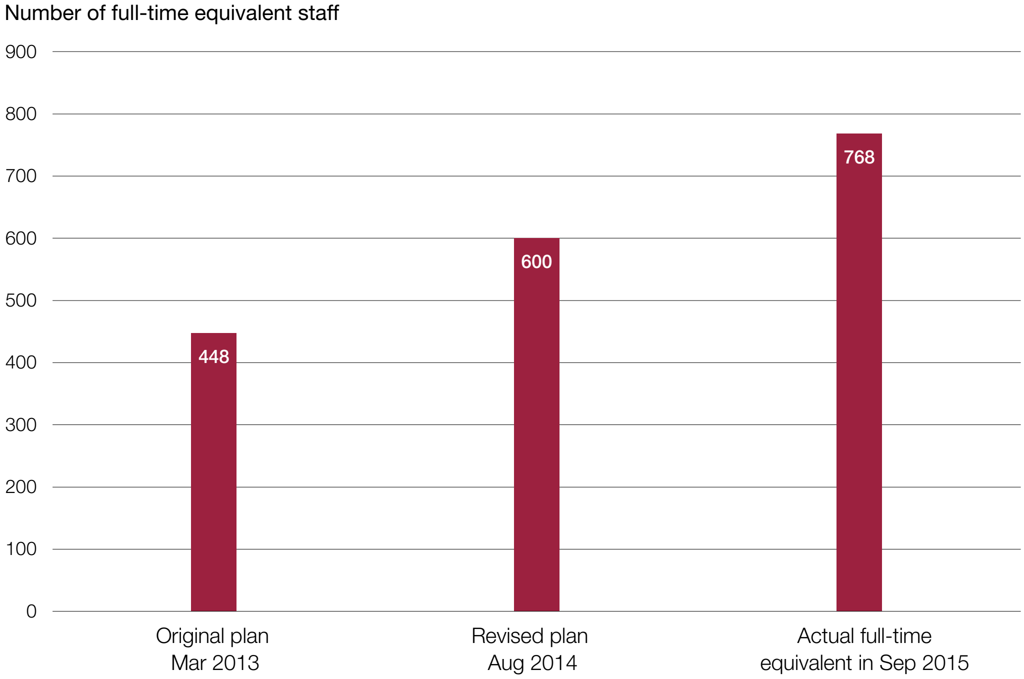


Source: National Audit Office analysis of MyCSP data

Figure 7
MyCSP staffing levels

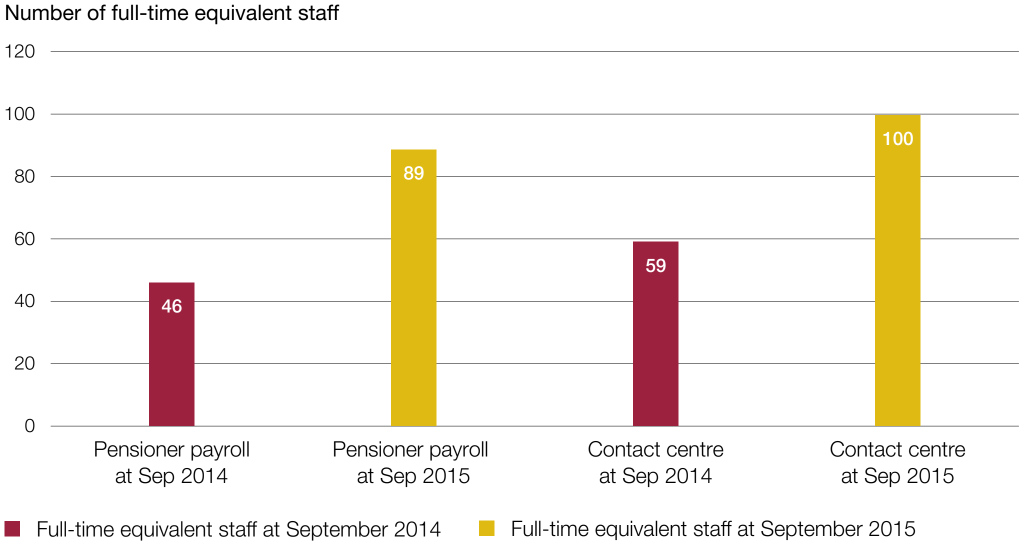
a) Planned and actual MyCSP workforce in September 2015

MyCSP has needed more staff than it originally planned



b) Change in staffing levels at MyCSP contact centre and payroll administration team

The number of staff has increased further since migration



Note

1 MyCSP had 35 staff working in its call centre before migration.

Source: MyCSP data

MyCSP's IT systems made managing the work more difficult

MyCSP's systems were not fully ready

2.35 MyCSP's new pension administration system (Compendia) was not fully functional at the point of migration. MyCSP had allowed for this by creating a number of manual work-arounds. This required more attention and manual intervention than MyCSP had originally planned. MyCSP has gradually introduced increased functionality to Compendia since September 2014.

