

**REPORT OF THE CORPORATE DIRECTOR OF FINANCE AND RESOURCES**

<b>Pension Administration Audits</b>  <b>Pensions Board - 26<sup>th</sup> January 2016</b>	<b>Classification</b> <b>PUBLIC</b>	<b>Enclosures</b> <b>EXEMPT - Three</b>
	<b>Ward(s) affected</b>  <b>ALL</b>	<b>AGENDA ITEM NO.</b>  <b>7</b>

**1. INTRODUCTION**

- 1.1 This report provides the Pensions Board with the results of pension administration audits undertaken on behalf of the Fund by its benefits advisers, AON.

**2. RECOMMENDATIONS**

- 2.1 **The Pensions Board is recommended to note the report.**

**3. RELATED DECISIONS**

- Pensions Committee 13<sup>th</sup> January 2016 – Pension Administration Audit Reports
- Pensions Sub-Committee 17<sup>th</sup> January 2013 – Approval of contract extension for 3 years with Equiniti
- Pensions Sub-Committee 9<sup>th</sup> December 2008 – Award of third party administration contract to Equiniti

#### **4. COMMENTS OF THE CORPORATE DIRECTOR OF FINANCE & RESOURCES**

- 4.1 The introduction of the new LGPS 2014 Scheme brought additional complexities to the administration of the LGPS and given the risks of such wholesale changes it was appropriate to ask external advisers to undertake an audit on behalf of the Fund's third party administrators and also employers who provide data to the Pension Fund. Whilst the costs of such audits are not inconsequential, the financial and reputational risks, if there are significant systemic errors far exceed any cost of audit.
- 4.2 Aside from the financial risks where incorrect data is held in the pension system and results in incorrect pension payments, the data is also used to calculate the liabilities of the Pension Fund and therefore inaccurate data could impact on either an under or over statement of the liabilities leading to additional costs for employers. In addition there are a range of potential costs that could arise from holding incorrect data, not least of which is fines from the Pensions Regulator. The focus on holding accurate data has intensified over recent years and it is important for the Fund to review the quality of the data and how it is being processed particularly following a time of considerable change brought about by the Scheme changes in 2014.

#### **5. COMMENTS OF THE CORPORATE DIRECTOR OF LEGAL, HR AND REGULATORY SERVICES**

- 5.1 The Pensions Board role is to assist the Administering Authority with compliance against the Regulations and as such it is appropriate for the Board to consider the contents of this Report and appendices as the audit will provide the Board with an overview of the level of compliance in terms of the administration of the Pension Fund.
- 5.2 Under the Public Service Pensions Act 2013 by sections 5 (1) and (2) the role of the Pension Board is to assist Hackney Council as Scheme Manager of the London Borough of Hackney Pension Fund:
- to secure compliance with the Local Government Pension Scheme (LGPS) Regulations and any other legislation relating to the governance and administration of the Scheme, and any requirements imposed in relation to the LGPS by the Pensions Regulator
  - to ensure the effective and efficient governance and administration of the London Borough of Hackney Pension Fund"
- 5.3 Further, the Local Government Pension Scheme Regulations (2013) make clear that 'An [administering authority](#) is responsible for managing and administering [the Scheme](#) in relation to any person for which it is the appropriate [administering authority](#) under these Regulations' (Regulation 53(2)). In addition Regulation 69 sets out the payments that employers are required to make to the Fund and the information that is required to accompany such payment (Regulation 69 (3)).
- 5.4 There are no immediate legal implications arising from this report.

#### **6. BACKGROUND/TEXT OF THE REPORT**

- 6.1 The introduction of the LGPS 2014 Scheme brought new complexities into managing the Scheme whilst having to maintain scheme member records on an

historical basis in addition to the new career average basis for any members active on 1<sup>st</sup> April 2014. As Members may recall, the regulations were only finalised just shortly before the introduction of the Scheme itself leaving funds, their administrators and employers with little time to make all the necessary amendments to systems, processes and procedures. With the Scheme having been in place for approximately a year, giving time to resolve initial teething problems, it seemed an appropriate time to undertake an audit of the administration arrangements.

- 6.2 The Fund's Benefit Consultants, AON were asked to carry out an audit, initially on the third party administrators, Equiniti and then to review the quality of data being supplied to the Pension Fund. The results of the audit work are attached in the appendices to this report, exempt as they contain both confidential and potentially commercially sensitive information.
- 6.3 In brief the audit of the administration highlighted a number of positive aspects along with some areas for improvement. Equiniti have co-operated with both AON and officers of the Council during the audit process and have at all times responded positively to recommendations. There has been a clear willingness to deliver to a high standard in undertaking administration on behalf of the Hackney Pension Fund.
- 6.4 The audit of employer data quality shows that whilst there are some employers who have adapted to the new Scheme and are supplying data of good quality, there remain a number who struggle to meet deadlines and quality for the period under review. Officers have not had the opportunity to discuss findings with individual employers at the time of writing, but anticipate doing so over the coming weeks. In addition the Fund will be holding an Employer Forum and will cover the issue of data quality with all employers in attendance. Officers have been and will continue to work with employers to provide support and training.
- 6.5 Whilst the Board will have seen the contents of the report sent to Pensions Committee on the audit, given the role that the Board has in assisting the Scheme Manager, i.e. the London Borough of Hackney in ensuring compliance and given the contents of the exempt appendices, it is appropriate for the Board to consider this report separately to the Pensions Committee.
- 6.6 The Pension Fund third party administrators, Equiniti, have also been asked to attend the Board meeting to respond to any additional questions that the Board may wish to raise either in relation to the audit of their functions or indeed any questions in relation to the receipt of data that employers provide them with to fulfil their administration contract. The Fund's benefits consultants, AON, who carried out the audit on behalf of the Pension Fund will also be in attendance at the meeting.
- 6.7 At the Pensions Committee meeting, the Chair of the Committee has requested that an update be provided to future Committees on any progress in addressing the issues raised in particular in reference to the employer audit and specifically as this relates to the Council's own payroll. Officers will provide the Board with any updates regarding actions to be taken in relation to the employer audit, if there is anything further to report back at the meeting.

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Background papers: None

**Exempt Appendices: Yes**

**That it is likely, in view of the nature of the business to be transacted, that were members of the public to be present, there would be disclosure of exempt information as defined in Schedule 12A to the Local Government Act 1972 as amended.**

**Specifically, publicity in respect of these items would be likely to lead to the disclosure of information relating to the financial or business affairs of a particular person (including the authority holding that information) and in all the circumstances of the case the public interest in maintaining the exemption outweighs the public interest in disclosing the information.**

**If members of the public were present during consideration of this report, exempt information would be disclosed in under Paragraph 3 of Schedule 12A to the Local Government Act 1972 (as amended): “information relating to the financial or business affairs of any particular person (including the authority holding the information)”. In considering whether to exclude the public during the consideration of the exempt information in order that it is not disclosed, the Board should have regard to whether the public interest in maintaining the exemption outweighs the public interest in disclosing the information.**

**It is for the Board to determine whether it is likely that exempt information would be disclosed and whether it is necessary to make a resolution to exclude the public from the meeting. The public does not have to be excluded in cases where exempt information would be disclosed. Any resolution to exclude the public must identify whether it applies to the whole or only part of the meeting and must state the description of the exempt information giving rise to exclusion of the public.**

Appendices

1. LGPS 2014 – Administration and Employer Audit Summary
2. Audit of LGPS 2014 Administration

### 3. Audit of Employer Data Quality