

**REPORT OF THE SERVICE DIRECTOR – CUSTOMERS, GOVERNANCE, AND
EMPLOYEES****STAFFING RESOURCE FOR THE LOCAL GOVERNMENT PENSION SCHEME
– GUARANTEED MINIMUM PENSION RECONCILIATION PROJECT WITH
HMRC****Purpose of the Report**

1. The purpose of the report is to seek approval for the extension of the temporary project manager post within the Pensions Administration Team in order to complete the reconciliation of Pension Records with those held by HMRC.

Information**Background**

2. The reconciliation exercise is a national requirement initiated by HMRC which is impacting on all Public and Private sector Pension Funds who were contracted out of additional state pension.
3. Up until April 2016 contributing members of the Local Government Pension Scheme (LGPS) paid lower rate National Insurance contributions as they were “contracted out” of the Additional State Pension which has previously been known as S2P, the state second pension or the State Earnings-Related Pension (SERPS). LGPS employers also paid reduced rate National Insurance contributions in respect of their employees who were in the LGPS. Contracting out ended from 6 April 2016 as part of the Government’s introduction of a single-tier basic state pension.
4. Between 1978 and 1997 contracting out of the Additional State Pension was undertaken on a Guaranteed Minimum Pension (GMP) basis. This required contracted out pension schemes to offer pension benefits for the period of contracting out that were worth at least as much as the benefits the additional state pension would have provided. Contracted out pension schemes had to record the relevant contracted out earnings for that period and supply HMRC with details of these. HMRC retained a record of contracted out earnings and GMP entitlement for each individual and then advised pension schemes of GMP entitlements when the individuals reach state pension age.

5. There are complex regulations regarding annual inflationary increases to the GMP element of an individual's pension and the dates at which it becomes payable to the scheme member. The Government decided that with effect from 6 April 2016 contracting-out would be abolished, coinciding with the introduction of the new single tier pension, and as a result HMRC are providing a one off service to enable schemes to reconcile the GMP figures they hold with those held by HMRC through a bulk process which ceased in December 2018. HMRC are continuing to provide a manual service for individual reconciliation queries.
6. It is important to reconcile the GMP element recorded on the pension fund administration system with that held on the HMRC system, to ensure that pensions coming into payment, together with those already in payment, are paid at the correct amount, and that the liabilities of the pension scheme, so far as GMP values are concerned, are represented accurately at each future valuation.
7. Regular update reports on the progress of the GMP Reconciliation Project have been presented to Pensions Committee and a further report detailing the current progress will be presented to Pensions Committee on Thursday 7 March 2019.

The Reconciliation Process

8. Following approval by Pension Committee on 8 March 2018 the Pension Fund has been engaged in a national reconciliation exercise with support from Civica the Pension Fund software provider. The additional resource of a temporary project manager, which was approved by Personnel Committee in March 2018, has supported the project team in the complicated process of working to reconcile a total of 165,713 records within the fund.
9. The work undertaken with Civica has enabled the Pension Fund to agree a position with HMRC relating to the fund's GMP liabilities against the pension records of the fund. This has been achieved using a blended approach by using pension administration resources in the form of a Temporary Project Manager, and supplementing pension administration resources with Civica resources.
10. The Project Manager has undertaken the day to day project coordination, project planning, reporting and has managed the additional Payroll Reconciliation Project which is still ongoing.
11. Initially it was planned that the rectification phase would have started in October 2018 following the data being completed and issued to the fund by HMRC. However due to the amount of reconciliation work with all public and private sector Pension Funds, HMRC have extended their project time lines. The fund is now not expecting to receive its data file from HMRC until May 2019, a delay of six months, because of this there is a need to review the administration team's resources in order to complete the rectification phase. The work that will be required cannot be picked up by the current resources within the administration team given the work plan for the current year, which includes data improvement for the scheme valuation exercise, changes in regulations, other national initiatives, and the business as usual pension administration activity.
12. It is estimated that the project will run for a further 18 months until September 2020 to enable the completion of rectifying pensioner records and pensions in payment, this will involve devising and implementing a communication plan, involving writing to affected members, assessing progress, dealing with calculation queries, and liaising with HMRC to deal with

outstanding data queries. Other data improvement actions will need to be undertaken across the funds member records.

Additional Work with HMRC

13. HMRC have also increased the scope of the GMP project and now also require Pensions Funds to reconcile financial records relating to contributions equivalent payments (CEP). A CEP payment is a payment to HMRC where a member of a scheme who had a refund on contributions on ceasing to be a member, requires the Pension Fund to make a payment that restores a member of an occupational pension scheme into the state second pension (S2P).
14. HMRC require funds to review their records of payment over a 30 year plus timescale, and if in deficit / or surplus then the appropriate adjustment will be made. Therefore work is required on reconciling historic financial data with HMRC records. The plan is that this work will be led by the temporary Project Manager.

Other Options Considered

15. Information from other LGPS Pension Funds across the country is that a number have engaged external providers to manage the project in totality at significantly greater costs, some are relying on internal resources with larger internal project teams. The process and approach that the fund has followed has enabled the reconciliation of data to be completed in a much quicker time, and has kept the fund on schedule. It is only the change by HMRC in their time frame due to their ability to respond to funds and the increase scope that has caused the delay and extension to the original project time.

Reasons for Recommendation

16. In order to support the project to completion it will be necessary to extend the temporary contract of the Project Manager.
17. The work also supports the requirements of the Pension Regulator to reconcile and ensure that pension records are accurate and up to date, as the Pension Regulator will be asking funds to report on the accuracy of the fund data later in the year as part of the Annual Scheme return. Also whilst this rectification process will not impact on the 2019 valuation it will contribute to improving data for future valuations.

Statutory and Policy Implications

18. This report has been compiled after consideration of implications in respect of crime and disorder, data protection and information governance, finance, human resources, human rights, the NHS Constitution (public health services), the public sector equality duty, safeguarding of children and adults at risk, service users, smarter working, sustainability and the environment and where such implications are material they are described below. Appropriate consultation has been undertaken and frame advice sought on these issues as required.

Data Protection and Information Governance

19. The project, by its very nature, involves reconciliation, sharing and processing of personal and sensitive data. This is covered by existing arrangements and agreements with HMRC and

Civica, the software provider. However, a data impact assessment has been completed for the project overall to reflect the aspects of the data sharing, and updating of data, along with ensuring the mitigation of risks arising from the project activity itself.

Financial Implications

20. The budget requirement for the cost of a Project Manager at Band B will be a maximum of £52,842 if the project continues until the end of September 2020 and these costs will be charged to the fund. Should the work be completed earlier the contract end date will be reviewed based on work requirements.

Human Resources Implication

21. The human resources implications are contained within the body of the report.

RECOMMENDATION

It is recommended that:

- 1) Members approve the extension of the temporary post of Project Manager, Band B, until 30 September 2020, subject to confirmation by the Pensions Committee at its meeting on 7 March 2019 that the costs will be funded by the Pension Fund.

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Constitutional Comments (KK 19/02/19)

22. The proposal in this report is within the remit of the Personnel Committee.

Financial Comments (RWK 21/02/19)

23. The financial implications are set out in paragraph 20 of the report.

HR Comments (JP 04/03/19)]

24. The report sets out the reasons for the approval of an extension to the temporary resource in support of the reconciliation exercise.

Background Papers and Published Documents

Except for previously published documents, which will be available elsewhere, the documents listed here will be available for inspection in accordance with Section 100D of the Local Government Act 1972.

- None

Electoral Division(s) and Member(s) Affected

- All