MyCSP's systems were more sensitive to data inaccuracies

2.36 Compendia has more rigorous processes for validating data and enforcing controls than MyCSP's old system (PenServer). This meant that it flagged more issues with the data than the old system and allowed fewer manual work-arounds and fixes. This increased the number of cases requiring a manual intervention immediately following the migration, contributing to the 40,000 items requiring attention, and slowed down the processing of work in progress.

MyCSP's systems did not identify the backlog of urgent cases

2.37 MyCSP has a work management system (MyWork) to record and manage incoming work. The configuration of the MyWork system meant MyCSP was slow to recognise, and report to the Cabinet Office, that a new backlog of urgent cases was building up. This system could only prioritise cases based on when they arrived, that is, on a first-come-first-served basis. This was consistent with the service level agreement in the contract between the Cabinet Office and MyCSP, which required MyCSP to perform tasks within a certain number of days of receiving an instruction or request.

2.38 The backlog that MyCSP inherited at migration included cases where new awards to members were due or late, as well as other cases where there were weeks before the new award was due. MyCSP needed to identify which cases required immediate or urgent action, but could not do this until it assessed them manually in January 2015. MyCSP later modified MyWork to do this automatically.

By September 2015, MyCSP had returned to a steady state, comparable to pre-migration performance levels

2.39 MyCSP's September 2015 monthly report showed that it met all key service levels and that call-handling had improved to pre-migration levels, while complaints, although still high, were falling:

- There were approximately 35,000 calls, with a call-handling rate of around 96% and an average wait time of 19 seconds.
- The September 2015 performance report showed there were 428 new complaints and 993 outstanding complaints; there were also 157 outstanding and 32 new complaints that had been referred to MyCSP's internal dispute resolution service.
- A total of 818 complaints were resolved and 18 complaints that had been referred to MyCSP's internal dispute resolution had been completed.

2.40 The Cabinet Office and MyCSP also rolled out the new Alpha scheme to members in April 2015. MyCSP allocated additional staff to manage this roll-out while maintaining business-as-usual work. This appears to have been implemented smoothly. This is discussed further in paragraphs 3.15 to 3.17.

MyCSP has received very limited financial impact from its performance

2.41 MyCSP is paid £33 million a year to administer the civil service pension schemes, which is contracted to reduce over the term of the MyCSP agreement. MyCSP also generates additional revenue from the delivery of early exit schemes for employers.

2.42 The Cabinet Office told us that it suspended contract service credits (reductions in the amount paid for performance) in the year before migration, in order to support MyCSP in its transformation. Had these credits been imposed, their maximum value would have been around £90,000.

2.43 The contract service credits were also not imposed between migration in September 2014 and June 2015, since the Cabinet Office asked MyCSP to change the basis on which it processed cases (that is, it asked MyCSP to process cases according to key event dates rather than the existing first-come-first-served approach).

2.44 Between June 2015 and October 2015, MyCSP incurred approximately £36,000 in service credits. MyCSP has said that it incurred additional costs through the period immediately following migration through increased staffing and overtime costs.

Part Three

The challenges that remain

3.1 By September 2015, MyCSP's performance had stabilised, and was similar to pre-migration levels. However, members and employers continue to report problems in receiving timely and accurate information. Most members have not been given an annual benefit statement for more than a year. These ongoing problems are caused by two underlying issues, relating to the reliability of the active member data (as supplied to MyCSP by employers) and to the scheme governance arrangements. This part of the report explains these issues.

There are significant weaknesses in active member data

The Comptroller and Auditor General (C&AG) has previously qualified his opinion of the pension accounts and reported on the poor quality data

3.2 The C&AG qualified his opinion on the 2010-11 and 2011-12 scheme accounts in two respects: the regularity of benefit payments; and a limitation of scope relating to the truth and fairness of the valuation of the pension liability. This was because the Cabinet Office and MyCSP had not been able to provide sufficient evidence of the completeness and accuracy of the membership records and data that support both current payments to individuals and the liability for future benefits.

