

# Local Pension Board of the Warwickshire

## Pension Fund

19 September 2019

### Delays in provision of Payroll Data

#### Recommendation

That the Local Pension Board:

- Notes the criteria set out in the public sector toolkit for the assessment of potential breaches;
- Considers the council's assessment of the potential breach - that this should be categorised as a breach and logged on the local breach register but does not require referral to the Pensions Regulator.
- Supports the actions to be undertaken to ensure that the service learns from the situation and that better service is developed going forward.

#### 1 Introduction

- 1.1 At its recent meeting members of the Pension Board questioned whether the delay in the provision of pension information for employees of the County Council and, other employers who are WCC payroll clients and members of the Local Government Pension Scheme (LGPS), constituted a breach of law and should be reported to the Pension Regulator (TPR).
- 1.2 More information was requested from the county council in order for the Board to determine what action, if any, needs to be taken. To help the Board reach a decision, this briefing note has been compiled to:
  - provide information on what constitutes a breach
  - establish the impact of the delays
  - detail the processes in place to ensure a repeat of the situation does not reoccur

#### 2 Background

- 2.1 The Local Government Pension Scheme Regulations require scheme managers to maintain complete and accurate records and ensure that adequate internal controls are in place including systems and processes, to support record keeping requirements and ensure that they are effective at all time. To this end the pension administration team has arrangements in place to collect information from employers on a monthly basis.
- 2.2 Employers within the Warwickshire Pension Fund are required to provide the

pension fund with accurate and timely information relating to their members in order that the pension fund can correctly administrate members' pensions and pay members accurately and on time. Information provided will include updates to pay grades, starters, leavers, etc.

- 2.3 Warwickshire County Council and a number of other employers utilise a payroll system called iTrent and this is the source of information provided to the pensions administration team.
- 2.4 Following the implementation of the new iTrent payroll system, some delays were experienced in receiving the information on a monthly basis. In particular, the Warwickshire Pension Fund (WPF) administration team did not receive notification of new starters, leavers and amendments to records (such as changes of hours, address etc.) for members of the LGPS.
- 2.5 The delays in receiving the information has meant that WPF were not able to provide information to some members and former members quickly. The delay in the provision of this information has also impacted on some members who may not have been aware at the time of their rights in the LGPS for specific events; for example, declaring previous pension rights available for transfer from a previous pension scheme.
- 2.6 None of these issues have resulted in a long term detriment on scheme members as issues of this type can be dealt with retrospectively. However, following escalation of this issue to senior managers, processes were put in place to ensure that urgent transactions, i.e. those that had an immediate impact on scheme members such as retirements and death in service, were prioritised for notification to the WPF so that they could be processed quickly.
- 2.7 In total there were approximately 5,800 adjustments that needed to be made. The majority of these related to Warwickshire County Council staff transferring to different roles across the council and therefore there was no impact on the fund.
- 2.8 There were however 27 pension transfer requests and 491 refund of pension contributions to those opting out of the scheme that were delayed. These were dealt with on a case by case basis and prioritised for action as and when they arose.
- 2.9 Following escalation to senior managers, immediate action was taken to clear the backlog. Records are now fully up to date and processes are working to ensure that information is received on a monthly basis. Regular monitoring processes have also been put in place to ensure management oversight on an ongoing basis.

### 3 Legal requirements

- 3.1 Pension Scheme Administrators are required to record any breaches onto a log and, if deemed material, this should be reported to The Pensions Regulator. The identification, management and recording / reporting of breaches is important. It is a requirement of the Code of Practice and failure to report a material breach can result in the Regulator taking action, including the imposition of a fine.
- 3.2 WPF has a pension breaches policy which sets out the requirements in relation to recording and reporting breaches. A log exists and is used however the occurrence of delays in receiving the payroll information was not recorded on the log. The lack of compliance has been addressed and all staff reminded of the processes.
- 3.3 To assist Local Authorities in determining how breaches are defined, a public service toolkit is available and provides guidance on when a breach may be appropriate to log locally or report to The Pensions Regulator. This is attached at the Appendix to the report.

