

REPORT OF THE GROUP DIRECTOR, FINANCE AND CORPORATE RESOURCES		
<b>Data Improvement Update</b>  <b>Pensions Board</b> <b>29<sup>th</sup> November 2018</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>

## 1. INTRODUCTION

- 1.1 This report covers an update to the Board on progress made on issuing the 2017/18 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 to cleanse the data currently held on the pension administration system in relation to Hackney Council and schools staff.

## 2. RECOMMENDATIONS

- 2.1 The Pension Board is recommended to:
- Note the actions taken to improve data provision from the Council, in respect of those employees who are members of the LGPS, to the pension administrators

## 3. RELATED DECISIONS

- Pensions Board 21st March 2018 - ABS Breach Reporting and 2017/18 Year End Data
- 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, created additional risks around data provision but also provided opportunities for improvement. Some additional cost, such as the provision of new

reporting, is inevitable; however, this is negligible in comparison to the financial risks posed by failing to act.

## **5. COMMENTS OF THE DIRECTION OF LEGAL AND GOVERNANCE**

- 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 issuing an enforcement action notice or imposing a substantial financial penalty against the Fund.

## **6. BACKGROUND TO 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 area also raises the risk of significant financial penalties and reputational damage.
- 6.3 The issue also impacts the provision of information to scheme members. The Fund has a statutory duty to provide active and deferred members with an Annual Benefit Statement (ABS) by 31st August each year. Failure of employers to provide adequate membership data can seriously delay the production of ABSs, breaching the Fund's statutory duty and necessitating a declaration to the Pensions Regulator.

## **7. PRODUCTION OF 2017/18 ANNUAL BENEFIT STATEMENTS**

- 7.1 As at 31<sup>st</sup> August 2018 the Fund had sent out statements to all its deferred members and 627 active members. The Fund therefore breached the statutory deadline for statements for approximately 6,300 active members, the vast majority of whom were employed by Hackney Council or its maintained and voluntary-aided schools. The failure to send these statements primarily resulted from the failure of Hackney Council to provide data by the deadlines requested.
- 7.2 At the time of writing (end October), no further statements had been sent, but 3,616 statements were being printed by Equiniti for distribution in early November. Equiniti

are continuing to work on the production of statements for the remaining 2,600 (approx.) active members; further details on the timeframe for sending these statements will be provided as the remaining data issues are assessed. .

- 7.3 The failure to send these statements represents a clear breach of law, and this issue has been reported to the Pensions Regulator. The Fund has been required to report to the Regulator regarding this issue on 3 previous occasions (2015-2018). Provision of employer data by the Council has been a long term issue for the Fund; we recognise the scale of the issue and are committed to working with the Council and Equiniti to resolve this.

## **8. PROGRESS TO COMPLIANCE**

- 8.1 Equiniti and Fund officers are working to rectify the problems preventing the remaining 2,600 statements being issued. A large number of members affected are believed to be those holding multiple posts within the Council and its schools, for whom provision of accurate data is more challenging. Further information will be provided as this data cleanse exercise progresses.
- 8.2 The key driver behind the Fund's failure to produce timely ABSs is the failure of the Council to provide adequate data within the required timescales. In recent years, the Council has not been able to produce data in a format that can be automatically uploaded into Compendia, the Fund's administration system. The Council changed payroll provider from July 2017, which added additional risk to the process as well as providing opportunities for improvement.
- 8.3 Difficulties in obtaining consultancy time the Council payroll provider and extensive specification changes by Equiniti delayed the development of new automated data provision following the introduction of the Council's new payroll system. However, at the time of writing, successful early testing had been carried out on a new automated data upload format. This will require further extensive testing during Q4 2018 and Q1 2019 but this represents substantial progress on resolution of the underlying issue.
- 8.4 It is therefore hoped that the Council will be able to move to provision of a monthly upload during Q1/Q2 2019. A substantial further data cleansing exercise will be required once the process is running and the provision of 2018/19 ABSs by 31<sup>st</sup> August 2019 may therefore also be affected.
- 8.5 Both the Council and its Pension Fund recognise that this is a significant issue and will require additional resource within both the Council and the Pension Fund to resolve. Officers of the Fund are working closely with both Equiniti and the Council's IT and Payroll teams to plan both the work required during 2019 to resolve this issue and the resources required on an ongoing basis to develop and maintain a higher quality of data provision.

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