3.3 The C&AG was able to lift his qualification in 2012-13 as, while some payments could not be supported by primary records, the amount was not material to the accounts as a whole. However, he highlighted that there were still underlying problems with the way the scheme's data were managed and retained, and that there was still a risk that payments to individuals were inaccurate.

3.4 In 2013-14 and 2014-15, the C&AG was again able to issue an unqualified audit opinion in relation to the member data issues. He reported that the Cabinet Office had made some progress under its action plan to improve the quality of data. However, he also noted that, because the issues are long-standing and systemic, they will take many years to resolve.

Around three quarters of active member records are incomplete or incorrect

3.5 Active members are those that are currently employed and making a contribution into the civil service pension schemes.

3.6 MyCSP is developing a new data validation tool (DataGator) to check the active member database. Since May 2015, MyCSP has included a summary output from this tool in its monthly report to the Cabinet Office.

3.7 In September 2015 DataGator showed that 77% of the active member records had at least one data-validation fail. Many of these fails will have no impact on the accuracy of any calculated pension award (for example, inconsistencies in addresses). However, others relate to service or earnings, which are the main factors in determining a pension award; 6.5% of records have a data-validation fail that prevents MyCSP providing an annual benefit statement to those members until these are resolved.

3.8 The Cabinet Office and the Government Actuary's Department (GAD) have investigated the implications of the DataGator findings for the reliability of the pension liability valuation. GAD concluded that it was satisfied that the majority of the data-validation fails would not have a material impact on the accounting valuation results (and the remaining ones, where the information from DataGator was not detailed enough to accurately assess them, were unlikely to have a material impact). GAD therefore concluded that its opinion remained that the 2012 data were sufficiently reliable for its assessment of the liabilities in the subsequent scheme funding and accounting valuations.

3.9 It is unlikely that problems with active member records would lead to material mistakes in payments. MyCSP checks records before making any payment, including verifying information with the member and employer.

Data inaccuracies slow down the service to members and hinder members' ability to plan their pensions

3.10 Problems with the data add to the time it takes MyCSP to process quotations and new awards for members. MyCSP often has to check and correct the data by contacting the member and their employers to resolve queries and apparent inconsistencies.

3.11 These issues also hamper MyCSP's ability to provide accurate member benefit statements and quotations. As mentioned in paragraph 2.29, the Cabinet Office agreed to suspend annual benefit statements in late 2014, in part in recognition of the data quality issues because MyCSP believed issuing the statements would lead to a poor member experience and members' queries about inaccuracies in the data.

The accuracy of active member data is more important than ever

3.12 There have always been problems with the active member data. However, these problems are increasing in significance for a number of reasons.

The civil service is reducing in size

3.13 The civil service is reducing in size and there are a number of voluntary exit schemes being operated across government. Members thinking of applying for early retirement need to know their pension entitlement.

New lower tax limits for pensions

3.14 Changes to the way pensions are taxed make it particularly necessary for members to plan their pension. Lower annual limits and lifetime allowances mean that far more civil servants than previously can breach the limits. In particular, members with other pensions (for instance, from previous jobs) and more senior civil servants need to plan their pensions and may want to withdraw from the schemes.

The new Alpha scheme requires more accurate data from employers

3.15 Alpha is the new civil service pension scheme, which came into effect from 1 April 2015, as required by the Public Service Pensions Act 2013. By September 2015, 90% of the scheme's membership had been moved to Alpha. The Civil Service Pensions Board considers that the implementation of Alpha was successful. Its view is that MyCSP managed to engage appropriately with the Cabinet Office and provide it with sufficient management information.

3.16 Pension awards under the Alpha scheme are based on career average salary, and require data for all years of service. This increases the need for the systematic capture and maintenance of accurate member records by the employers. MyCSP initially encountered technical issues with some employer data transfer interfaces. The Government Internal Audit Service has been commissioned by the Cabinet Office to look at how these data transfer interfaces operate. It has yet to complete this work, but we understand that it has identified a number of areas where procedures and controls need to be strengthened.

3.17 The successful implementation of the Alpha scheme will depend on employers meeting their responsibilities to provide accurate member data. MyCSP continues to report that the quality of the data received from some employers is poor.

