

SUPERANNUATION FUND COMMITTEE

Friday, 10th February, 2012

10.00 am

**Medway Room, Sessions House, County Hall,
Maidstone**



AGENDA

SUPERANNUATION FUND COMMITTEE

Friday, 10th February, 2012 at 10.00 am Ask for: **Geoff Rudd**
Medway Room, Sessions House, County Telephone: **01622 694358**
Hall, Maidstone

UNRESTRICTED ITEMS

(During these items the meeting is likely to be open to the public)

A. COMMITTEE BUSINESS

1. Substitutes
2. Declarations of Interests by Members in items on the Agenda for this meeting.
3. Minutes (Pages 1 - 4)

B. MOTION TO EXCLUDE THE PRESS AND PUBLIC FOR EXEMPT ITEMS

That under Section 100A of the Local Government Act 1972 the press and public be excluded from the meeting for the following business on the grounds that it involves the likely disclosure of exempt information as defined in paragraph 3 of part 1 of Schedule 12A of the Act.

EXEMPT ITEMS

(During these items the meeting is likely NOT to be open to the press and public)

C. MATTERS FOR REPORT/DECISION BY THE COMMITTEE

1. Minutes (Pages 5 - 6)
2. Impax Asset Management
3. Partners Group
4. Fund Structure (Pages 7 - 22)

UNRESTRICTED ITEMS

(During these items the meeting is likely to be open to the public)

D. MATTERS FOR REPORT/DECISION BY THE COMMITTEE

1. Pensions Administration (Pages 23 - 32)
2. Admissions to the Fund (Pages 33 - 36)

Peter Sass
Head of Democratic Services
(01622) 694002

Thursday, 2 February 2012

- (i) *Please note that any background documents referred to in the accompanying papers maybe inspected by arrangement with the officer responsible for preparing the relevant report.*
- (ii) *In accordance with the current arrangements for meetings, representatives of the Managers have been given notice of the meeting and will be in attendance for Items C2 and C3.*

KENT COUNTY COUNCIL

SUPERANNUATION FUND COMMITTEE

MINUTES of a meeting of the Superannuation Fund Committee held in the Darent Room, Sessions House, County Hall, Maidstone on Friday, 18 November 2011.

PRESENT: Mr J E Scholes (Chairman), Mr M Baker (substitute for Mr S Richards), Mr J Burden, Ms S V Carey, Mr D Carr, Mr P Clokie, Mr D S Daley, Mr J A Davies, Mrs J De Rochefort, Ms A Dickenson, Mr M J Jarvis, Mr J F London, Mr R A Marsh, Mr R J Parry, Mr M V Snelling and Mrs M Wiggins.

IN ATTENDANCE: Mr A Wood (Acting Corporate Director of Finance and Procurement), Mr N Vickers (Head of Financial Services), Ms A Mings (Treasury & Investments Manager), Ms K Gray (Senior Accountant Investments) and Mr G Rudd (Assistant Democratic Services Manager).

UNRESTRICTED ITEMS

A. COMMITTEE BUSINESS

52. Declarations of Interests by Members in items on the Agenda for this meeting.
(Item A2)

There were none.

53. Minutes
(Item A3)

RESOLVED that the Minutes of the meeting held on 2 September 2011 are correctly recorded and that they be signed by the Chairman.

D. MATTERS FOR REPORT/DECISION BY THE COMMITTEE

54. Fund Position Statement
(Item D1- report by the Chairman of the Superannuation Fund Committee and the Acting Corporate Director of Finance and Procurement)

RESOLVED that the report be noted.

55. Collaborative Working
(Item D2- report by the Chairman of the Superannuation Fund Committee and the Acting Corporate Director of Finance and Procurement)

RESOLVED that the report be noted

56. Changes to the LGPS

(Item D3-report by the Chairman of the Superannuation Fund Committee and the Acting Corporate Director of Finance and Procurement)

RESOLVED that the report be noted.

57. CIPFA Code of Practice On Public Sector Pensions / Finance Knowledge And Skills

(Item D4 - report by the Chairman of the Superannuation Fund Committee and the Acting Corporate Director of Finance and Procurement)

RESOLVED that the Training Plan be agreed.

