

## REPORT OF THE GROUP DIRECTOR, FINANCE AND CORPORATE RESOURCES

<b>Data Improvement Update</b>  <b>Pensions Board</b> <b>18<sup>th</sup> November 2019</b>	<b>Classification</b> <b>PUBLIC</b>	<b>Enclosures</b> <b>None</b> <b>AGENDA ITEM NO.</b>
	<b>Ward(s) affected</b>  <b>ALL</b>	

### 1. → **INTRODUCTION ¶**

- 1.1 This report provides the Board with an update on progress made on issuing the 2018/19 Annual Benefit Statements (ABSs) to active members of the Fund. The report also covers actions taken to help improve in the longer term 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 Pensions 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¶**

- 3.1 Pensions Board 20th March 2019 - Data Improvement Update
- 3.2 Pensions Board 29th November 2018 – Data Improvement Update
- 3.3 Pensions Board 21st March 2018 - ABS Breach Reporting and 2017/18 Year End Data

### 4. **COMMENTS OF THE GROUP DIRECTOR OF FINANCE & 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.
- 4.2 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.
- 4.3 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.
- 4.4 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 SERVICES¶**

- 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 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. 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 the Regulator concerning failure to issue annual benefit statements, raising the risk of financial penalties and reputational damage.

- 6.5 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 Regulator requested that the Fund provide copies of all data improvement plans, evidence of the Fund invoking its pension administration strategy levies and expected delivery dates to comply with legislation.
- 6.6 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.
- 6.7 To help respond to the regulator's request, the Fund sought additional project management support from its benefit consultant (Aon) to help develop a specific action plan to issue 2018/19 ABSs and further develop the Fund's existing data improvement plan. The Fund agreed with the Regulator that the majority of ABSs would be sent out by 31st August 2019, but acknowledged that late submission of data by Hackney Council was likely to reduce the time available to address queries and complex cases. It was therefore agreed that statements not sent by 31st August would be sent by 31st October, with updates being provided to TPR at the end of each month.

## **7. PRODUCTION OF 2018/19 ANNUAL BENEFIT STATEMENTS**

- 7.1 By 31st August 2019, the Fund had sent out 6,664 statements to deferred members with 1,622 statements withheld, plus 5,779 statements to active members with 466 members withheld. This represents a very significant improvement relative to 2017/18. The key driver of this improvement was the receipt of high quality year end data files from Hackney Council and Hackney Learning Trust; although submitted late, the data was of good quality and allowed the majority of active statements to be sent.
- 7.2 Between August and October 2019, Equiniti and the internal Pensions Administration team carried out a significant data cleansing exercise to help rectify errors and omissions and resolve complex cases to allow the outstanding statements to be sent out. This work required significant internal resourcing from the Pensions Administration team as well as additional work by Equiniti. Where appropriate, additional costs have been met by Hackney Council as the employer.
- 7.3 By 31st October 2019 the Fund had sent out statements to all but 30 active members. 160 deferred statements remain outstanding. These more complex cases are currently being investigated by Equiniti and statements will be sent out as soon as possible. The Fund has provided regular monthly updates to the Regulator, who has now responded to confirm that there are no further questions for the Fund at this time and no further regulatory action will be taken. The Regulator does, however, reserve the right to review this decision if appropriate.

## **8. NEXT STEPS**

- 8.1 We are very pleased to note the improvement in the quality of data being submitted by Hackney Council and Hackney Learning Trust, and the subsequent significant improvement in the number of ABSs sent by the deadline. The significant improvement in data quality has also lessened the impact of delayed submission of 2019 valuation data to the actuary, by shortening the period required for review. It is vital that these improvements are sustained and we have set out below the next steps for both the Fund and the Council to ensure that 2019's good progress is maintained.
- 8.2 The Council has set up a Payroll Board to consider and address the issues around payroll that have affected both the accounting and pensions functions as well as the payroll team itself. The Board aims to understand the problems and their underlying causes before agreeing and implementing an improvement plan.
- 8.3 One key focus of the Board is ensuring that the payroll and ICT functions are adequately resourced and retain the right mix of skills to ensure that good quality reporting is delivered. Significant improvements have been made in this area but we are aware that key person risk remains an issue. The Council needs to ensure that this is addressed and that proper succession planning is put in place.
- 8.4 Another key item for the Board will be ensuring that robust processes are put in place and that pensions reporting is properly integrated into monthly and annual timescales. As part of the overall data improvement project, the Fund is aiming to move to automated monthly data collection via an employer portal; the Council will need to have sufficient resources available within payroll/ICT to manage this process on a monthly basis.
- 8.5 As set out above, the Fund is looking to move to automated monthly data collection for the Council, to help reduce dependence on manual processes and a single year report. The Fund has a timetable in place to go live with the new process during Q4 2019/20; however, it is also vital that contingency plans are in place to allow delivery of the 2019/20 benefit statements if the go live date is delayed. The Fund is working with Equiniti to draw up potential timescales, and will make arrangements with the Council for a 2019/20 year end report to be produced.

Ian Williams

**Group Director, Finance & Corporate Resources**

Report Originating Officers: Rachel Cowburn ☎020-8356 2630

Financial considerations: Michael Honeysett ☎020-8356 3332

Legal comments: Juliet Babb ☎020-8356 6183