### 4 Assessment of Potential Breach

- 4.1 In assessing a potential breach and whether it is materially significant and should be reported to the Regulator, the toolkit sets out an approach for consideration that takes into account the following factors:

Cause	e.g. dishonesty, poor governance, incomplete or inaccurate information, acting or failing to act in contravention of the law.
Effect	Does the nature of the breach lead to an increased likelihood of further material breaches? Is it likely to cause, for example, ineffective internal controls, lack of knowledge and understanding, inaccurate records, potential for further breaches occurring.
Reaction	e.g. taking prompt and effective action to resolve a breach, notifying scheme members where appropriate.
Wider Implications	e.g. where a breach has occurred due to lack of knowledge or poor systems and processes making it more likely that other breaches will emerge in the future.

4.2 In addition to this, the Regulator has produced a decision tree to assist schemes in identifying the severity of breach and whether it should then be reported. When determining materiality of any breach or likely breach the following ‘traffic light’ system should be considered:

Green	Not caused by dishonesty, poor governance or deliberate contravention of the law and its effect is not significant and a plan is in place to rectify the situation. In such cases, the breach may not be reported to the Regulator, but should be recorded in the Council’s breaches log.
Amber	Does not fall easily into either green or red and requires further investigation in order to determine what action to take. Consideration of other recorded breaches may also be relevant in determining the most appropriate course of action. The Council will need to decide whether to informally alert the Regulator of the breach or the likely breach, formally reporting the breach if it is subsequently decided to categorise the breach as red.
Red	Caused by dishonesty, poor governance or a deliberate contravention of the law and having significant impact, even when a plan is in place to rectify the situation. The Council must report all such breaches to the Regulator in all cases.

4.3 Utilising the Public Sector toolkit and the definitions above, an assessment of the potential breach has been carried out and the council’s assessment is that the potential breach should be categorised as ‘Amber’. This means that the issue needs to be recorded on the WPF breaches log but is not required to be reported to the Regulator as it does not meet the materiality threshold. The rationale for the assessment is that:

- (i) the majority of adjustments related to staff transferring roles within the same organisation which could be rectified retrospectively and had no impact on scheme members or the fund
- (ii) for only a small percentage of scheme members (518 out of 50,000 members) was action identified that needed to be taken promptly and these cases were prioritised and dealt with
- (iii) based on the information available, the delays have not resulted in any long term detriment on scheme members or the fund
- (iv) significant actions have been and are being put in place to ensure the issues have been rectified and do not reoccur.
- (v) our understanding is that the Regulator is unlikely to be interested in isolated errors that are rectified promptly and adequately such as an error resulting from teething problems with a new payroll system.

## **5 Lessons Learned**

- 5.1 The current situation provides an opportunity to learn from mistakes and review and improve processes in this area. It is important that WCC takes stock of the position and implements changes. A number of changes and actions have been set up following lessons learned:
- A review of all end to end processes to ensure they remain fit for purpose;
  - Development of key metrics for the service and oversight and consideration of progress against these to be undertaken by the finance management team on a monthly basis;
  - A refresh of the data breach protocol and sign off by the Local Pensions Board to include role and responsibilities of all parties involved in the WPF;
  - Reporting of the breaches log to the Local Pensions board on a regular basis;
  - Training to pensions administration staff to ensure they fully understand their roles and responsibilities.

## **6 Financial Implications**

- 6.1 There has been a one off cost of dealing with the backlog in a short space of time, 4 temporary staff were engaged within the administration team and 1 within WCC payroll. Turnover and vacancy savings within the pensions administration team are however likely to be available to offset this cost.
- 6.2 Ongoing there will be costs associated with iConnect and member self-service, and the overall capacity of the team is being reviewed in light of the continuing increase in demand on the administration function which may increase costs. A further report will be presented to the Board to look at current capacity and future developments that will ensure the delivery of an improved and sustainable administration service.
- 6.3 The funding of the administration service is not constrained by the same funding issues as the administering authority, these costs will be funded by the pension fund.

## 7 Background Papers

None

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