

Report to Audit and Standards Committee 28th November 2017 on actions taken in relation to key recommendations made in the Local Government Pension Scheme (LGPS) 2014 audit report

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Presenting officers: As above

Summary of Audit Area

In April 2014 the LGPS was revised. The new scheme known as LGPS14 is a career average pension scheme rather than a final salary scheme. The Local Government Association (LGA) provided guidance on the requirements of the new regulations for both payroll and HR.

Existing employees' future pensions are protected in respect of their pre-2014 service. Their pensions are now made up of a final salary element for the pre-2014 service and a career average re-valued earnings (CARE) element for the post 2014 service. As a result, employers are required to keep additional information on members' salaries and contributions and to provide the Gloucestershire Pensions Administration Section with an annual return by 31 May each year (CARE report).

It is essential that the information provided to the Pensions Administration section is correct and accurate, as the new LGPS regulations now require that each members' actual benefits for the year are calculated, allocated and notified to the member by 31 August following the end of each financial year.

Summary Terms of Reference of the Audit

The objectives of the audit were to:

- Confirm compliance with the Payroll Guide to the 2014 Scheme including:
 - Treatment of non-contractual overtime;
 - Assumed pensionable pay for those on child related leave and sick leave;
 - Breaks in membership of the scheme and membership of the 50:50 scheme;
 - Additional pension contributions;
 - Salary sacrifice schemes; and
 - Employer and employee contributions;
- Review year-end CARE report, processes, controls and accuracy; and
- Review the completion of leaver forms.

Risks

- Provisions of the 2014 scheme are incorrectly implemented;
- Information on average salaries is not collected, impacting on future pension calculations;
- Inaccurate or invalid payments;
- Poor audit trail to evidence operation of processes and authorisations; and
- Claims for maladministration or fines from the Pension Regulator due to non-compliance with the Pension Regulations.

Key Findings

Overall it was found that the administration of the pension scheme is satisfactory with deductions being correctly made for both employees and employers in the majority of cases. Monthly and annual returns are submitted promptly.

There were 33 cases, in the 2015/16 return submitted in May 2016, where the number of records on the annual return for an individual at the year end did not match the number of records held in the pension scheme database. This could be due to errors by the Council or Gloucestershire Pension Fund (Pensions). There should be a separate line of information for each separate contract that an employee has. Pensions have not brought these anomalies to the attention of the Council and therefore they remain unresolved. As a result, individuals concerned had not received annual benefit statements.

Internal Audit found that certain areas specifically referred to in the LGA guidance were not operating as intended. In particular:

- Assumed pensionable pay (APP) for individuals on sickness and maternity leave was found not to be correct. This should be based on the average pensionable pay for the three months prior to the start of the leave. The same amount is then applied each month. In the cases reviewed the amount altered from month to month and it was not clear how it was calculated. Management have put in a request to the payroll software provider to investigate the matter.
- A scheme is in place to enable staff to purchase additional annual leave. The treatment of this scheme from a taxation/pensions perspective does not appear to be correct. Further advice from our tax advisers and liaison by the advisers with HMRC and the pension fund will lead to a resolution of this issue.
- When an individual leaves the organisation if they were a member of the LGPS prior to 1st April 2014 part of their pension will be based on their final salary. The final salary is calculated as it would have been under the 2008 regulations, when for example non-contractual payments such as overtime were not pensionable.

Finance is required to provide the pensionable pay under the 2008 regulations for this purpose. Finance did not appreciate that the pensionable pay required was not the current pensionable pay. That said they have broken down any payments over and above the basic salary and as a result Pensions have been able to raise questions and the correct pension calculated.

- Internal Audit found that in three out of six records tested Pensions had not been informed of contractual changes in advance of the individual leaving. As well as ensuring that in future Pensions are informed, management should consider undertaking some checking of service history records held by Pensions.