58. Application For Admission To The Fund

(Item D5-report by the Chairman of the Superannuation Fund Committee and the Acting Corporate Director of Finance and Procurement)

RESOLVED that:-

- (a) the details of the cessation report for Turner Contemporary Centre be noted, and
- (b) Admitted bodies be made aware that the new bond levels recommended by Barnett Waddingham will be applied.

C. MATTERS FOR REPORT/DECISION BY THE COMMITTEE

59. Minutes

(Item C1)

RESOLVED that the exempt Minutes of the meeting held on 2 September 2011 are correctly recorded and that they be signed by the Chairman.

60. Baillie Gifford

(Item C2)

(1) Mr N Morecroft and Mrs L Dewar, of Baillie Gifford were in attendance for this item to give a presentation and answer Members questions.

(2) RESOLVED that the report be noted.

61. DTZ

(Item C3)

(1) Mr P O’Gorman, of DTZ was in attendance for this item to give a presentation and answer Members questions.

(2) RESOLVED that the report be noted.

62. Fund Structure

(Item C4- report by the Chairman of the Superannuation Fund Committee and the Acting Corporate Director of Finance and Procurement)

The Committee agreed a number of issues relating to the structure and management of the Fund.

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By: Chairman Superannuation Fund Committee
Corporate Director of Finance & Procurement

To: Superannuation Fund Committee – 10 February 2012

Subject: **PENSION ADMINISTRATION**

Classification: Unrestricted

Summary: To provide members with a comprehensive update of administration issues including:-

- Workload position
- Achievements against Key Performance Indicators (KPIs)
- CIPFA benchmark survey 2011
- Pension Section website
- Other technology issues
- Automatic enrolment
- Other topical issues

FOR INFORMATION

INTRODUCTION

1. This report brings members fully up to date on a range of issues concerning the administration of the Kent Pension Scheme.

WORKLOAD POSITION

2. Members have been advised in previous reports that workload for the section has been increasing steadily over the last few years.
3. Appendix I gives details of workload levels for the years 2007/08 through to 2010/11. The 9 month figures, from March 2011 to December 2011, have been annualised to provide a projection for 2011/12.
4. These projected numbers confirm that the trend of year on year workload increases is continuing.
5. Estimate and benefit levels are relatively constant, with similar results over the last two years, but, these levels are significantly higher than the 3 preceding years.
6. Of particular interest and some concern is the sharp increase in the numbers of preserved benefits being completed. The 2011/12 projected numbers, show an increase of 37%, on those recorded for the previous year (3732/5136).

7. An analysis of the age bands of those people for whom we have calculated a deferred benefit provides the following profile:-
- In the last 3 years we have created 8483 deferred benefits. This is partly due to the reduction in the vesting period to 3 months from 2 years
 - Of the above cases, 55% (4685) were for members aged 31-50 years
 - Some 2238 (26%) were for staff aged 18-30 years.

We propose to monitor the reasons and age analysis of opt outs over the next 12 months. We wish to establish if large numbers of young people are leaving the scheme for financial reasons.

8. Total cases outstanding on 1 April 2011 for the LGPS were 7107. At 6 January 2012, this has been reduced to 5332. A significant effort by the administration team.
9. The review of the Police and Fire schemes Injury Allowance cases has now been completed. This required an individual review of some 600 cases. The results have been notified to both the Police and Fire Authorities through their respective committees.
10. Estimate requests, resulting from the downsizing being undertaken by a number of the schemes employers have been completed quickly and efficiently by the team.

KEY PERFORMANCE INDICATORS (KPIs)

11. The results of our performance against the KPI targets set at the beginning of the year are shown in Appendix II.
12. The results confirm that even in light of the increases to workload, our production staff have exceeded each of the KPI targets, set at 95% of all cases, being completed in the target time.
13. These targets have been met during a period when we have been operating with 7 vacancies.
14. Some overtime has been necessary to maintain these high standards, but even in light of the vacancies above, we remain on target, to achieve a budget saving on staff costs of around £130k for the year.

CIPFA BENCHMARK SURVEY 2011

15. The Kent Pension Fund participates in the CIPFA Benchmark Survey. This survey measures the cost of the administration service and compares Kent with other LGPS administering authorities.

