

REPORT OF THE GROUP DIRECTOR, FINANCE AND CORPORATE RESOURCES

Data Improvement Update	Classification PUBLIC	Enclosures One AGENDA ITEM NO.
	Ward(s) affected ALL	
Pensions Committee 25th June 2019		

1. INTRODUCTION

- 1.1 This report provides an update on the Fund's engagement with the Pensions Regulator following a breach of law report made in respect of annual benefit statements for 2017/18. It also covers actions taken and planned to help both rectify the breach and address its underlying causes.

2. RECOMMENDATIONS

- 2.1 **The Pensions Committee is recommended to:**
- **Note the report**

3. RELATED DECISIONS

- Pensions Board 29th November 2018 – Data Improvement Update
- Pensions Committee 12th September 2018 - The Pensions Regulator Code of Practice 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. 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 Rectification of the issues outlined in this report will necessarily lead to some increase in administration and governance costs to the Fund. Where additional administration work results directly from the actions (or inaction) of an employer, it is the Fund's policy to recharge these costs to the employer in question. Additional governance costs to the Fund will result from additional project management support to prepare an action plan to issue 2018/19 ABSs and further develop the Fund's data improvement plan. These additional governance costs are likely to be in the region of £15k-20k.

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 The Fund has a legal requirement to report breaches of the law under section 70 of the Pensions Act 2004. As per its Reporting Breaches Policy, the Fund has deemed 4 breaches experienced with respect to annual benefit statements during the period 2015-2018 to be reportable and has reported these to the Pensions Regulator accordingly.
- 5.3 Under the Pensions Committee's terms of reference, it is responsible for 'act[ing] as Trustee of the Council's Pension Fund, consider[ing] pension matters and meet[ing] the obligations and duties of the Council under the Superannuation Act 1972, and the various pension legislation'. As such, review of both the Fund's compliance with relevant legislation and actions taken to address instances of non-compliance falls within the Pensions Committee's remit.

6. BACKGROUND TO THE REPORT

- 6.1 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 significantly declined sharply 2013. The Fund has experienced particular issues with the quality, completeness and timeliness of data provided by its largest employer, the London Borough of Hackney
- 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
- 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 delay the production of ABSs, breaching the Fund's statutory duty and necessitating a declaration to the Pensions Regulator.
- 6.4 The Pensions Regulator (tPR), has oversight of the governance and administration of local government pension funds. It has a number of regulatory tools at its disposal to help ensure the compliance of scheme managers with their statutory duties and obligations; these include improvement notices and financial penalties.
- 6.5 The Fund has a legal requirement to report breaches of the law under section 70 of the Pensions Act 2004. It has been required to make four reports to tPR concerning failure to issue annual benefit statements, raising the risk of financial penalties and

reputational damage. Further details of the reportable breach experienced in 2017/18 and its underlying causes are set out in sections 7 and 8.

- 6.6 In early 2019, the Regulator commenced a programme of engagement with the Fund to help resolve this long-standing issue. An initial update to the Regulator was provided via conference call in March 2019, during which progress towards rectifying the breach and preventing recurrence in the future was discussed. Following the call, the Fund was requested to provide the Regulator with copies of all data improvement plans, evidence of the Fund invoking its pension administration strategy levies and expected delivery dates to comply with legislation. Copies of the Fund's data improvement plan and ABS action plan are available if required, and Equiniti's Data Management Strategy is attached as appendix to this report.
- 6.7 TPR requested a further meeting with officers of the Fund, the Council's s151 officer and representatives of the Fund as an employer in June 2019. The Fund's plans for rectification were considered in further detail as the Regulator sought reassurance that timescales and resourcing were sufficient to both address the underlying causes of the issues and rectify the significant record-keeping issues resulting from them.
- 6.8 At the time of writing, a formal response from the Regulator is pending; however, the Fund has agreed that further updates are required to its data improvement plan to ensure that the extent of the issues described is fully scoped and that realistic timescales for rectification are provided. The Fund has already sought additional project management support from its benefit consultant (Aon) to help to develop an action plan to issue 2018/19 ABSs, and the Regulator agreed that a similar approach should be adopted for the data improvement plan. A full report on the meeting and its outcome will be provided to Pension Committee at their next meeting in September 2019.

7. PRODUCTION OF 2017/18 ANNUAL BENEFIT STATEMENTS

- 7.1 During Q2 2018/19, the Fund experienced a breach relating to Annual Benefits Statements which was reported to tPR. The Fund breached the statutory deadline for statements for approximately 6,000 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 year-end data by the deadlines requested.
- 7.2 A further 3,616 additional benefits statements for active members were sent out by Equiniti for distribution in early November 2018. The investigations on remaining 1,600 data queries were completed by the end of May 2019, with a further 472 active benefit statements sent and 1,276 apology letters dispatched to those members for whom the Fund was unable to provide a statement. This was either due to complex data problems or calculation issues that could not be resolved in time for a statement to be issued before work was scheduled to begin on the 2019 year-end process. Those in receipt of an apology letter were also informed that they still have a right to request that information be provided should they wish to.

8. UNDERLYING CAUSES

- 8.1 The key driver behind the Fund's failure to produce timely ABSs is the failure of Hackney Council to provide complete and accurate 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 Lack of internal resource within the Council's payroll team to develop the required reporting, and difficulties in obtaining consultancy time from the Council's payroll provider delayed the development of automated data provision following the introduction of the Council's new payroll system. Extensive specification changes by Equiniti also contributed to the delay. Successful early testing has now been carried out on a new automated data upload format.
- 8.3 Extensive work will be required during 2019 to both move the automated data upload process to a business-as-usual status and 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 has been developed. It is the Fund's intention to carry out an interim valuation during 2020.

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Appendices

Appendix 1 – Equiniti Data Management Strategy

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