



**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 explains the next steps of the project in order to complete the reconciliation along with the next stage of the project to undertake the communication and rectification stage of pensions records, and pensions in payment.

**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. HMRC are continuing to provide a manual service for individual reconciliation queries.

- 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 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 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	<b>Discovery Phase</b>			
	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
	<b>Delivery Phase</b>			
	Stage 3 Stage 4	Queries issued to HMRC HMRC query returns analysed and distributed into specific categories	Complete	May 2018 - November 2018
Stage 5 Stage 6	Individual investigation In-depth analysis and bulk resolution			
Stage 7	Further individual investigation			
<b>Completion Phase</b>				
Stage 8	Case Conclusion-Receipt of final file from HMRC	Awaiting data file from HMRC, Estimated May	May 2019	

	Stage 9	Concluded cases uploaded into the pensions administration system	2019	
Part 2	<b>Calculation Phase</b> – Over payments – Under payments	System and individual calculation to be undertaken using reconciled GMP liability amounts to determine overpayments and underpayments		Estimated May 2019 – Nov 2019
Part 3	<b>Communication Phase</b>	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	<b>Rectification and Communication</b>	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 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 is due to be received back from HMRC and loaded onto the pension's administration system at the end of February. This may give the Fund an early indication of the amount of rectification work that will need to be undertaken, however it should be noted that this information is likely to change when the final HMRC file is received. HMRC have stated, as part of their project that they hope to issue a final file of reconciled fund data to the Pension Fund by May 2019. This file will identify all the pension fund's liabilities against individual pension fund members who require a GMP, this includes all active, deferred and Pensioner members.

### **The Next Phases**

19. On receipt of the data file from HMRC the next phase of the project as identified in the table above (part 2) will be to undertake the calculation of pensions in payment including over and under payments. The methodology to achieve this will be to load the HMRC records on to the individual member records on the Pension Administration system, this will then allow the automatic bulk calculation against pension records. Early testing of this solution suggests that a number of manual calculations will need to be undertaken due to the complexity of the calculations, and the different types of pension records.
20. Once the calculations have been completed there will need to be a communication plan to communicate to individuals the recalculation of pensions, any overpayments and underpayments and how this will be managed by the fund, a separate report will be prepared for Pensions Committee outlining the implications of the calculations and making recommendations on how this might be managed. Any recommendations will be based on what has been implemented nationally across other funds. However it will be for the Pension Committee to determine the final course of action.

### **Additional Work with HMRC**

21. A further aspect of the project has been added by HMRC, in that HMRC now wish to reconcile 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).
22. 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. HMRC have issued an initial notification of a deficit of up to £750,000, over a 30year + timescale. The administration team has challenged this initial figure by writing to HMRC seeking clarification, early indications are that HMRC have identified discrepancies in their data and will be adjusting their records accordingly. The Fund will continue to challenge HMRC, and the Fund is awaiting an updated reconciliations file in order to continue to check HMRC records against the Fund records.

## **Review of Resources Requirements**

23. 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. 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.
24. The Project Manager has undertaken the day to day project coordination, project planning, reporting and has managed the Payroll Reconciliation Project which is still ongoing. The role is also undertaking the additional task of the scheme financial reconciliation activity which is an additional task included by HMRC.
25. Initially it was planned that the rectification phase would have started October 2018 following the data being completed and issued to the fund by HMRC. However HMRC, due to the amount of reconciliation work with other Pension Funds, have extended their time lines within their project plan. Therefore with the fund not expecting to receive its data file from HMRC until May 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.
26. 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. However should the work be completed earlier than estimated, the post will cease.
27. 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 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. However until we have the data from HMRC it is difficult to estimate what support is required along with the cost.

## **Other Options Considered**

28. 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**

29. 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.

30. 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.

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

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

33. 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 have an impact in improving data for future valuations.

### **Statutory and Policy Implications**

34. 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**

35. 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**

36. The cost of the reconciliation stage was £309,833 and was completed to time and within the set budget of £310,000.
37. 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, and therefore it is proposed that once the information is available, a separate short report will be prepared for Pensions Committee to seek the appropriate additional budget for the rectification work.
38. 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. Should the work be completed earlier the contract end date will be reviewed based on work requirements.
39. Other costs will relate to the number of overpayments and underpayments identified following the calculation of benefits in payment it is not possible to provide this figure at this time.
40. Additionally there is now the possible financial implication to the scheme which may require a deficit payment to HMRC. A final figure is due to be issued by HMRC in May 2019, and work is ongoing to challenge the preliminary figure provided to the Fund.
41. 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) Agree to receive an update report on the rectification stage once an assessment of the HMRC data has been completed.

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**Constitutional Comments (KK 20/02/2019)**

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

**Financial Comments (KP 20/02/2019)**

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

**HR Comments (JP 20/02/2019)]**

44. 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