

## **PENSION FUND COMMITTEE – 7 JUNE 2019**

### **IMPROVEMENT PLAN**

#### **Report by the Director of Finance**

##### **Introduction**

1. At their March 2019 meeting the Committee received the final version of the Improvement Plan which had been signed off by the Pension Regulator. The Committee resolved to receive quarterly update reports on progress against the Improvement Plan, including presentations from the Team Leaders within the Pension Services Team responsible for delivering the component parts of the Plan.
2. Since the last report, the Pension Regulator has issued a Regulatory Intervention report under section 89 of the Pension Act 2004, which summarises the work undertaken between the Pension Fund and the Pension Regulator following the initial disclosures of the failure to issue Annual Benefit Statements in line with our regulatory responsibilities. This report (previously circulated to members of the Committee and Pension Board) concludes that the Pension Fund has made significant improvement in its governance and administration. The accompanying letter confirmed that no further regulatory action would be taken in respect of the Improvement Notice.
3. It is now important to ensure that the Improvement Plan is delivered as expected, and we avoid any future failings to deliver against our statutory responsibilities. This report sets out the progress against achieving the Plan.

##### **Issues associated with Edwards and Ward**

4. There is one outstanding issue where we have on-going involvement with the Pension Regulator which is not covered within the Improvement Plan. As covered in the report to the March Committee, there are still 16 Annual Benefit Statements outstanding for 2017/18, all in respect of employees of Edwards and Ward.
5. In the March report we confirmed that in accordance with the Administration Strategy, we had issued a fine of £13,500 which represented a charge of £150 for each outstanding end of year return and each year where we are missing a monthly data return. Since then following further correspondence with Edwards and Ward this fine has been reduced to £6,750 reflecting the position where scheme members were not admitted to the LGPS at the point of transfer, and therefore no returns are due. There is still an outstanding issue as to which party was responsible for the breach of the statutory rights of the scheme members to have their pension provision protected, and it is

likely that further action and fines will be forthcoming once investigations into this issue have been concluded.

6. In the meantime, conversations continue with Edwards and Ward to validate the information now provided and issue the outstanding Annual Benefit Statements. The fine remains outstanding, with Edwards and Ward yet to accept full responsibility for their own failings.

### **Progress against Improvement Plan Milestones**

7. A key comment from the Pension Board when they reviewed the update for the previous quarter was a lack of reportable progress against the key objectives set out in the first section of the Improvement Plan. There are two sets of measures set out in the key objectives. The first set is a collection of annual targets against the statutory responsibilities to issue annual benefit statements, pension saving statements and data quality scores.
8. In respect of the statements, there are no interim measures as the statements are issued in bulk once all data has been collected from scheme employers. Checked and loaded to the Pension system. The key milestones here are those set out in the improvement plan which are covered by the commentary below.
9. In respect of data quality, we will run an interim report in advance of the final runs, with sufficient time to address shortfalls identified. However, as most of the data checks are based on the 2018/19 data, we do need to complete the loading of the end of year data before we can undertake any meaningful interim reports. The progress against the end of year milestones covered below is therefore again key.
10. The second set of service measures are the business as usual performance measures. These are contained within the separate Administration report. Following the comments of the Committee last time which requested interim benchmarks to be set whilst the service recovers from the issues created by the backlog and high level of staff vacancies, this report was not presented to the Board at their last meeting. Subject to the further comments of the Committee in reviewing the Administration report later on this agenda, this issue will be resolved for future Board meetings.
11. In terms of the milestone events set out in the Improvement Plan, work against the end of year actions is progressing. 158 of the 186 end of year returns were received by the 30 April deadline. This equates to 85% of returns, which is an improvement on last year's figure of 73%.
12. We chased the remaining 28 returns and provided a secondary deadline of 9 May 2019. A further 17 returns were received by this secondary deadline. This left 11 returns outstanding, and a fine will be issued to the scheme employer in each case in accordance with the Administration Strategy and the advice from the Pension Regulator. At the time of writing this report, 6 of the outstanding 11 returns have been received and we continue to chase the

outstanding 5. Where any of these 5 returns remain outstanding as at 24 May 2019, we will consider issue a Breach of Scheme Regulations report to the Pension Regulator in respect of each scheme employer.

