AGENDA

PENSION BOARD

Wednesday, 20th April, 2016, at 10.30 am		Ask for:	**Denise Fitch**
Wantsum Room, Sessions House, County Hall, Maidstone		Telephone	**03000 416090**

Tea/Coffee will be available 15 minutes before the start of the meeting in the meeting room

Membership

Scheme Employer Representatives (4)

Kent County Council (2)	Miss S J Carey (Chairman) and Mr D Smyth
District/Medway Council (1)	Councillor D Monk
Police/Fire & Rescue (1)	Ms A Kilpatrick

Scheme Employee Representatives (4)

KCC (1)	Mr J Peden
Medway/Districts (1)	Mr J Parsons (Vice-Chairman)
Trade Unions (1)	Ms S Lysaght
Kent Active Retirement Fellowship (1)	Mr D Coupland

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

1. Board Membership and Terms of Reference (Pages 3 - 16)

2. Local Government Pension Scheme (LGPS) Pooling (Pages 17 - 44)

3. Internal Audit Reports (Pages 45 - 82)

4. Pensions Adminstration (Pages 83 - 94)

5. Date of next meeting - 14 October 2016 at 10.00am

EXEMPT ITEMS

(At the time of preparing the agenda there were no exempt items. During any such items which may arise the meeting is likely NOT to be open to the public)

Peter Sass
Head of Democratic Services
03000 416647
13 April 2016

By: Corporate Director of Finance & Procurement

To: Pension Board – 20 April 2016

Subject: **BOARD MEMBERSHIP AND TERMS OF REFERENCE**

Classification: Unrestricted

Summary: To update on Board membership and Terms of Reference.

FOR INFORMATION

INTRODUCTION

1. This report is intended to report on membership, which is now complete, and remind the Board of the Terms of Reference previously agreed.

MEMBERSHIP

2. Council agreed the following membership and the appointments made are set out below:

- Employer representatives

  KCC – Susan Carey, Chairman; Derek Smyth
  Police / Fire – Alison Kilpatrick
  District Councils / Medway Council – Cllr. David Monk

- Staff / Pensioner representatives

  KCC – John Peden
  District Councils / Medway Council – Joe Parsons
  Trade Union – Sophy Lysaght
  Kent Active Retirement Fellowship – Derek Coupland

TERMS OF REFERENCE

3. The Terms of Reference submitted to the meeting on 29 July are attached.

RECOMMENDATION

4. The Board is asked to note the report.

Nick Vickers
Head of Financial Services
Tel: 03000 416797
E-mail: nick.vickers@kent.gov.uk

Appendix

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

To: Superannuation Fund Committee – 6 February 2015

Subject: **PENSION BOARD**

Classification: Unrestricted

Summary To make proposals for the establishment of a Pension Board.

FOR DECISION

INTRODUCTION

1. As part of the reforms of public sector pension schemes following Lord Hutton's 2010 review major changes were proposed in the Public Services Pension Act 2013. The Act included a requirement for the Department for Communities and Local Government (DCLG) as a responsible authority to make regulations establishing a national scheme advisory board and enabling each Local Government Pension Scheme (LGPS) administering authority to establish local pension boards.

2. The Committee has responded to a number of consultations from the DCLG in August and November 2014. Our responses have been fairly typical of those of administering authorities who have questioned the purpose and role of the new boards. In fact the consensus view would seem to be that for a locally administered scheme such as the LGPS they are wholly unnecessary and reflect fundamental misunderstandings about how the LGPS is currently governed. Notwithstanding this view we have to comply with the regulatory requirement

3. This report includes a proposed basis for the establishment of a Pension Board for the Kent Fund which will be consulted on.

SECTION 101 COMMITTEE

4. Each Administering Authority is responsible for administering and managing the LGPS and is now referred to as the Scheme manager. Under the Local Government Act 1972 decisions about pensions are delegated in accordance with Section 101 to "committees or sub committees made up of councillors from all of the political groups and will be politically balanced". In Kent the

Constitution delegates this responsibility to the Superannuation Fund Committee.

5. The number of County Councillors on the Committee is determined as part of the overall political balance of the County Council. Additionally the Committee has:

   1) Three District Council representatives, one for each of the Conservative, Labour and Liberal Democrat parties. It is understood that this arrangement goes back to the mid 1990's and there was a one off opportunity at that time to give these representatives full voting rights. There is no documentation in Democratic Services or Finance to explain how this was done. Initially nominations were made through the Kent Association of Local Authorities (KALA) but since that was superseded where changes have been necessary then the Head of Financial Services has asked the Leader of each KCC group if they could make a nomination through the party structure in the county.

   2) One Medway Council representative since 2002. This was the last time that the membership of the Committee was reviewed and it was not felt to be appropriate that the second largest employer in the scheme did not have a seat on the Committee. But it was not possible to give voting rights.

   3) Two Kent Active Retirement Fellowship representatives. Again this goes back to when KARF was established in the mid 1990's and there are no voting rights. Pensioners are a key part of the total community of the scheme but there are no decisions which the Committee can take which affects the entitlements of pensioners.

