

REQUEST FOR DMPC DECISION – PCD 429

Title: Guaranteed Minimum Pension (GMP)- Phase 2 Reconciliation and Phase 3 Rectification

Executive Summary:

A Guaranteed Minimum Pension (GMP) applies to police officers if they have service in the Police Pension Scheme (PPS) between 6 April 1978 and 5 April 1997, and is used in determining the rate of their pension when they reach State Pension Age.

The purpose of the exercise is to ensure that records held by the PPS and by HMRC, in relation to periods of contracted-out employment are correct. This work is necessary to ensure that PPS scheme records are up to date and that data held by HMRC, which will be used in the calculation of an individual's new 'State Pension' starting amount, are also correct.

All 43 Police forces are undertaking a GMP reconciliation so all police officers records (current and retired) are verified and if necessary, corrected. This exercise is industry wide and covers both public and private sector pension schemes.

Recommendation:

The DMPC is asked to

- Approve overall spend of £1.7m (breakdown below) to enable the reconciliation of records held by the MPS and HMRC to ensure that scheme records and State Pension records are accurate. It is requested this spend across Phases 2 and 3 will be funded from reserves.
- Approve the award of work to Equiniti Paymaster (EP), via Shared Services Connected Limited (SSCL), who have already undertaken a significant amount of preliminary work in Phase 1a/1b on this GMP project, to complete the remaining work required to conclude the project under Phase 2 and note the requirements under Phase 3, which will include the rectification of the incorrect records. The cost to complete the GMP data reconciliation in 2018/19 is estimated to be in the region of £1m.
- There is also a final Phase 3 'Rectification process' part of the GMP reconciliation exercise. In this phase it will be necessary to correct the member's record and advise them of any under/overpayments – we anticipate approval to write off any overpayments for police forces countrywide. The cost of stage 3 will be determined from the results of phase 2 – however we would expect to see at least an estimated further 500 days of effort – at a cost of at least a further circa £0.5m.
- Note that SSCL charge a fixed margin of 12% for Requests for Change involving 3rd parties. This could equate to a maximum margin cost of £204,545 should spend with Equiniti reach £1.5m.

Deputy Mayor for Policing And Crime

I confirm I have considered whether or not I have any personal or prejudicial interest in this matter and take the proposed decision in compliance with the Code of Conduct. Any such interests are recorded below.

The above request has my approval.

Signature

Stephen Hendon

Date

18/7/18

PART I - NON-CONFIDENTIAL FACTS AND ADVICE TO THE DMPC

Decision required – supporting report

1. Introduction and background

- 1.1. The MPS is legally required to carry out the GMP reconciliation. There is a time-limited window of opportunity to complete Phase 2. Query resolution by HMRC has been made available for a finite period of time to support pension scheme administrators to reconcile their records against those held by HMRC. The deadline for submitting membership queries to HMRC is 31 October 2018. HMRC will respond to all queries that they receive by that date.
- 1.2. EP have already successfully completed Phase 1a/1b of the GMP reconciliation project. This was paid for within the 'call off' days mechanism contained within the previous contract for outsourced pension administration with EP
- 1.3. Under the new (i.e. since May 2017) pensions administration contract with SSCL, who sub contract to EP, Phase 2 needs to be undertaken and will be charged for separately.

2. Issues for consideration

- 2.1. All employers have a duty to ensure our pension records are correct so that present and future liabilities are identified and cleansed at the earliest opportunity, irrespective of where that leaves us financially. This exercise will ensure that the Met is not exposed to future risk of unknown liabilities.

3. Financial Comments

- 3.1. The estimated overall costs are estimated to be up to £1.7m. The costs will be incurred during the 2018/19 financial year as one-off non-recurring costs. This will be funded from reserves.

