

18 July 2019

Agenda Item: 5

**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 Nottinghamshire Pension Fund Committee on the progress of the guaranteed minimum pension (GMP) reconciliation exercise with HM Revenue and Customs (HMRC).
2. The report also seeks approval for 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

Background

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 to November 2019.
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 Nottinghamshire Pension Fund Committee on 8 March 2018 the fund has been engaged in the national reconciliation exercise with support from Civica, the fund software provider. The additional resources of a temporary project manager were 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 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 Stage 4	Queries issued to HMRC	Complete	

	Stage 5 Stage 6 Stage 7	HMRC query returns analysed and distributed into specific categories Individual investigation In-depth analysis and bulk resolution Further individual investigation		May 2018 - November 2018
	Completion Phase Stage 8 Stage 9	Case Conclusion-Receipt of final file from HMRC Concluded cases uploaded into the pensions administration system	The File from HMRC is now due November. An interim file based on responses so far from HMRC due to be received from CIVICA June 2019.	November 2019
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	Final File not due from HMRC until November so another load will be required at that time	June 2019 - Nov 2019
Part 3	Communication Phase	Dependent on the outcome of the data from HMRC. 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 Nov 2019 - March 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 2020 - 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 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 Fund's liabilities.
15. The areas of work that have been undertaken by Civica on behalf of the 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 does not expect a completed file from HMRC until November 2019.

Additional Work with HMRC

19. 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, this requires the pension fund to make a payment that restores a member of an occupational pension scheme into the state second pension (S2P).
20. 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, calculated over a 30 year + timescale.

21. As previously reported to committee the administration team challenged this initial figure by writing to HMRC seeking clarification, and HMRC have responded by agreeing that there were discrepancies in their data and issued the fund with a new data file on the 10 April 2019, this identified that the deficit had reduced to £331,553.59.
22. Although this is a substantial reduction from the initial notification the Administration Team still has concerns over the validity of the data, particularly as we have identified a payment of around £190,000.00 which has been made to HMRC but which has not been credited against our Fund.
23. The Administration Team have continued to challenge this updated figure with the help of Civica due to further incorrect data issued by HMRC. The fund is currently awaiting a further updated reconciliation file in order to continue to check HMRC records against the fund records.

Review of Resources Requirements

24. The work undertaken with Civica in Part 1 of the Project has enabled the 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 £35,228. 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. 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.

Solution

26. For Part 2 of the project It is proposed to seek further support for the calculation and rectification stage from Civica, and the proposal would be as follows:
 - a. An in-depth analysis of the Phase 2 output
 - b. Analysis of exceptions/anomalies
 - c. Accurate pricing and scope for the rectification
 - d. Support the project plan and timescales
 - e. Regular reviews of progress
 - f. Documentation of the activities and results
 - g. Cost benefit analysis.

Rectification

27. The scope of this stage of the project will be determined once the Phase 2 module output analysis stage has been completed. Services which will be on offer will include but not be limited to the below. The services utilised will be decided by the Fund.

- Manual Calculations for ongoing GMP values
- Calculation of over and under payments
- Payroll reconciliation
- Communications
- Ongoing consultancy
- Attendance from an appropriate Civica representative at audit meeting

Project Governance

28. A plan of work covering this level of complexity requires dedicated project management resource, whose duties will include but will not be limited to:

- Initial planning and resourcing
- Agreement and documentation of project-specific roles and responsibilities
- Communication with NCCPF of timescales and resource requirements
- Walk through of the agreed plan with key stakeholders
- GDPR compliance
- Prioritise work based on the risk to the Fund
- Regular MI updates
- Management of resources to co-ordinate and manage the impact of change, ensuring that timescales are met
- Progress reporting, issue management and escalation
- Attendance from an appropriate

Costs

29. Until the Phase 2 data has been processed, it is not possible to accurately specify the required level of effort to complete the work for this stage of the project, it is therefore proposed a time and material approach should be used.

30. It is estimated that 20 days effort will be sufficient resource to complete the analysis required.

Type	Effort (Days)	Total
Output Analysis	20	£25,900
Rectification	100	£129,500
Total	120	£155,400

31. It is estimated that the effort required could range significantly depending on numerous factors, including decisions from the fund. However it has been estimated that 100 days' effort will provide sufficient resources to complete the rectification activities required.

32. As previously stated whilst it is hoped that the pension administration system will calculate a high proportion of pension benefits, it is highly likely there will be a requirement for manual calculations, therefore the additional support will be required to undertake the manual calculation work, and therefore the fund seeks to commission Civica to undertake some of this work as outlined above.

Other Options Considered

33. 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.

34. 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

35. 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.

36. 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 affected, mainly by significant overpayments to their pensions which will need to be handled with sensitivity.

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

38. In order to complete the project it will be necessary to engage the support of Civica for Stage 2 of the project.

39. 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 part of the Annual Scheme return.

Statutory and Policy Implications

40. 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

41. 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

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

43. 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 as we do not have the final file from HMRC which will enable the fund to understand how much work will be required to be undertaken.

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

45. As stated in the body of the report 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.

46. Other costs will relate to the number of overpayments and underpayments identified following the calculation of benefits in payment, as stated in the body of the report given what is known about the data so far has been estimated at approximately £3 million.

47. Additionally there is now the financial reconciliation activity with HMRC which may require a deficit payment to HMRC. As previously stated the project has been able to reduce the deficit from £750,000 to £331,000 with the support of Civica to potentially reduce this amount even further.

48. 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) Consider the progress of the GMP reconciliation project to date and agree to receive an update report.
- 2) Agree to allocate an additional £155,000 to pay for the next phase of the project.

Marjorie Toward

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For any enquiries about this report please contact:

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Constitutional Comments (KK 04/07/2019)

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

Financial Comments (KP 04/07/2019)

50. As set out in the report the costs to date are £309k, with possible additional costs of £30k for the initial work and up to a further £130k for rectification. These costs are a valid charge to the pension fund.

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