16. The results of the survey are shown at Appendix III. The results are expressed as a cost per member of the scheme. Members include current contributors, deferred beneficiaries and pensioners.
17. The Kent Scheme is compared with a range of comparator schemes (19 shire counties of various sizes) and also all those LGPS schemes which take part in the survey (all schemes average 59 authorities including the comparator group).
18. It is important to remember that the survey only compares the cost of administration. Whilst it also looks at work volumes and employer numbers it does not compare 'quality of service'.
19. At £19.40 per member (last year £19.12) we are below the all schemes average at £22.14 (£22.72) but marginally above the comparator scheme average at £19.12 (£19.84).
20. This places the Kent Scheme 13th of 19 in the comparator survey and 22nd of 59 in the all schemes survey.
21. An analysis of the results confirm the following trends:-
 - Staff costs are marginally below the all scheme average but again, slightly above the comparator average. I conclude this is likely to reflect our proximity to London.
 - Payroll costs per member at £1.54 are significantly lower than both survey averages at, comparator £3.11/all schemes £2.84.
22. Our communication costs at £2.09 per member are significantly higher than the average for both surveys. £0.81 for the comparator survey and £0.82 for the all schemes survey. These costs I hope will reduce as we utilise the website in future for both annual benefit illustrations and deferred benefit statements. Both are presently sent to home addresses at high cost to the scheme.

We also cover the cost of the Open Lines magazine, sent out twice a year to all pensioners, at a cost of £16,000 per issue.
23. I believe we communicate professionally with all our 320 employers and the various classes of scheme membership. Whilst we can make good use of technology as described above, I do not endorse we seek reductions in cost at the expense of comprehensive communications
24. Our actuarial costs are higher than both of the survey averages (£1.86: £1.25/£1.24). Again, I consider our high employer numbers at 320, drives these costs upwards compared to other LGPS schemes where numbers are significantly lower. We have 100 more employers than any other authority in both surveys.
25. Finally, accommodation costs are double the average of both surveys (£1.23:£0.65/£0.79).

26. I am confident that if we utilise the benefits of technology to provide a greater proportion of our communications to both employers and employees, our overall survey results will improve significantly.

We remain below the all schemes average by over £3 per member and significantly below the private sector average of £47 per member (Capita Hartshead annual pension scheme admin survey 2010).

PENSION SECTION WEBSITE

27. I am very pleased to confirm that the pension section website is now situated on its own website domain and can be found at www.kentpensionfund.co.uk.
28. The new design is receiving very favourable comment from both employers and scheme members alike.
29. At the point of this report, two months since the site was launched, it has received 26,000 hits to separate page views.
30. The site is divided into the following specific areas:-
- Scheme employers
 - Current scheme members
 - Deferred scheme members
 - Thinking of joining
 - Pensioners
 - Investments
 - Police
 - Fire
 - Teachers
31. In the longer term we are seeking to incorporate interactive facilities for scheme members to include benefit estimates and ARC projections. At present we have the facilities but KCC IT are still working on the integration to the site.

OTHER TECHNOLOGY ISSUES

32. **AXIS Employer**
We now have Axis Employer installed at our test sites. Axis employer allows the employer to perform a number of administrative tasks, including data input, direct to the Axis administration system.
33. We are presently restricting its use, until we are satisfied employers are operating the system correctly. All transactions are checked by us before the system is instructed to change the member data screens.
34. This is clearly an important tool for the future when training is fully delivered to all employers.

35. **CLASS Group – Framework Tender – Administration**
Members were advised of the initiative for members of the CLASS group to move to a ‘framework’ tender in respect of the pensions administration software.
36. In light of the very real potential, for a single step solution to the long term LGPS reform process, it is decided that a single framework tender will be pursued, by those authorities wishing to be a party to such an arrangement. This means a tender process cleared during this year and open to market tender by the year end.
37. I will keep members advised of progress in this respect. I have confirmed the Kent support of the initiative, on behalf of the members, including our agreement to share a part of the tender costs.
38. **Automatic Enrolment**
Members are advised that Government is introducing a new initiative, designed to stimulate and encourage pension savings in the future, called auto-enrolment (AE).
39. AE involves qualifying pension schemes (the LGPS is a qualifying scheme) being required to auto enrol all eligible staff. Eligibility is based upon either mid age or salary levels.
40. Each scheme employer will have a ‘staging date’. AT this point all employees for that employer must be enrolled to the LGPS. Each employee has 1 month to opt out. The opt out must be instructed to KCC as the administrator.
41. After 3 years, the exercise must be repeated by all scheme employers. The ‘staging date’ and therefore the auto enrolment date for each employer, varies according to payroll size.
42. KCC has a staging date of February 2013.
43. Staff who are not eligible at the staging date, but, become eligible prior to the 3 year re-enrolment date, must be auto enrolled at the point of becoming eligible. Responsibility falls entirely to the employer.
44. I am sure members will fully appreciate the administrative complexity this could create for the Pension Section. We will keep members informed as more detail becomes known, but, at this early stage, one has to believe this will cause significant administrative problems across the LGPS.

