

REPORT OF THE GROUP DIRECTOR, FINANCE & CORPORATE RESOURCES

Data Improvement Update	Classification PUBLIC	Enclosures None
	Ward(s) affected ALL	AGENDA ITEM NO. 8
Pensions Board 18 November 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 9th March 2020 - Data Improvement Update
3.2 Pensions Board 18th November 2019 - Data Improvement Update
3.3 Pensions Board 20th March 2019 - Data Improvement Update
3.4 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 had 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 There was some significant progress in relation to the 2018/19 financial year end data resulting in a much improved situation regarding the issue of ABSs although it

is recognised that these improvements were not fully sustained into 2019/20 and therefore further action is required as set out in this report.

- 4.3 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.
- 4.4 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.
- 4.5 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 had declined sharply since 2013 with particular issues regarding 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. This work resulted in a very significant improvement in relation to the number of ABSs issued on time in respect of 2018/19, driven largely by the receipt of high quality year end data files from Hackney Council and Hackney Learning Trust.
- 6.6 The production of all ABS statements within the required timescales for the 2019/20 financial year proved once again to be challenging despite the same process being used for the provision of data to Equiniti as in 2018/19. A position statement on this is included below

7. UPDATE RE THE PRODUCTION OF 2018/19 ANNUAL BENEFIT STATEMENTS

- 7.1 As reported to the last Board, one of the issues that arose during the 18/19 annual benefit statement process that required ongoing remediation was that 407 members were identified as having passed their 2008 NRD and that under the regulations these members can not defer taking their pension beyond their NRD.
- 7.2 These members were written to by Equiniti in November 2019 to be advised that they now needed to put their pension into payment. Chaser letters have been sent to the outstanding members but at the date of this report 101 pensions have still not been put into payment.
- 7.3 Equiniti are now in the process of sending out another chaser. Following this the Fund will be reviewing the overall situation and taking further technical advice as to what next steps to take, if any.

8. PRODUCTION OF 2019/20 ANNUAL BENEFIT STATEMENTS

8.1 Unfortunately not all statements have been issued by the legal deadline this year. The numbers issued by 31st August were as follows:

- Active member benefit statements
 - statements issued within timescale: 4,130
 - statements not issued: 2,555

- Deferred member benefit statements
 - statements issued within timescale: 7,573
 - statements not issued: 136
 - statements not able to be issued due to no current address: 1,277

8.2 It is disappointing that such a large proportion of statements were late this year given work that was done in previous years to improve the process. Initial feedback is that some of this may be due to the impact of Covid-19 on processes as well as some absences of key staff members at Equiniti.

8.3 During August and September 2020, 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.

8.4 On the 18th September a further 201 active statements were issued which were made up of complex records that needed to be manually checked before sending.

8.5 By 20th October the fund had sent out statements to all but 200 active members. Those that have not been sent are ongoing queries which the administration team are dealing with in conjunction with the employers. It is expected that some of these will not require a statement once clarification of the details has been gathered from the employers.

8.6 Of the 136 deferred ABSs that were outstanding, 89 were sent on 28th September. The remaining 47 cases are still being queried with the administration team or Equiniti are waiting for data from employers to be able to complete.

8.7 A separate exercise will be carried out in the coming months to try to trace up to date addresses for the 1,277 deferred members where no current address is held.

8.8 Equiniti has advised that the renewal processes are being looked at for next year in order to improve the process and take out some of the manual processes which are currently undertaken. This is to ensure that the process is much more robust and not so reliant on certain key staff members. The Fund is currently awaiting the results of the Equiniti internal 'lessons learnt' meetings.

8.9 The Pensions Regulator will be advised that some statements were not issued by the legal timescale.

9. **NEXT STEPS**

9.1 We are of course disappointed that we were not able to send all ABSs out by the deadline and recognise that it is vital that improvements are sustained and we have set out below the next steps for both the Fund and the Council to ensure that further progress is made so that we are in a position to ensure that the Council is able to issue good quality data to Equiniti in good time to ensure that 2020/21 ABSs are issued on time.

9.2 Changes have been made within the Council's payroll team to ensure that the changes required within that team to provide an efficient and effective service are delivered. The team is currently undergoing a restructure to address some of the resource and task allocation issues, with improved processes also being introduced.

9.3 As stated in previous reports another key item is to ensure 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 and this requirement will be addressed in the new structure.

9.4 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, this project has been reset as it was becoming increasingly obvious that the interface being developed was not the most efficient.

9.5 As a result, a new interface is being developed and a major project with all key stakeholders engaging is in progress with the aim of providing full year end data by April 2021. This project is being overseen by Aon, our Governance and Benefits Consultant, with key stakeholders from Midland (Payroll provider), Equiniti (Pensions Third Party Administrator), the Pensions Fund (in-house admin team), Council's payroll team and the ICT team collaborating.

9.6 To date this project appears to be progressing well and a further verbal update will be provided at the Board meeting.

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