Data-cleansing requires coordinated cross-government action

3.18 Employers will need to participate in any exercise to check and correct the data. The Cabinet Office is developing a business case for a 3- to 5-year 'data cleanse' exercise for all scheme members. This will be a major undertaking. However, the Cabinet Office has made progress in cleansing 60,000 data records among the Alpha transitional group to date. There will also need to be a sustained programme to engage employers and payroll providers to improve and maintain the quality of data provided by employers. It is not yet clear who will pay for the data cleanse.

Governance of the schemes requires improvement

3.19 MyCSP and the Cabinet Office tell us they have learned lessons from the migration and that they are seeking to improve their governance of civil service pensions. Following the migration, MyCSP and the Cabinet Office separately undertook a 'lessons learned' exercise and jointly commissioned a consultant to make recommendations for a joint improvement plan. We set out our view of the issues of governance below.

The Cabinet Office oversight of pensions is complex

3.20 The Cabinet Office has several roles in respect to MyCSP and pensions administration:

- It was the sponsor of MyCSP as a pathfinder mutual joint venture. In 2013 we found that it had no means of tracking the programme benefits of setting up MyCSP as a mutual joint venture.
- It has the policy lead for pensions and is leading the reform of civil service pensions.
- It is a shareholder in MyCSP and has a representative on MyCSP's board.
- It is a customer and the contract manager of MyCSP on behalf of all the participating employers.

3.21 Management of these different roles is split between different teams across the Cabinet Office. As is good practice, a 'Chinese wall' is maintained at director-general level between the shareholder function and the policy, customer and contract management functions.

3.22 The Civil Service Pension Board, chaired by Philip Rutnam, is responsible for assisting the scheme manager (the minister for the Cabinet Office) in the effective administration of the civil service pension arrangements.

The Cabinet Office was under-resourced

3.23 The Cabinet Office's pensions policy, customer and contract management functions were restructured and experienced a high turnover of staff between summer 2014 and January 2015 while the migration was taking place. The Cabinet Office's own investigation of the migration identified this as a source of confusion before and after the migration.

3.24 The Pension Scheme Executive, within the Cabinet Office supports the Civil Service Pension Board in overseeing MyCSP. In its own review of the migration, it concluded that it was under-resourced during the migration and failed to challenge MyCSP hard enough or soon enough. It agreed that MyCSP could change the basis of prioritising work; this allowed a second backlog to build up, and generated further complaints.

No one has a view or control of the overall system

3.25 The end-to-end process for administering pensions, issuing retirement quotations and making new payments requires active members, employers and (in some cases) human resources shared service centres to provide information to each other and to MyCSP. Furthermore, the actions of employers can have an impact on other parts of the system. For instance, the need to implement a large voluntary exit scheme from late 2014 placed additional stress on MyCSP as it sought to resolve the post-migration issues. No one organisation has had visibility of the end-to-end process, and the Cabinet Office was not able to determine what best to prioritise or what the impact of actions in one part of the system was on the whole system.

3.26 MyCSP, the Cabinet Office and the Civil Service Pensions Board have limited influence over employers and when they provide information. MyCSP asks for 4 months' notice to process retirement quotations and 1 month to process new payments, but often does not receive this. This can lead to MyCSP missing its own targets for the timely provision of quotations and payments to members.

3.27 The Cabinet Office and MyCSP agree that the service levels specified in their current contract do not reflect the underlying business processes. MyCSP is developing a proposal for revised service levels.

The needs of scheme members and employers were not heard

3.28 MyCSP provides services to employers and members under a contract with the Cabinet Office. However, there is limited incentive for employers to support the Cabinet Office in its contract management role. The employers do not all have visibility of the contract and none receive regular information on how MyCSP is performing against the contract. Employers also do not have visibility of whether service credits have been applied. Some employers told us they felt disempowered.

3.29 The Cabinet Office does not routinely measure the satisfaction of employers or members. Instead, it relies on MyCSP's own performance reporting and surveys of employer and member satisfaction. These were suspended after migration but have since restarted from June 2015. Members and employers can refer their complaints directly to the Cabinet Office. The Cabinet Office is increasing the forums through which the larger employers can provide informal feedback.

The Cabinet Office and MyCSP are making improvements

3.30 The Cabinet Office and MyCSP jointly commissioned a consultant to make recommendations for a joint improvement plan. The Cabinet Office and MyCSP have responded to the consultant's report by:

- creating an employer engagement group for large employers to raise concerns;
- seeking to forecast future demand from early exit schemes;
- improving the monthly management information that MyCSP reports to the Cabinet Office; and
- supplementing both of their senior management teams.