The Internal Audit report raised five High Priority and Four Medium Priority recommendations for management action. The High Priority recommendations included the requirement for management to:

- Investigate how the Northgate Payroll System calculates APP for both sick leave and maternity leave. Changes should be requested to ensure that it conforms to the LGPS guidance. Changes should be tested prior to going live. Retrospective adjustments should be made to cases where errors have occurred.
- Review the treatment of purchase of additional leave to ensure compliance with LGA guidance. The Leave Market policy will need to be reviewed to reflect the changes and consideration should be given to removing the choice of whether the employee can choose whether or not their purchased leave is pensionable or not. If the choice remains then Internal Audit would suggest some rewording to make it easier to understand.
- Calculate the potential underpayment to HMRC since April 2014 and make arrangements to repay this amount.
- Regarding last year's return representations should be made to Pensions to be furnished with the queries so that they can be resolved. In future years SDC should consider requesting a snap shot of the Pension database which might highlight where there is a mismatch in the number of records. This may enable queries to be resolved in advance.
- Action training in both Finance and HR to ensure relevant officers fully understand the LGPS legislation, to support the accurate completion of Pension returns.

Action taken as at the end of October 2017 and/or proposed

Calculation of Assumed Pensionable Pay (APP)

A detailed analysis of the calculation of APP by the Northgate Resourcelink payroll system has been conducted. The audit suggested that the APP varied each month, and that in itself was incorrect. In fact, the correct detailed calculation of APP does vary from month to month.

The system calculation of APP is operating correctly for sickness absences, and for maternity absences that do not include Occupational Maternity Pay (OMP) or Keeping In Touch (KIT) days.

Where APP has been calculated incorrectly, the impact is for the employer to pay more than would otherwise be the case, whilst the employee pays the correct amount.

Northgate has accepted that the system is operating incorrectly for APP calculations including OMP and/or KIT days. We await their response around when the system program will be corrected, and how we might make manual corrections in the meantime.

Also, a check is being conducted to ensure there is no detrimental impact on the employees pension entitlement.

Treatment of purchase of additional leave

Following the audit, advice on the subject of purchase of additional leave was obtained from expert tax advisers. They were in disagreement with the conclusion drawn in the audit. Their advice was that this was a salary sacrifice scheme.

Rather than there being an underpayment of tax on the pension contributions, they determined and agreed with HMRC that there had been an overpayment of pension contributions. This implied an over claim of tax relief on pension contributions. The tax advisers negotiated and agreed with HMRC a sum of £862.27 to settle the over claim of tax relief liability.

This means that HR will need to redesign the purchase of additional leave scheme to reflect the fact that it has been designated a salary sacrifice scheme by HMRC. Pension contributions will only be payable on reduced salary.

In the meantime, advice from the Gloucestershire Pension Fund (GPF) was sought regarding correction of previous years over payment of pension contributions. Part of the advice from GPF is to raise the question with the Local Government Association, as not all eventualities are covered by the regulations. We are currently awaiting a response from the Local Government Pension Scheme and the tax advisers.

Potential underpayment to HMRC

As mentioned above, our tax advisers agreed a settlement figure of £862.27 with HMRC, and it was paid over on 26th July 2017.

Representations to the pension fund regarding last year's return

Following the completion of the statement of accounts full feedback on prior year pension annual returns mismatched records was requested as a matter of urgency. We have recently received the following:

Year	Rows Mismatched	Employees
2014/15	99	52
2015/16	32	19
2016/17	43	19
	174	

We are currently working through these records to resolve the differences between the two systems. 89 rows have been corrected through merging rows of data, 17 rows will be corrected through issuing a starter form, and 68 rows of data involving 20 employees require more detailed investigation to resolve.

We also requested a snapshot of current records from the GPF system to compare with our own system. A snapshot of records on 6 October 2017 is currently being reconciled to our own system and these will be worked through to ensure the systems are in parallel.

It is planned to request a further snapshot of the GPF system prior to year end, to ensure data matching before the annual return is submitted.

A medium priority recommendation of the audit was to request data from GPF to check all service history of current and deferred members of the GPF. It is planned to do this, and work through these records once the other recommendations have been implemented, with the aim of completing in time for the next triennial review.

Training of payroll and HR staff

Administration of payroll returned to Finance from Northgate in April 2016. Administration of pensions is divided between payroll and HR. The pensions aspect of the administration was brought back in-house from Northgate to HR in 2015.

As part of returning the payroll to finance some pensions training was arranged in 2015. This training whilst useful was pitched at a high level much of it of interest to pension fund administrators. There is a definite need for administration level training.

We have asked GPF if they would provide some training or accept visits from our staff to discuss particular issues. Their resource position does not allow for this. However, we believe the benefits would far outweigh the costs if such an arrangement could be put in place.

Meanwhile, GPF have suggested pursuing South West Employers to arrange administration level training for all employers who are part of the Gloucestershire scheme. We have made an approach to South West Employers and are awaiting their response.