

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

<b>Year End Data &amp; Payroll Implementation Update</b>	<b>Classification</b> <b>PUBLIC</b>	<b>Enclosures</b> <b>None</b>
	<b>Ward(s) affected</b>  <b>ALL</b>	<b>AGENDA ITEM NO.</b>
<b>Pension Board</b> <b>20<sup>th</sup> March 2017</b>		

**1. INTRODUCTION**

- 1.1 This report covers an update to the Board on progress of the Council’s payroll implementation project, which has significant implications for the future provision of accurate pension contribution data. It also details actions taken to help ensure that adequate year end contribution data is provided for 2016/17 despite the end of the Council’s existing payroll contract on 30<sup>th</sup> June 2017.

**2. RECOMMENDATIONS**

- 2.1 The Pension Board is recommended to:
- Note the implementation update and actions taken to secure adequate year end contribution data

**3. RELATED DECISIONS**

- 3.1 Pension Board 2<sup>nd</sup> December 2016 – TPR Code Compliance Checklist

**4. COMMENTS OF THE GROUP DIRECTOR, FINANCE AND CORPORATE RESOURCES**

- 4.1 The standard of monthly and year end contribution data provided by the Council to the Pension Fund has declined in recent years, as the 2014 scheme changes and introduction of auto-enrolment have made the provision of adequate data more challenging. The financial implications of poor quality data for the Pension Fund are considerable; not only does it raise the risk that member benefits will not be calculated in accordance with scheme regulations, but could also reduce the accuracy of the Fund’s actuarial valuation and lead to inefficient management of investment risks. This could result in employers, including the Council, paying insufficient or excessive contributions with a material impact on their own finances. The involvement of the Pension Regulator (tPR) in this areas also raises the risk of financial penalties and reputational damage.
- 4.2 The introduction in 2017 of a new payroll provider for the Council, the Fund’s main employer, creates additional risks around data provision but also provides opportunities for improvement. Management of the provision of final data from the old provider and the timely introduction of good quality reporting from the new are key to ensuring improvement. Some additional cost is inevitable; however, this is negligible in comparison to the financial risks posed by failing to act.

## **5. COMMENTS OF THE DIRECTOR, LEGAL**

- 5.1 The Pension Fund is required, under Section 4 of the Public Service Pensions (Record Keeping and Miscellaneous Amendments) Regulations 2014 to hold certain information about its members. Failure to maintain complete and accurate records could result in the Fund failing to pay benefits in accordance with scheme regulations, inefficient management of investment risk and potentially excessive or insufficient contribution rates for employers.
- 5.2 Failure to adhere to the overriding legal requirements could therefore impact on meeting the ongoing objectives of the Pension Fund. In addition, where scheme managers or pension boards fail to address poor standards and non-compliance with the law, TPR will consider undertaking further investigations and taking regulatory action, including enforcement action.
- 5.3 There are no immediate legal implications arising from this report.

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

- 6.1 Whilst this is not an issue that is confined to the London Borough of Hackney, submitting good quality data to the Pension Fund has been an ongoing problem for the Council for a number of years. The increased complexity of the 2014 CARE scheme and the introduction of auto-enrolment have made the provision of accurate data more challenging; the quality of the data held by the Fund has declined sharply since 2013.
- 6.2 This issue poses significant financial and reputational risks to both the Pension Fund and the Council itself. Clearly, inaccurate contribution data raises the risk that member benefits will be calculated incorrectly, but could also reduce the accuracy of the Fund's actuarial valuation. This could result in employers, including the Council, paying insufficient or excessive contributions with a material impact on their own finances. The involvement of the Pension Regulator (tPR) in this areas also raises the risk of significant financial penalties and reputational damage.
- 6.3 The Council is currently in the process of changing its payroll provider, with the new contract with Midland HR taking effect from 1<sup>st</sup> July 2017. This creates significant additional risk around the provision of contribution data; not only is the Council reliant upon the timely introduction of good quality monthly and year end reporting from Midland HR but it must also manage the provision of 2016/17 year end contribution data which is held by the departing provider (Northgate Arinso)
- 6.4 A further contributor to the decline in data quality has been the absence of proper quality assurance on data produced by the payroll provider. Whilst aspects of the payroll process have been outsourced, it remains the responsibility of the Council as a Fund employer to ensure that the monthly and year end reporting to the Pension Fund is of sufficient quality. The Council must ensure that this issue is resolved within the new payroll arrangements, through the provision of either outsourced or internal quality assurance.
- 6.5 The Fund has played an active role in assisting the Council with its data provision. It has taken an active role in the implementation of the new payroll contract and has established a constructive working relationship with Midland HR. A new monthly

interface and year-end report have been developed by Midland together with the Fund and Equinti, the Fund's administrator, and are now ready for testing ahead of implementation in July. Whilst timescales are tight, the development of new reporting is currently on track.

- 6.6 A significant risk around the development of the new system reporting is the Fund's tender for Third Party Administration services. The current contract expires on 31<sup>st</sup> March 2017; a 9-month extension has been secured, taking the effective date for the new contract to 1<sup>st</sup> January 2018. It is therefore a possibility that the Fund may change administration provider shortly after the introduction of the Council's new payroll system. This would require the development of further new monthly and year end reporting prior to 1<sup>st</sup> January 2018, as a change of provider would result in the implementation of a new administration system.
- 6.7 The Fund is monitoring this risk closely and, to mitigate it, has tried to ensure that the reports developed to Equiniti's specification refer as closely as possible to the generic categories and terminology used in the Local Government Association (LGA) payroll guidance on the LGPS, which all major payroll providers and administrators should be familiar with. This helps to ensure that, if a new administration provider is selected, the changes required to monthly and year end reports are not extreme.
- 6.8 In addition to working with the Council's new payroll provider, the Fund has also taken action where possible to manage the risks presented by the provision of 2016/17 year end data. As the effective date for the new contract is 1<sup>st</sup> July 2017, 2016/17 year end data (to 31<sup>st</sup> March 2017) must be supplied by the outgoing provider. This presents a clear risk in terms of the timeliness and quality of data provision. Since the 2015/16 year end, improvement has been made to the year-end report specification to correct the most significant errors. The current contract holder has been formally notified of the final data requirements from Northgate Arinso and apprised of the risks to both the Fund and the Council if this data is not supplied in a timely fashion and to a suitable standard.

Ian Williams  
**Group Director of Finance & Corporate Resources**

**List of appendices:**

None

Report Originating Officers: Rachel Cowburn ☎020-8356 2630

Financial considerations: Michael Honeysett ☎020-8356 3332

Legal comments: Stephen Rix ☎020-8356 6122