Appendix One

Our investigative approach

Scope

1 We conducted an investigation into four specific concerns. These were:

- the nature of the dissatisfaction with the quality of services offered to members and participating employers of the civil service pension scheme (the scheme), following the transfer of payroll and certain other administrative services from Capita to MyCSP in September 2014;
- the cause of the performance issues that impacted on the administration of the scheme;
- the steps taken to recover the situation; and
- the challenges that remain to be overcome in delivering the pension service.

Methods

2 In examining these issues, we drew on a variety of evidence sources:

- We interviewed a number of individuals from MyCSP, Capita and the Cabinet Office as these are the parties currently, or recently, involved in administering the scheme. We reviewed performance information and documents. These included MyCSP monthly performance reports, Cabinet Office internal briefings, Civil Service Pensions Board briefing papers and minutes and correspondence between the three parties.
- We drew on our knowledge of the scheme and member data issues gained from our financial audit of the civil superannuation resource accounts.
- We reviewed media coverage (including social media) for reports relating to the administration of the scheme and the service provided to members and employers.
- We contacted six participating employers to obtain their views on the quality of the pension administration service they and their employees received.
- We interviewed a small sample of members who reported experiencing poor service in relation to the administration of their pension.

Appendix Two

Equiniti and MyCSP

The formation of MyCSP

1 MyCSP Ltd (MyCSP) was formed in April 2012 as the first mutual joint venture spin-out of government as a private company. When it was formed, 25% of the shares in MyCSP were gifted to the employees in a beneficial trust, the Cabinet Office retained a 35% stake and Paymaster (1836) Ltd (Paymaster) bought 40%. This meant that MyCSP was a joint venture with no overall controlling party.

2 Paymaster has been fully owned by Equiniti Group (Equiniti) since 2010. Equiniti is a UK company whose largest shareholder is Advent International Corporation, a US private equity fund that invested when Equiniti was spun-out of Lloyds Bank in 2007.

3 Paymaster purchased its original 40% stake for £3 million in cash and a commitment, valued at £12.5 million, to provide resources and expertise to help transform the business. This valued MyCSP at around £39 million at its launch. The valuation of MyCSP was based on its forecast profits under the contract to administer the civil service pension scheme and an assumed level of new work that MyCSP would win – £4 million a year by 2015, reaching £15 million a year of additional work by 2019. This new work has yet to materialise. More details on the creation of MyCSP are available in our 2013 report, *Spinning-out MyCSP as a mutual joint venture.*[1]

The 2014 sale of a further 11% of MyCSP

4 After extensive negotiations, in 2014 Equiniti bought an additional 11% of the equity of MyCSP from the Cabinet Office for £8 million. This would value MyCSP at £73 million, much higher than the valuation of MyCSP at the time it was created. Paymaster purchased the 11% from the Cabinet Office on 30 September 2014, paying £4 million in cash with a further £4 million deferred until August 2016.

5 The purchase of the 11% stake brought Equiniti's overall stake to 51%, giving it overall control of MyCSP. This also allowed Equiniti to fully consolidate MyCSP's revenues and balance sheet into its group accounts. Equiniti floated its shares on the London stock exchange in October 2015.

1 Comptroller and Auditor General, *Spinning-out MyCSP as a mutual joint venture,* Session 2013-14, HC 538, National Audit Office, September 2013. Available at: www.nao.org.uk/wp-content/uploads/2013/09/10176-001-MyCSP-Book.pdf

6 Immediately before Paymaster bought the 11% stake for £8 million, MyCSP agreed to pay Paymaster £4 million cash, with a further £4 million to be paid in September 2016. In return, Paymaster will pay to MyCSP the profits from its contract for administrating the NHS pension scheme.[2]

7 The commercial intent was to "transfer the economic benefit of the NHS contract to MyCSP, to allow Paymaster to consolidate the revenues of MyCSP by means of the acquisition of an additional 11% shareholding from the Cabinet Office, and for the operation of MyCSP to continue unchanged".[3]

8 Paymaster agreed to pay MyCSP the higher of £8 million and the actual profits from the NHS bodies that use the scheme. The NHS contract has since been extended, so MyCSP should receive more than £8 million, depending on the profitability of the contract with the NHS. Paymaster will continue to administer the NHS pension scheme contract. The Cabinet Office hopes that associating MyCSP with this contract will help MyCSP to win further work.

2 Defined as earnings before interest, tax, depreciation and amortisation.
3 Heads of terms (unpublished), paragraph 1.4.

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