4. Legal Comments

- 4.1. The MPS do not have a legal obligation to reconcile but are duty bound to reconcile GMP by virtue of specific aspects of a range of pension related laws, including Pensions Act 2004, Public Service Pensions (Record Keeping and Miscellaneous Amendments) Regulations 2014, Data Protection Act 1998 Schedule 1: The Data Protection Principles: Part 1 – The Principles and Pensions Act 2004 – section 90A.
- 4.2. This paper is being submitted to the Deputy Mayor for Policing and Crime (DMPC) for approval in accordance with the Scheme of Delegation and Consent which requires DMPC approval for expenditure of £500k and above.

5. Equality Comments

- 5.1. There are no negative equality or diversity implications arising from this procurement process.

6. Background/supporting papers

- 6.1. Report.

Public access to information

Information in this form is subject to the Freedom of Information Act 2000 (FOIA) and other legislation. Part 1 of this form will be made available on the MOPAC website within 1 working day of approval. Any facts/advice/recommendations that should not be made automatically available on request should not be included in Part 1 but instead on the separate Part 2 form. Deferment is only applicable where release before that date would compromise the implementation of the decision being approved.

Part 1 Deferral:

Is the publication of Part 1 of this approval to be deferred ? NO

Part 2 Confidentiality: Only the facts or advice considered as likely to be exempt from disclosure under the FOIA should be in the separate Part 2 form, together with the legal rational for non-publication.

Is there a **part 2** form – Yes

If yes, for what reason: EXEMPT under Article 2(2)(a) of the Elected Local Policing Bodies (Specified Information) Order 2011.

The relevant sections under the FOIA that would exempt this information from disclosure, for example: National Security Section 24, Law Enforcement Section 31, Commercial Interest Section 43

ORIGINATING OFFICER DECLARATION:

Head of Unit: The Chief Financial Officer has reviewed the request and is satisfied it is correct and consistent with the MOPAC's plans and priorities.	✓
Legal Advice: The MPS legal team has been consulted on the proposal. Not required	✓
Financial Advice: The Chief Financial Officer has been consulted on this proposal.	✓
Equalities Advice: No Equality and Diversity issues identified.	✓

OFFICER APPROVAL**Chief Executive Officer**

I have been consulted about the proposal and confirm that financial, legal and equalities advice has been taken into account in the preparation of this report. I am satisfied that this is an appropriate request to be submitted to the Deputy Mayor for Policing and Crime.

Signature

R. Lawrence

Date

18/07/18

Guaranteed Minimum Pension (GMP) - Phase 2 Reconciliation & Phase 3 Rectification

MOPAC Investment Advisory Meeting 28 June 2018

Report by Ken Anthony on behalf of the Deputy Commissioner

Part 1 – This section of the report will be published by MOPAC. It is classified as OFFICIAL – PUBLIC

EXECUTIVE SUMMARY

A **Guaranteed Minimum Pension (GMP)** applies to police officers if they have service in the Police Pension Scheme (PPS) between 6 April 1978 and 5 April 1997, and is used in determining the rate of their pension when they reach State Pension Age. If officers have a GMP on their pension record, it will affect the amount of annual inflation-linked 'pensions increase' (PI) that they receive from the PPS.

The PPS must guarantee to pay a pension at least as good as that which the officer would have received as State 'Second Pension' which tops up the basic state pension), and the amount we must pay is a GMP. The GMP is part of the PPS (not paid in addition to it), and is equivalent to the Contracted-out Deduction that members see on their State Pension statements

The purpose of the exercise is to ensure that records held by the PPS and by HMRC, in relation to periods of contracted-out employment are correct. This work is necessary to ensure that PPS scheme records are up to date and that data held by HMRC, which will be used in the calculation of an individual's new 'State Pension' starting amount, are also correct.

All 43 Police forces are undertaking a GMP reconciliation so all police officers records (current and retired) are verified and if necessary, corrected. This exercise is industry wide and covers both public and private sector pension schemes.

All employers have a duty to ensure our pension records are correct so that present and future liabilities are identified and cleansed at the earliest opportunity, irrespective of where that leaves us financially. This exercise will ensure that the Met is not exposed to future risk of unknown liabilities.

