Hackney

REPORT OF THE GROUP DIRECTOR OF FINANCE AND CORPORATE RESOURCES

ABS Breach Reporting and 2017/18 Year End Data **Pension Board** **21st March 2018**	**Classification** **PUBLIC**	**Enclosures** **None**
	Ward(s) affected **ALL**	**AGENDA ITEM NO.** **5**

1. INTRODUCTION

1.1 This report covers an update to the Board on progress made on issuing the 2016/17 Annual Benefit Statements (ABSs) to active members of the Fund. The report also covers actions taken to help improve the quality of data provided by the Council as an employer and the processes being followed to help ensure the timely provision of data for the 2017/18 ABS exercise.

1.2

2. RECOMMENDATIONS

2.1 The Pension Board is recommended to:

- Note the actions taken to issue the remaining 2016/17 statements and help ensure improvements for 2018/19.

3. RELATED DECISIONS

3.1 Pension Board 20th March 2017 – Year End Data and Payroll Implementation Update

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. ISSUE OF ANNUAL BENEFIT STATEMENTS TO ACTIVE MEMBERS

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 Fund has engaged multiple times with the Pensions Regulator with regard to the outstanding Annual Benefit Statements from 2016/17 year-end. The original breach report, made in September 2017, listed approximately 3000 ABS for active members as outstanding. As of 16th March 2018, this had reduced to 1,097 outstanding statements; 796 of these have a statement either in preparation or prepared and sent for printing. These are due to be issued by 31st March 2018. The remaining 301 records still have data outstanding, which needs to be obtained directly from employers; Equiniti and the internal Pensions Administration team are working to obtain this.

6.4 As at 16th March, 898 of the original queries related to members who had actually left employment, and should therefore hold a deferred (or no liability) rather than active record. Equiniti are working to obtain leaver forms where necessary – the status of these members has now been changed on the administration system and, if required, they will receive a deferred statement as part of the 2017/18 ABS process.

6.5 Progress reports as at September 2017, December 2017 and March 2018 are attached at Appendix 1 to this report. These indicate the progress made towards compliance over time, whilst detailing work that remains outstanding and the timescales over which it will be undertaken.

7. PROVISION OF MEMBERSHIP DATA FOR 2017/18

7.1 Work is already underway on the 2017/18 ABS process. Requests and instructions went out to employers in early March 2018, with the Employer Forum also held around this date to help answer any questions from employers. The deadline for submission of data is 13th April 2018.

7.2 The most significant risk to the 2017/18 ABS process is the provision of data by the Council, which represents approximately 95% of the Fund's membership. The Council's payroll system provider, Midland HR, has been able to develop a monthly and year end report for use with Equiniti's administration Compendia; however, at the time of writing, this was still undergoing testing by Equiniti.

7.3 One of the most significant concerns is that, although testing of the report is likely to be finalised prior to the data submission deadline, the input of new data is likely to create a significant backlog of queries. The 2016/17 ABS exercise has resolved a large number of queries relating to members who had left employment; however, the new reporting is producing updated salary and earnings figures for Council staff. Verifying the inevitable changes to member records will take time; the Fund has requested that Equiniti confirm the availability of additional staff after the submission date to help process this additional data.

7.4 Ongoing concerns over the level of provision for LGPS employer functions by the Council have been escalated. The Head of HR will be attending the Pensions Committee meeting on 21st March to discuss these concerns and provide further detail on the Council's approach to ensuring that the Fund is provided with temily and accurate member data.

Ian Williams
Group Director of Finance & Corporate Resources

List of appendices:
Appendix 1 – Progress to Compliance reports to tPR

Report Originating Officers: Rachel Cowburn ☎020-8356 2630
Financial considerations: Michael Honeysett ☎020-8356 3332
Legal comments: Stephen Rix ☎020-8356 6122