

**REPORT OF SERVICE DIRECTOR – CUSTOMERS, GOVERNANCE, AND
EMPLOYEES.****LOCAL GOVERNMENT PENSION SCHEME – GUARANTEED MINIMUM
PENSION RECONCILIATION EXERCISE WITH HMRC – UPDATE REPORT****Purpose of the Report**

1. The purpose of the report is to update Pension Committee on the progress of the guaranteed minimum pension reconciliation exercise with HM Revenue and Customs (HMRC).
2. The report also seeks approval for the extension of additional resources to undertake the next stage of the GMP Project, leading to the rectification of records and the communication of the outcome of the rectification of pension benefits to actual pensioners.

Information

3. 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.
4. 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.
5. 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.
6. 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. However due to delays in the National Project, HMRC have extended their project time lines initially to November 2019, this was however extended again to July 2020.

7. 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.
8. HMRC made data available to all pension schemes from February 2017 for reconciling GMP information for active members.

The Reconciliation Process

9. Following approval by Pension Committee on 8 March 2018 the Pension Fund has been engaged in national reconciliation exercise with support from Civica the Pension Fund software provider. The additional resource of a temporary project manager was also agreed to support the project team in the first and second phases of a complicated process of reconciling a total of 165,713 records within the fund.
10. The process has required the comparison of selected Pension Fund data with that held by HMRC. It has required the investigation of discrepancies between the two sets of data to come to an agreed record, reconciled with HMRC records.
11. In order to progress the project was split into a number of distinct phases, the discovery phase, the delivery phase, and the completion phase.

	Stages of Activities	Activity Description	Project Status	Project Dates
Part 1 – identification and confirmation of liabilities with HMRC	Discovery Phase			
	Stage 1	Initial comparison of fund data with HMRC file and an early indication of the potential size of the reconciliation issues	Complete	October 2017
	Stage 2	In Depth Analysis of results from Stage 1		- January 2018
	Delivery Phase			
	Stage 3	Queries issued to HMRC	Complete	May 2018 - November 2018
	Stage 4	HMRC query returns analysed and distributed into specific categories		
	Stage 5	Individual investigation		
	Stage 6	In-depth analysis and bulk resolution		
	Stage 7	Further individual investigation		

	Completion Phase Stage 8 Stage 9	Case Conclusion-Receipt of final file from HMRC Concluded cases uploaded into the pensions administration system	Awaiting data file from HMRC Estimated May 2019, extended to November 2019.	November 2019 Extended to July 2020 (File received)
Part 2	Calculation Phase – Over payments – Under payments	System and individual calculation to be undertaken using reconciled GMP liability amounts to determine overpayments and underpayments		Estimated September 2020 – January 2021
Part 3	Communication Phase	A communication strategy will need to be developed to ensure that communication is clear to individual pensioners affected by the reconciliation exercise, and where a pension in payment needs to be adjusted, to enable them to understand the potential impact of any adjustment		Estimated November 2020 –
Part 4	Rectification and Communication	Pensioner payroll records to be adjusted to reflect correct payments determined in the Calculation Phase, and communicated to members		Estimated April 2021 - Onwards

12. The discovery phase provided some headline figures and identified the potential size of the reconciliation issues. This early analysis produced high level results based on data within the Civica pension administration system and data provided by HMRC.

13. Following a more in-depth analysis of the data involving the analysis of the Pension Fund's data quality with the outputs being:

- Identification of false mismatches – reducing the number of queries to be raised with HMRC to save time and money
- Identification of discrepancies which should be queried with HMRC
- Identification of discrepancies where all necessary data is readily available to facilitate a query with HMRC.

14. The project has followed onto the delivery phase following the identification of the discrepancies, and has been broken down into five areas of work. The completion of the delivery phase will provide the pension fund with data reconciled with HMRC that will identify the funds liabilities.

15. The areas of work that have been undertaken by Civica on behalf of the Pension Fund following project management methodology are as follows:

- Pension Fund Data issued to HMRC
 - HMRC returned data broken down into specific categories
 - Individual investigations of certain data
 - Undertook in-depth analysis and bulk resolution of some data
 - Individual investigation of certain data types.
16. On conclusion of the above methodology a file was submitted to HMRC on 30 October 2018 and a number of individual cases were also submitted in line with the published HMRC deadlines.
17. The total number of records submitted to HMRC is 52,072. As part of this process 1738 individual investigations have taken place requiring in depth analysis of individual pension records.
18. The first set of matching data was due to be received back from HMRC and loaded onto the pension's administration system at the end of February. However HMRC have now reviewed their project time line and the Fund has now received a completed file from HMRC, this was received in July 2020.
19. The fund is currently working with the software provider testing calculations in the Pension Administration System software. Once these have been completed, a bulk process will be undertaken to process as many calculations as possible through the Pension Administration System.