Recommendations

The DMPC is asked to:

1. Approve spend of £1.7m to enable the reconciliation of records held by the MPS and HMRC to ensure that scheme records and State Pension records are accurate. It is requested this spend across Phases 2 and 3 will be funded from reserves.
2. Approve the award of work to Equiniti Paymaster (EP), via Shared Services Connected Limited (SSCL), who have already undertaken a significant amount of preliminary work in Phase 1a/1b on this GMP project, to complete the remaining work required to conclude the project under Phase 2 and note the requirements under Phase 3, which will include the rectification of the incorrect records. The cost to complete the GMP data reconciliation in 2018/19 is estimated to be in the region of £1m,
3. There is also a final Phase 3 'Rectification process' part of the GMP reconciliation exercise. In this phase it will be necessary to correct the member's record and advise them of any under/overpayments – we anticipate approval to write off any overpayments for police forces countrywide. The cost of stage 3 will be determined from the results of phase 2 – however we would expect to see at least an estimated further 500 days of effort – at a cost of at least a further circa £0.5m.
4. Note that SSCL charge a fixed margin of 12% for Requests for Change involving 3rd parties. This could equate to a maximum margin cost of £204,545 should spend with Equiniti reach £1.5m.

Non-confidential facts and advice to the Deputy Mayor for Policing and Crime

Introduction and background

- EP have already successfully completed Phase 1a/1b of the GMP reconciliation project. This was paid for within the 'call off' days mechanism contained within the previous contract for outsourced pension administration with EP
- Under the new (i.e. since May 2017) pensions administration contract with SSCL, who sub contract to EP, Phase 2 needs to be undertaken and will be charged for separately.
- The MPS is legally required to carry out this GMP reconciliation. There is a time-limited window of opportunity to complete Phase 2. Query resolution by HMRC has been made available for a finite period of time to support pension scheme administrators to reconcile their records against those held by HMRC. The deadline for submitting membership queries to HMRC is **31 October 2018**. HMRC will respond to all queries that they receive by that date.
- Although it is not compulsory for scheme administrators to use the HMRC service it is the responsibility of the MPS as an employer to ensure that pension scheme GMP records are accurate.
- EP are best placed to complete phase 2 of the GMP reconciliation project on behalf of the MPS. They have the technical expertise and bespoke computer systems to complete the task effectively and accurately.

- The main benefit for the MPS will be that police pension GMP data will have been cleansed and all officer pension records will be correctly maintained.
- David Kinder (Deputy Director, Workforce, Pay and Pensions at HM Treasury) wrote to Public Sector Pension Schemes in February 2016 to confirm that where an authority chooses not to adopt the GMP recommendations made within that letter, then they should inform Treasury setting out the reasons behind the decision. By choosing not to undertake GMP reconciliation the authority is effectively not adopting the recommendations made by Treasury and will need to fully explain to Treasury as to why this is the case.

Issues for consideration

Legal position – The Met does not have a legal obligation to reconcile but we are duty bound to reconcile GMP by virtue of specific aspects of a range of pension related laws;

1. Pensions Act 2004 – section 249B

"The scheme manager of a public service pension scheme must establish and operate internal controls which are adequate for the purpose of securing that the scheme is administered and managed;

- (a) In accordance with the scheme rules, and*
- (b) In accordance with the requirements of the law"*

2. Public Service Pensions (Record Keeping and Miscellaneous Amendments) Regulations 2014 "Retention of records of member and beneficiary information"

3. Data Protection Act 1998 Schedule 1: The Data Protection Principles: Part 1 – The Principles

"(4) Personal data shall be accurate and, where necessary, kept up to date."

4. Pensions Act 2004 – section 90A

Codes of practice: public service pension schemes

Financial, Commercial and Procurement Comments

5. The estimated costs of Phase 2 of the GMP Reconciliation is estimated to be up to £1m with at least another £0.5m required for the Phase 3 'rectification' work. This cost is arrived at by using EP's estimated number of working days (1,071) by the cost of £1,000 in pay & systems usage for a single day i.e. 1,071 days x £1,000 = £ 1.071m. It is proposed to fund the cost from Reserves. The daily rate is still to be finalised with scope for reducing the estimated amount proposed by Equiniti.
6. SSCL charge a fixed margin of 12% for Requests for Change involving 3rd parties. This could equate to a maximum margin cost of £204,545 should spend with Equiniti reach £1.5m.

