

Report to: **Audit, Best Value and Community Services Scrutiny Committee**

Date: **24 June 2013**

By: **Chief Operating Officer**

Title of report: **Non-Collection of Teachers' Pension Contributions**

Purpose of report: **To inform and update the Committee on the audit that has been conducted relating to the non-collection of Teachers' Pension contributions and the action taken to resolve this matter.**

RECOMMENDATION: The Committee is recommended to note the actions taken to resolve the Teachers' Pension Arrears issue.

1. Financial Appraisal

1.1 The Teachers' Pension Arrears that are being met by the Council amount to just over £1m with a further £390,000 in compound interest. The £1m has been met predominantly from schools individual budgets with a small proportion being met from the Children's Services budget. The compound interest has been provided for in corporate reserves. There are also liabilities for employees and the options available to them are set out below at paragraph 3.6.

2. Supporting Information

2.1 At the Audit, Best Value and Community Services Scrutiny Committee meeting on 15 March 2013 an issue was raised specifically relating to the non-collection of pension contributions from some staff in the Music Service. The Committee requested a report to clarify the situation and outline what action would be taken to resolve the issue.

2.2 The issue is one that is already known to us and which is being resolved. In 2009, in response to a higher than expected number of enquiries from teachers about their pension status, Personnel and Training independently commenced an audit of teachers pension (TP) contributions which involved reviewing records for all staff eligible to be in the Teachers Pension Scheme (TPS). This was completed using the data that was available following the implementation of SAP HR in January 2005. The Music Service employs staff who are eligible for the TPS and therefore their records were assessed as part of this broader audit review.

2.3 Capita, who administer the TPS on behalf of the Department for Education, had not identified that there was an issue with the payment of pension contributions by the Council. This was because they do not undertake individual reconciliations on the payment of contributions (as is the case with the Local Government Pension Scheme (LGPS)).

2.4 The omissions were, in the main, related to amendments to the TP regulations. Feedback from our payroll provider is that these amendments were poorly publicised by Capita and as a result schools, individuals and local authorities were not fully aware of the implications and action that needed to be taken. The impact had we not addressed this issue would have been a continued increase in the arrears owed along with the associated compound interest (see 3.4).

2.5 Other Local Authorities have reported they have identified similar issues with their records, also linked to regulatory changes and based on our experiences have started, or are considering commencing, a similar audit exercise.

3. Action taken to date and project update

3.1 Whilst the majority of arrears cases relate to the regulation changes, the audit has also identified some cases where teachers were incorrectly set up on appointment with the oldest dating back to 1993. The audit was completed in December 2012. It involved reviewing 15,826 records and of those

approximately 4% have been identified as arrears cases and 2% are refund cases, where the employee had been incorrectly included in the TPS, meaning that both the individual and Council will receive a refund of contributions paid to date.

3.2 All staff whose pension status was identified as being incorrect have been made aware that they owe arrears in pension contributions, as have the relevant schools. The majority of cases have been in schools and they have been fully informed about the project via regular circulars and at bursar's forum to enable schools to budget for arrears for which they are liable.

3.3 In addition to the arrears, as set out in the TP regulations, Capita levy a compound interest charge on the monies owed. Historically, this ranged from 12.8 – 8%. However, in 2011 this was amended to 3% + current RPI. As this project has been a large scale piece of work, we negotiated an agreement with Capita for a freeze on the accrual of compound interest from July 2012 – December 2012.

3.4 Given the historical nature of this matter, the compound interest is being met corporately rather than being charged on to schools or Children's Services Department. In addition, the employer contribution costs are being provided for in reserves.

3.5 During the life of the audit, a number of schools have converted to Academy status. These schools have been 'fast-tracked' with all arrears cases being identified and processed in advance of the Academy conversion.

3.6 Capita fully support the pro-active action we have taken and have agreed to liaise directly with the employees' affected to provide them with the 3 options available to them, to resolve the issue. These are:

- Employee can opt to discount the period of service for which the arrears are owed. In accordance with TPS regulations, if the employee chooses this option, the employer is still required to pay the employer element of the arrears due.
- Employee can enter into a repayment plan with Capita to pay the arrears.
- Employee can opt to have the unpaid contributions deducted from their lump sum when they retire.

3.7 We are now at the stage where the audit has been completed. Capita have one outstanding invoice to issue for employer arrears and compound interest following which budget holders will be charged for their employer contributions. All have been notified in advance that this will be happening. A breakdown of the financial implications is included at Appendix 1.

4. Lessons learnt and reassurance for the future

4.1 To minimise the risk, as far as possible, of cases like these occurring in the future, robust audit controls (monthly post payroll monitoring reports) have been put in place to identify any errors immediately and an extensive training program within Personnel & Training. Both give confidence that such cases will not arise in the future. As an additional safeguard, we continue to alert bursars and budget holders to the fact that if a teacher is not paying into the pension scheme, as identified on their monthly budget reports, they should raise this with Personnel & Training for checking and correcting as necessary.

4.2 Personnel and Training is now a member of the Capita Project Board hosted by Local Government Employers (LGE) which means that we will be well sighted on future changes to the scheme.

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Local Member: All

Background Documents:
None

Appendix 1 – Teachers Pension Arrears Figures invoiced until 31 March 2013

Element	Value (£)
Employee Arrears	<p>£502,995</p> <p>(This is an approximate figure because Capita are liaising directly with employees to arrange payment of the arrears and therefore we are not provided with this information. The figure is based on the fact that the employer contribution rate is 14.1% and employee rates ranges between 6.4% – 9% (linked to earnings). The above figure is based on a 7% contribution rate</p> <p>Average per employee = £925</p> <p>Predicted overall average (ie once final outstanding invoice from Capita received) per employee = £925</p>
Employer Arrears	<p>£1,005,991</p> <p>Average per employee = £1,941</p> <p>Predicted overall average (ie once final outstanding invoice from Capita received) per employee = £1,806</p>
Compound Interest	<p>£390,989</p> <p>Average per employee = £719</p> <p>Predicted overall average (ie once final outstanding invoice from Capita received) per employee = £686</p>