OTHER TOPICAL ISSUES

45. **The Hutton Review**
Members are aware of the ongoing discussions relating to long term reform of the public service pension schemes, including the LGPS.
46. Ministers have agreed that the LGPS, being the only ‘funded’ scheme in the public service arena, can be treated independently to other public service schemes.

47. This simply means that both the long and short term savings can be delivered by way of a 'one step' redesign of the scheme, assuming changes are implemented soon enough, for the actuaries to build the changes into their valuation process in 2013. Other public service schemes, who are 'pay as you go', can only deliver long term savings, by way of increases to member contributions.
48. This has impacted upon our plans to tender collaboratively for a software system (see paragraph 35) and would be a greatly simplified procedure for administrators, compared to, interim contribution hikes quickly followed by major scheme changes.
49. The actuary will provide a full update at the 2 March meeting of the Committee.

INTERNAL AUDIT REPORT

50. Finally, members are advised that internal audit have conducted an audit of pension overpayments. The audit reviewed the cases to ensure overpayments are accurately identified, calculated and recovered correctly within a timely manner and only written off where appropriate.
51. The outcome of the audit was that full assurance can be given to members, this is the highest rating category.

RECOMMENDATION

56. Members are asked to note the content of this report.

**Patrick Luscombe
Pensions Manager
Extension 4714**

Appendix I
Tasks created in key administration areas
Workload Summary

| Case Type | 2007/08 | 2008/09 | 2009/10 | 2010/11 | * 2011/12 |
|--------------------------------------|----------------|----------------|----------------|----------------|------------------|
| Benefit calculation | 1544 | 1814 | 1797 | 2076 | 2145 |
| Divorce cases | 306 | 373 | 490 | 544 | 427 |
| Estimate calculation | 2121 | 2364 | 2348 | 2871 | 2820 |
| Preserved Benefit Calculation | 3923 | 4443 | 3913 | 3732 | 5136 |
| Transfers In | 754 | 597 | 664 | 547 | 250 |
| Transfers Out | 430 | 542 | 555 | 407 | 542 |
| Widows | 346 | 379 | 311 | 315 | 381 |
| TOTAL | 9424 | 10512 | 10078 | 10492 | 11701 |

* 9 months to 31 December 2011 annualised.

Appendix II

Achievements against Key Performance Indicators

| Case Type | Target | 2008/09 | | 2009/10 | | 2010/11 | | * 2011/12 | |
|---|------------------------|---------|-------------|---------|-------------|---------|-------------|-----------|-------------|
| | | No | % in target | No | % in target | No | % in target | No | % in target |
| Calculation and payment of retirement award | 20 days | 1814 | 95% | 1797 | 98% | 2076 | 99% | 1836 | 99% |
| Calculation and payment of dependant benefits | 15 days | 372 | 98% | 311 | 98% | 315 | 99% | 266 | 98% |
| Calculation and provision of benefit estimate | 20 days | 2364 | 95% | 2348 | 98% | 2871 | 98% | 2399 | 98% |
| Reply to correspondence | 10 days and full reply | 1603 | 95% | 1722 | 99% | 1705 | 99% | 1079 | 98% |

NB. All targets run from the day the section has full/correct data from the employer to complete the task.

* 9 months to 31 December 2011.