   4) One trade union representative. This was reduced from 2 members, for the county and district councils in 2002, non-voting.

   5) One staff representative from KCC, non-voting.

6. The creation of a Pension Board does not change the core role of the Administering Authority in any way. But it does give the opportunity to review the current membership of the scheme. In this context the main issues are:

   1) Formally confirming the arrangements for the District Council representatives. The current arrangement of nomination by political group does not accord with normal practice. For example, the Council's Health Overview and Scrutiny Committee has two voting District Council representatives – nominated by Councils in East and West Kent

   2) Determining whether it is possible to give the Medway Council representative full voting rights.

3) Determining whether the KARF, trade union and staff representation is more appropriate through the Pension Board itself.

Changes to the membership of this committee would have to be agreed by Council.

7. There are no proposals to change the remit of the Committee.

PENSIONS REGULATOR

8. The regulatory powers of the Regulator were extended under the 2013 Act to cover some aspects of public service pension schemes, including the LGPS. The Regulator is an existing body corporate established by the Pensions Act 2004 Act. Prior to 1 April 2015, the Regulator regulated occupational and personal pension schemes provided primarily through private sector employers.

9. The Regulator has a number of statutory objectives including to:

1) Protect the benefits of pension scheme members,

2) Promote, and improve understanding of, the good administration of work-based pension schemes; and

3) Maximise compliance with the duties and safeguards of the Pensions Act 2008.

The 2013 Act introduces a framework for the regulatory oversight of aspects of the governance and administration of public service pension schemes by the Regulator from 1 April 2015, through expanding its current role.

10. The Regulator has oversight in areas such as those listed in below and may issue codes of practice for public service pension schemes in these areas. The Regulator has issued the Code of Practice which covers:

1) Knowledge and understanding by pension board members.;

2) Conflicts of interest;

3) Reporting breaches of the law;

4) Information to be published about a scheme;

5) Internal controls;

6) Scheme record-keeping;

7) Maintaining contributions;

8) Information to be provided to members; and

9) Internal dispute resolution.

However, only the areas of knowledge and understanding, conflicts of interest and reporting breaches of the law have direct application to Local Pension Boards. The other areas apply to Administering Authorities, although are areas that a Local Pension Board will need to be aware of in order to assist the Administering Authority.

11. For the avoidance of doubt the powers of the Regulator were <u>not</u> extended to cover areas such as the funding and investment of Funds.

12. The Regulator will have a range of enforcement powers under the 2013 Act including:

    1) The power to appoint a person to assist a Local Pension Board in the discharge of its functions if the Regulator considers it desirable for the purpose of ensuring compliance with relevant "pensions legislation";

    2) The power to issue an 'improvement notice' to an Administering Authority or to a member(s) of a Local Pension Board directing them to take, or refrain from taking, such steps as are specified in the notice in order to remedy or prevent a recurrence of a contravention of "pensions legislation";

    3) The power to issue a 'third party notice' directing a third party to take, or refrain from taking, such steps as are specified in the notice in order to remedy or prevent a recurrence of a contravention of "pensions legislation";

    4) The power to issue a 'report notice' to an Administering Authority or to a member(s) of a Local Pension Board requiring them to provide a report on a specified matter(s) which are relevant to the exercise of any of the Regulator's functions;

    5) The power to require Administering Authorities and members of Local Pension Boards to produce documents and information;

    6) The power to inspect premises;

    7) The power to apply for an injunction;

    8) The power to apply for restitution where there has been a misuse or misappropriation of any Fund assets;

    9) The power to recover unpaid contributions on behalf of an Administering Authority; and

    10) The power to impose civil penalties for breaches of certain pensions legislation including the duty for Administering Authorities and members of Local Pension Boards to report breaches of the law, the duty for Administering Authorities to report the late payment of employer

contributions and the failure to comply with an ‘improvement notice’ or a ‘report notice’.

As noted above, certain powers of the Regulator are limited to contravention of “pensions legislation”. For this purpose, “pensions legislation” has a specific meaning and includes certain pieces of core pensions legislation which apply to both public and private sector schemes (the Pension Schemes Act 1993; parts of the Pensions Act 1995; the Pensions Act 2004; and statutory provisions on pension sharing on divorce). In terms of the legislation contained in the 2013 Act, “pension legislations” only includes sections 5(4) (pension board: conflicts of interest and representation), 6 (pension board: information), 14 (information about benefits) and 16 (records).

Of the 2013 Act provisions, only section 5(4) (pension board: conflicts of interest and representation) has direct relevance to a Local Pension Board, as the other sections relate to Scheme Manager responsibilities.

13. The other listed statutory provisions are relevant to the extent that a Local Pension Board is responsible for assisting the Administering Authority to comply with legislation relating to the governance and administration of the LGPS (which will include certain elements of the listed statutes).In all cases, the term “pensions legislation” covers both the statutory provisions listed and any secondary legislation made under those provisions.