Additional Work with HMRC

20. Committee will remember that in the last update report a further aspect of the project has been added by HMRC, in that HMRC are now expecting funds to reconcile their financial records relating to CEP payments. A CEP payment (contributions equivalent payment) is a payment to HMRC where a member of a scheme who had a refund of 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).
21. HMRC are expecting funds to review their records of payment, and if in deficit / or surplus then the appropriate adjustment will be made, either the Fund will be required to pay up any deficit, or HMRC will return overpaid funds. Therefore work is required on reconciling historic financial data with HMRC records. In November 2018 HMRC issued the fund with an initial notification of a deficit of up to £750,000, over a 30 year + timescale.
22. After concerns raised across the Pension Industry the Financial reconciliation was extended to September 2019. HMRC issued a final bill to the Pension Fund of £165,294.62 which was a substantial reduction from the original bill of £734K.
23. As a result of the further evidence supplied to HMRC, a further adjustment of £107,939.19 has now been agreed with HMRC. Of the £57,365.43 balance of payments to HMRC the fund actually owed £27,174.33, therefore the total amount the Fund has now paid to HMRC as part of our reconciliation is £30,191.10.

Description	Amount	Actions
Original HMRC Amount to be paid by the Fund	£734,798	(Challenged By the Fund)
Final Bill to the Pension Fund	£165,294	(Challenged By the Fund)
Minus a further reduction of	£107,929	(Consultation with HMRC)
Balance of Payment to be paid	£57,365	
Minus a Previous payment of	£21,174	(identified by the fund)
Final Outstanding Payment to HMRC	£30,191	

Review of Resources Requirements

24. The work undertaken with Civica in Part 1 of the Project 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. This phase of the project has been brought in within the budget at a cost of £310,000, along with the cost of the Project Manager at a salary cost of £35,934. These additional resources have enabled the pension administration team to continue with day to day activities. At the Committee Meeting on 7 March 2019 Committee agreed to the extension of the Project Manager in order that the Administration Team could continue with the project in line with HMRC time lines up until September 2020.

25. Given the delay by HMRC these time lines will now need to be extended and HMRC only providing the completed data cut in July 2020, and work will not be able to commence until the testing of Pension Administration System calculations is completed in August 2020.

26. However, as with all automation there will be exceptions, which may be due to other data issues or more complicated scenarios where an automated process is not possible or appropriate. It is with this position that the Fund will need further support to complete this stage of the Project.

27. In July 2019 Committee agreed to resources of :

Type	Effort (Days)	Day Date	Total
Output Analysis	20	£1,295	£25,900
Rectification	100	£1,295	£129,500
Total	120	£1,295	£155,400
Spending to Date (output analysis)	20	£1,295	£25,900

28. It was estimated that the effort required could range significantly depending on numerous factors, including decisions from the fund. However it was estimated that 100 days effort will provide sufficient resources to complete the rectification activities required. This resource is still in place due to HMRC not providing their data cut to allow activity to commence.

29. It is now estimated that the Project will run for a further 12 months until September 2021 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. Therefore the Post of Project Manager will need to be extended from October 2020 to September 2021. However should the work be completed earlier than estimated, the post will cease.

Other Options Considered

30. 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 that has caused the delay in the project.

Reasons for Recommendations

31. In order to complete the project it will be important to continue to engage the support of Civica to assist in the rectification process, in terms of supporting the process of calculating the benefits for members following changes to their GMP, which cannot be catered for in the bulk calculation resolution.

32. Given information from other funds in line with their projects, resources have been used to communicate, and in certain instances meet with members of the scheme who have been effected, mainly by significant overpayments to their pensions which will need to be handled with sensitivity.

33. In addition work still needs to be ongoing in reconciling payroll data with pension records.

34. In order to support the project it will be necessary to extend the temporary contract of the Project Manager.

35. 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 has not impacted on the 2019 valuation it will have an impact in improving data for future valuations.

Statutory and Policy Implications

36. 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 advice sought on these issues as required.

Data Protection and Information Governance

37. 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

38. The cost of the reconciliation stage was £309,833 and was completed to time and within the set budget of £310,000.

39. As stated in the body of the report It is difficult to estimate the support costs for the rectification stage where the Fund will require support from Civica, given that the Fund now has the Final File, work will now be able to start to analyse the HMRC data to enable the Fund to understand how much work will be required to be undertaken in completing the rectification phase.

40. Therefore it is proposed to undertake the output analysis using the already approved 20 days of effort at a cost of £25,900.

41. It is estimated that the rectification stage will cost approximately £129,500 however this will only be confirmed following the completion of the output analysis.

42. Extension of the Project Manager Post from 1 October 2020 to 30 September 2021 at a cost of £35,934 per annum and subject to the annual pay award.

43. Additionally there is the financial reconciliation activity which has been completed with a cost to the Pension Fund of £30,191.10 reduced from an initial bill of £737,798.

44. The additional recommended resources costs for the next stage of the project will be charged to the Fund.

RECOMMENDATIONS

It is recommended that the Committee:

- 1) Approve the continuation of the GMP Reconciliation Project and the allocation of the required resources as set out in the body of the report to complete the calculation, communication and rectification phases of the reconciled HMRC data file, to ensure the Fund is able to meet its statutory requirements.
- 2) To approve the extension of the Project Manager Post for a further period of 12 months from October 2020 to September 2021
- 3) Agree to receive an update report on the rectification stage once an assessment of the HMRC data has been completed.

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For any enquiries about this report please contact:

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Constitutional Comments (KK01/09/2020)

45. The proposals in this report are within the remit of the Nottinghamshire Pension Fund Committee.

Financial Comments (KP01/09/2020)

46. The financial implications are set out in the report.

HR Comments (JP01/09/2020]

47. The requirements for additional internal staffing resources are set out in the report to Personnel Committee on 13 March 2019.

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