

REPORT OF THE GROUP DIRECTOR, FINANCE AND CORPORATE RESOURCES

Data Improvement Update	Classification PUBLIC	Enclosures None
	Ward(s) affected ALL	AGENDA ITEM NO.
Pension Board 20th March 2019		

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 29th November 2018 – Data Improvement Update
- Pensions Board 21st March 2018 - ABS Breach Reporting and 2017/18 Year End Data

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 area 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 DIRECTOR 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.
- 5.3 The role of the Pension Board is prescribed by Section 106 of the LGPS Regulations 2013 and includes the following:
- Securing compliance with the Local Government Pension Scheme Regulations 2013 and any other legislation relating to the governance and administration of the Scheme and any connected scheme
 - Securing compliance with any requirements imposed by the Pensions Regulator in relation to the Scheme and any connected scheme
 - Ensuring the effective and efficient governance and administration of the Scheme and any connected scheme
- 5.4 Taking into account the role of the Pension Board as set out in the Regulations, reviewing the progress made towards compliance with statutory record-keeping requirements clearly falls within the remit of the Pension Board.

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 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 31st 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 3,616 additional statements were sent out during November 2018. The in house administration team are conducting a significant data cleansing exercise to ensure that the remaining statements are sent out as soon possible. Equiniti have commenced an initial review of the revised data received from the admin team and are expected to provide updated timescales shortly.
- 7.3 The failure to send these statements represents a clear breach of law, and this issue has been reported to the Pensions Regulator. Officers provided an update to the Regulator via a conference call during March 2019 and will shortly be providing updated documentation to the Regulator setting out the Fund's wider data improvement plan as well as details of the data cleansing exercise now being undertaken taken by the in house administration team.

8. UNDERLYING CAUSES

- 8.1 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.
- 8.2 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. At the time of the last Board meeting, successful early testing had been carried out on a new automated data upload format. However, further shortages of consultancy time and broader problems with the Council's payroll database were causing further delays to testing. The Board emphasised the importance of obtaining further consultancy time as soon as possible and certainly prior to Christmas 2018.
- 8.3 The Fund was able to obtain the required consultancy time during December; this focused on addressing the underlying problems in the Council's hosted payroll environment. After an extensive review by Midland, the payroll provider, the issue was resolved during February 2019. At the time of writing, officers were awaiting a full report from Midland/Hackney ICT on the causes of the issue.
- 8.4 Since the resolution of the underlying issues with the database environment, final testing on the report has progressed, with the majority of issues identified during previous tests now resolved. Whilst this represents a positive step forward, it should be noted that extensive work is likely to be required during 2019 to address historic

data issues both on Compendia (the pensions administration system) and iTrent (the Council's payroll system). These issues have already been raised with the Fund's actuary with reference to the 2019 valuation and a revised timetable is being developed.

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