

REPORT OF THE GROUP DIRECTOR, FINANCE & CORPORATE RESOURCES		
Data Improvement Update	Classification PUBLIC	Enclosures None
	Ward(s) affected ALL	AGENDA ITEM NO.
Pensions Board 9th March 2020		

1. INTRODUCTION

- 1.1 This report provides the Board with an update on the Fund's ongoing project to improve both the quality of membership data and its timescales for issuing annual benefit statements (ABSs) to members. The report 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 and maintained schools and to improve the quality of data held on the administration system.

3. RELATED DECISIONS

- 3.1 Pensions Board 18th November 2019 - Data Improvement Update
3.2 Pensions Board 20th March 2019 - Data Improvement Update
3.3 Pensions Board 29th November 2018 – Data Improvement Update

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 There are costs associated with improving data quality, such as staff time and project management support. However, the costs of holding poor data, including additional administration costs and potential financial penalties far outweigh the costs of improvement.

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 since 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. The Fund agreed with the Regulator that the majority of ABSs would be sent out by 31st August 2019, and that monthly updates would be provided after this date setting out progress with any remaining statements. The Fund also worked with its benefit consultant (Aon) to develop a specific action plan to issue 2018/19 ABSs and further develop the Fund's existing data improvement plan; these documents were also provided to the Regulator as part of the engagement.

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. The Fund provided regular monthly updates to the Regulator until 31st October; during November, the Regulator responded to confirm that no further regulatory action would be taken.
- 7.4 In mid November, following a reconciliation of Deferred Annual Benefit Statements sent against the triennial valuation population, Equiniti identified a discrepancy

between the 2 groups; the initial ABS population was 8286 and the valuation population was 9339 with the difference being 1053.

7.5 Equiniti commenced a review of the 1053 records, and produced the following breakdown:

- 133 members changed status after 31/03/2019, therefore they were correctly shown in the valuation as deferred, but no longer warranted a deferred benefit statement.
- 358 had already passed their respective NRD, and therefore were excluded from the benefit statement process.
- 49 members carried a remark stating that they should not be deferred beyond NRD.
- 2 had incomplete data, requiring cleanse, so were not extracted by the Benefit Statement routine.
- 511 were leavers post 31 March 2018, and had all received a leaver statement in the last year. Because of changes made this year, no revaluation would have been applied to their benefits and their ABS would have shown the same benefit as per their leaver statement; however an ABS should have been sent to them.

7.6 From the exercise, Fund officers and Equiniti established that 511 members receiving a leaver statement should also have received an ABS. The underlying reason for these members not getting a statement is that Equiniti's tool was not updated correctly to take into account this scenario and as such these were omitted from the initial population. Equiniti have added this scenario to their revised checklists and this issue has been picked up in internal 'lessons learnt' meetings.

7.7 From the initial population of 511, the Fund has since responded as follows:

- 466 ABS sent with an apology letter (by 15th December 2019)
- 21 changed status on review - no ABS required
- 22 had no address
- 2 admin queries remain under review

7.8 This issue has been reported to the Regulator; it is currently under review and a formal response has not yet been received.

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 The Fund is currently working to implement the automated data collection process. It was originally hoped that this would be in place by Q4 2019/20; however, it has been pushed back Q1 2020/21 to accommodate a longer period of testing by both Equiniti and the Fund. Plans are also being developed to ensure that the right resources are in place to validate the Council's employer data each month, upload reports to the data portal and deal with queries and errors.
- 8.6 Equiniti and the Fund have now drawn up a timescale and project plan for delivery of the 2019/20 benefit statements. The Fund has agreed with the Council that the 2019/20 year end report will be produced using the same specification as the 2018/19 report.

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