Appendix III

CIPFA Administration Benchmark Survey 2010

| Total administration costs per member | Kent County Council £19.40 | Average Comparator £19.12 | Average All Schemes £22.14 |
|--|---------------------------------------|--------------------------------------|---------------------------------------|
| Staff costs per member | £9.80 | £8.60 | £9.91 |
| Payroll costs per member | £1.54 | £3.11 | £2.84 |
| Communication costs per member | £2.09 | £0.81 | £0.82 |
| Actuarial costs per member | £1.86 | £1.25 | £1.24 |
| Accommodation costs per member | £1.23 | £0.65 | £0.79 |
| IT costs per member | £1.99 | £2.17 | £2.97 |

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By: Chairman Superannuation Fund Committee
Corporate Director Finance and Procurement

To: Superannuation Fund Committee –10 February 2012

Subject: **APPLICATION FOR ADMISSION TO THE FUND**

Classification: Unrestricted

Summary: To report on an application to join the Pension Fund, the extension of two admission agreements and the termination of an admission agreement.

FOR DECISION

INTRODUCTION

1. This report sets out information on an application from an organisation to become an admitted body within the Pension Fund and seeks committee approval to enter into an admission agreement with this organisation. It also advises of the need to extend two admission agreements and the termination of an admission agreement. Committee approval is sought to enter into these agreements.

TOTAL CATERING SOLUTIONS LIMITED

2. Sutton at Hone School, which is a KCC school, is awarding a contract to Total Catering Solutions Limited for catering services, effective from 2 April 2012.
3. This involves the transfer of three employees from Sutton at Hone School to Total Catering Solutions Limited, one of whom is currently in the pension scheme. To ensure the continuity of pension arrangements for these employees, Total Catering Solutions Limited have made an application for admission to join the Pension Fund.
4. The application has been made under Regulation 6 (2) (a) (i) of the Local Government Pension Scheme (Administration) Regulations 2008, as amended, and under this regulation the admitted body is required to provide a form of bond or indemnity. The Fund Actuary has assessed the level of bond at £500 for the first year and set an employer's contribution rate of 18.2%.
5. The completed questionnaire and Memorandum and Articles of Association provided by Total Catering Solutions Limited have been examined by Legal Services to ensure compliance with the Local Government Pension Scheme Regulations. Legal Services have provided a favourable opinion.

AVENUES TRUST COMMUNITY SUPPORT SERVICES

6. Avenues Trust Community Support Services is a Transferee Admission Body who joined the Pension Fund on the 1 March 2010, following the awarded a two year contract by Medway Council to provide domiciliary services.
7. As this contract has now been extended beyond 31 March 2012 it is necessary to extend the original admission agreement by a Deed of Modification.
8. The exact contract extension period is currently uncertain, although Avenues Trust Community Support Services will continue to provide this service beyond 31 March 2012.

QUADRON SERVICES LIMITED

9. Quadron Services Limited is a Transferee Admission Body who joined the Pension Fund on the 29 June 2007, following the awarded a five year contract by Medway Council to provide a grounds maintenance service.
10. As this contract has now been extended to 31 March 2014 it is necessary to extend the original admission agreement by a Deed of Modification.

APCOA PARKING UK LTD

11. APCOA Parking UK Ltd is a Transferee Admission Body who joined the Pension Fund on the 1 April 2004, following the awarded a contract by Maidstone Borough Council to provide parking services.
12. As the outsourcing contract from Maidstone Borough Council to APCOA Parking UK Limited ended on 30 June 2011, a cessation report was obtained from the actuary at that time.
13. The cessation report showed there was £13,000 deficit due from APCOA Parking UK Limited to the Pension Fund. This payment was received on 26 June 2011.
14. APCOA Parking UK Ltd were awarded a new contract by Maidstone Borough Council and Swale Borough Council from 1 July 2011 to provide parking services. A new admission agreement has already been entered into and this is reported for information

RECOMMENDATION

15. Members are asked to:

- (1) Agree to the admission to the Kent County Council Pension Fund of Total Catering Solutions Limited, and
- (2) Agree that a Deed of Modification can be entered into in respect of Avenues Trust Community Support Services Limited, and
- (3) Agree that a Deed of Modification can be entered into in respect of Quadron Services Limited, and
- (4) Note the withdrawal of APCOA Parking UK Ltd as a participating employer in the Pension Fund, and
- (5) Agree that once legal agreements have been prepared for the above matters, the Kent County Council seal can be affixed to the legal documents.

Steven Tagg
Investments and Treasury
Ext. 4625

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