7. Inclusive of SSCL's margin the maximum costs to be incurred would be £1.7m and will be absorbed within the 2018/19 financial year as one-off non-recurring costs.
8. For Phase One the forecast payments can be invoiced over a monthly or quarterly basis. I.e. four payments of approx. £284k each paid in June 2018, September 2018, December 2018 and March 2019.
9. Forecast reductions in MPS expenditure will not be known until the GMP reconciliation exercise has been completed. It is anticipated, from work undertaken elsewhere in the public sector that the liabilities to the Treasury could reduce as a result of this exercise.
10. The outcome will be clean and reliable GMP data for deferred and current officers.
11. The MPS will have confidence in its pensions data, including the guarantee that any GMP pension benefits paid out are a genuine cost rightly attributable to the MPS.
12. The scope of Pension Reconciliation Services sits within the SSCL Solutions Template for Pensions Administration. Further, the SSCL Service Catalogue mandates that Pensions Reconciliation is an exclusive service to SSCL which means that the MPS are unable to utilise the services of any other 3rd party provider to reconcile the in-scope pension accounts.
13. The Pensions Administration Services Solution Template confirms that 'reconciliation services' and 'management and delivery of pensions related projects' are defined outputs within the standard services to be delivered via SSCL under our call-off order. However, it is recognised by both HR and Commercial Services that owing to the volume of pension accounts to be reviewed and reconciled this is an exceptional event which will necessitate the raising of a Request for Change (RFC). The route for engaging SSCL therefore will be via a Business as Usual RFC managed by the Business Support Services Intelligent Client Function (ICF).
14. Equiniti are a prime sub-contractor to SSCL for the purposes of delivering Police Officer Pension Services and therefore the delivery model will be that SSCL sub-contract Equiniti to deliver this reconciliation work.
15. The MPS have already received part of the scope of this project from Equiniti via our previous managed services contract for Payroll and Pensions with CGI UK Ltd. Equiniti have submitted a proposal for the residual works with an estimate of 1,071 FTE days effort.
16. Given the high value associated with this RFC the matter will be escalated for review at the Strategic Oversight Board (SoB), attended by Director Commercial & Finance, Director of Finance and Director of HR, prior to the Impact Assessment from SSCL being approved.

Legal Comments

17. The Met does not have a legal obligation to reconcile but we are duty bound to reconcile GMP by virtue of specific aspects of a range of pension related laws.
18. This paper is being submitted to the Deputy Mayor for Policing and Crime (DMPC) for approval in accordance with the Scheme of Delegation and Consent which requires DMPC approval for expenditure of £500k and above.

Equality Comments

19. There are no equality issues. All records are being reconciled and therefore does not have any equality or diversity implications.

Privacy Comments

20. All Equiniti staff are MPS CTC cleared. Data is transferred between Equiniti and HMRC using the HMRC on-line 'Shared Workspace' service.

Real Estate Implications

21. There are no Real Estate implications.

Environmental Implications

22. There are no Environmental implications.

Background/supporting papers

23. There are no further papers to add.

Report author: Ken Anthony, Pensions SME 0207 161-1873

Part 2 – This section refers to the details of the Part 2 business case which is NOT SUITABLE for MOPAC Publication.

The Government Security Classification marking for Part 2 is:
OFFICIAL-SENSITIVE [COMMERCIAL]

Part 2 of the Business Justification (Guaranteed Minimum pension (GMP) – Phase 2 Reconciliation & Phase 3 Rectification) paper is exempt from publication for the following reasons:

- Commercial interests – Includes financial data which may derive sensitive contractual information.

The paper will cease to be exempt until the completion of the contract.