13. We are now processing the end of year returns to ensure they reconcile to information provided on the regular monthly returns and to the contributions paid over. These checks also identify any inconsistencies with data provided in respect of individual members in previous years (e.g. excessive pay increases). At the time of writing this report, we have fully completed the checks on 21 returns and we are ready to issue the Annual Benefit Statements for these employers (mainly small employers with few scheme members). Overall though the quality of the returns has been poorer than expected, and the additional work required in checking the returns and querying issues with employers means we are behind timescales for this work. Additional resources have been identified elsewhere within Pension Services to support the work and hopefully bring it back within the overall deadlines.
14. The most common errors we are finding this year include:
  - Returns not balancing to the contribution data provided each month throughout the year. This is despite the requirement for scheme employers to sign off their return to confirm it balances to the contributions paid over.
  - Errors with final pay figures including actual pay rather than the full - time rate, or the final pay rate applicable on 31 March 2019, rather than the average rate of pay calculated for the last year of service.
  - Errors where employers have deducted contributions from scheme members based on the rate applicable for their whole - time equivalent salary rather than that applicable for their actual salary (a switch covered by the new scheme regulations in 2014). The overpayment of contributions is currently being rectified.
  - Changes to the unique payroll reference used to identify the scheme member and any different employments they may hold, where the scheme employer has not informed us of the changes and therefore end of year records do not match to existing member records held on the pensions system.
15. Work continues on the monthly returns, with the majority of returns now in and vetted. As with the end of year returns, the position this year shows a considerable improvement over previous years, which should allow us to resolve all outstanding queries and issue the Annual Benefit Statements in line with the statutory deadlines. An updated position on both the End of Year and Monthly Returns will be presented to the Committee during the meeting.
16. The major risk within the Plan remains the level of vacancies held across the various teams within Pension Services. As previously covered, the initial round of recruitment was unsuccessful in filling all vacancies, and there have been 2 further resignations. Following further work with colleagues in HR we

are now progressing a second recruitment round, using a number of new media and re-designed documentation. Concurrently, we are running a recruitment round to bring in temporary staff to cover the workload until permanent team members can be brought in.

17. In respect of Data Quality, the Local Government Association are leading work with Fund Actuaries, Software Suppliers and representative Funds to identify a standard set of data tests against which all Fund's benchmark their performance. It is still expected that these standard tests will be in place ready for the 2019 submission of data quality scores to the Pension Regulator.
18. In the meantime, we are continuing to identify and correct missing data. We are also working with the software provider to clarify why certain fields failed the current quality checks, where we believe the data is correctly recorded. The procurement exercise to identify an address tracing agency has just been completed and we will now be undertaking a further address tracing exercise. Whilst the procurement exercise was delayed compared to the Improvement Plan, the latest exercise will be completed in time to feed into the next set of scores to be provided to the Pension Regulator.
19. One area of the Improvement Plan which is behind schedule is the development of the Governance and Reporting arrangements to ensure the Committee (and Pension Board) can oversee the delivery and quality of the administration and communication services and identify areas for improvement before issues become critical. This work has slipped due to the overall pressures on Pension Services.
20. We have though recently received a guidance document produced by CIPFA and the Pensions Consultancy AON which aims to guide pension authorities in establishing best practice within administration of the LGPS. This guide proposes a range of performance measures covering:
  - Are legal deadlines being met
  - Is the administering authority meeting the agreed internal target timescales
  - Are total turnaround times being met
  - Breaches and errors
  - Overall information on case loads including numbers of new tasks, completion rates and numbers of outstanding tasks
  - What do Scheme members and employers think
  - What other data issues are there
  - Are scheme employers meeting their requirements
  - Are the key priorities within the business plan being delivered.
21. We are currently working through the guide to identify which of the suggested measures we can currently report on, and which will require changes to our software or operational processes to collect the data in a reportable format. It is intended to bring an initial draft of a comprehensive performance report in line with the guide to the September meeting of the Committee.

22. The iConnect project is progressing well. At the time of writing this report, 12 (60%) of the test phase scheme employers have gone live with iConnect. These are all fairly small employers, with the largest having just 24 active members, and as such have faced fewer of the challenging scenarios.
23. A further 6 scheme employers will be in a position to go live once we have finalised their end of year position. This group does include a number of larger employers, including the Diocesan School Trust with 662 active members. This group have therefore allowed us to test many of the more complicated scenarios including multiple employment contracts.
24. The final 2 scheme employers within the test phase are Oxford Brookes University and the United Learning Academy Trust. The University has struggled to develop a file which can automatically be loaded through iConnect given their current practice of using a single pay reference per scheme member, even where they have multiple employments. This practice has previously involved manual intervention from the staff at the University before they submitted a monthly return. We have recently met with the University and they are now looking at a number of ways they could meet the requirements with minimal/zero manual intervention. The delays at the United Learning Academy Trust have largely been in respect of staff time than any particular technical issue, but resources have been identified to resume testing this month.
25. As a result of the successful implementation of the Parish and Town Councils in the test phase, we were able to bring forward phase 2 to cover the remaining Town and Parish Councils, and a further 20 Councils went live during May.
26. We have split the remaining scheme employers into two further phases, with those responsible for 50 or less active members in phase 3 and the larger employers in phase 4. In line with the Committee's previous request, the overall deadline for the project has been brought forward and is now due to complete by 31 August 2020.
27. One of the biggest challenges remains getting engagement from some of our employers. We are seeking to make individual contact with each employer to agree the process to be followed and an implementation date.
28. The Project is having an unintended benefit in that the nature of the one to one work with the employers is identifying a number of problems with current practices, including errors on contribution rates. Whilst this is leading to improvements in data quality and will improve the future end of year processes, it is leading to some delays in the implementation process for iConnect.

## **RECOMMENDATION**

- 29. The Committee is RECOMMENDED to note the latest position with regard to the implementation of the Improvement Plan.**

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