14. If the Regulator has reasonable grounds to suspect or believe that a member of a Local Pension Board:

    1) Has misappropriated any assets of the Fund or is likely to do so; or

    2) Has a conflict of interest in relation to the investment of assets of the Fund

    The Regulator must report the matter to the Administering Authority. However, given that a member of Local Pension Board should not have access to Fund assets or be involved in the investment of Fund assets then the exercise of this duty should be rare in practice.

<u>CONSTITUTION AND MEMBERSHIP OF A LOCAL PENSION BOARD</u>

15. Final regulations for the Pension Board have still not been received so the proposals here reflect the draft Statutory Instrument reported to the Committee in November and the January 2015 document produced by the Pensions Regulator.

16. Regulation 106 (1) states that the Pension Board will be responsible for assisting the Administering Authority:

    To secure compliance with:

These Regulations,

Any other legislation relating to the governance and administration of the Scheme and any connected scheme, and

Any requirements imposed by the Pensions Regulator in relation to the Scheme.

To ensure the effective and efficient governance and administration of the Scheme.

17. Local Pension Boards must be established no later than 1 April 2015. Established in this context means that the Administering Authority must have approved the establishment of the Local Pension Board and the Local Pension Board's composition and also the terms of reference, in accordance with its constitution. It does not necessarily mean that the Local Pension Board has to be fully operational by this date. However it is anticipated that a Local Pension Board should be operational within a reasonably practicable period after 1 April 2015 (being no longer than 4 months).

18. The responsibility for establishing a Local Pension Board rests with the Administering Authority of each Fund. This is something the Administering Authority must do, it is not optional.

19. An Administering Authority is given power under regulation 106(5) of the Regulations to determine the procedures applicable to its Local Pension Board, including voting rights, the establishment of sub-committees and the payment of expenses. When exercising this power (as provided for in the 2013 Act), the Administering Authority must do so in accordance with usual local government principles, acting reasonably and within the powers set out in the Regulations.

20. A Local Pension Board must include an equal number of employer and member representatives with a minimum requirement of no less than four in total. In addition, the Regulations do not preclude that other members may also be appointed to the Board.

21. No officer or councillor of an Administering Authority who is responsible for the discharge of any function under the Regulations (apart from any function relating to Local Pension Boards or the Scheme Advisory Board) may be a member of a Local Pension Board. The Committee did respond to DCLG in November on this issue stating:

"We welcome the amendment which allows elected members to be members of the board. But the absolute refusal to allow elected members of the administering authority to be on the board is unhelpful. The greatest level of expertise resides with these members and the board would greatly benefit from their involvement. We would ask the Secretary of State to allow elected members of the administering authority to serve on the board but in a minority".

22. In accordance with section 248A of the 2004 Act, every individual who is a member of a Local Pension Board must:

Be conversant with:

The rules of the LGPS, in other words the Regulations and other regulations governing the LGPS (such as the Transitional Regulations and the Investment Regulations); and

Any document recording policy about the administration of the Fund which is for the time being adopted in relation to the Fund, and

Have knowledge and understanding of:

The law relating to pensions; and

Such other matters as may be prescribed.

23. The proposals for the Kent Fund Pension Board are set out in Appendix 1. It is proposed that we consult with all employers and interested parties including trade unions and KARF on these proposals. Final recommendations can then be made to the Committee on 20 March with formal recommendations to submitted to Council on 15 May. This will still allow for the first meeting of the board to take place within 4 months of 1 April 2015 as required.

RECOMMENDATIONS

24. Members are asked to agree the consultation document set out in Appendix 1 and the process set out in paragraph 23. above.

Nick Vickers
Head of Financial Services
03000 416797

KENT COOUNTY COUNCIL SUPERANNUATION FUND COMMITTEE

CONSULTATION ON ESTABLISHING A PENSION BOARD

INTRODUCTION

1. Kent County Council is the Administering Authority for the Kent Pension Fund. The scheme has 110,000 members, there are 500 employers and assets of £4.3bn.

2. As part of the reform of public service pension schemes by the Government there is a new requirement for Local Government Pension Schemes to have a Pension Board sitting alongside the Superannuation Fund Committee.

3. The Superannuation Fund Committee remains responsible for the management of the Fund.

4. Regulation 106 (1) of the draft Statutory Instrument states that the Pension Board will be responsible for assisting the Administering Authority:

    1) To secure compliance with:

    These Regulations,

    Any other legislation relating to the governance and administration of the Scheme and any connected scheme, and

    Any requirements imposed by the Pensions Regulator in relation to the Scheme.

    2) To ensure the effective and efficient governance and administration of the Scheme.

5. Local Pension Boards must be established no later than 1 April 2015. Established in this context means that the Administering Authority must have approved the establishment of the Local Pension Board and the Local Pension Board's composition and also the terms of reference, in accordance with its constitution. It does not necessarily mean that the Local Pension Board has to be fully operational by this date. However it is anticipated that a Local Pension Board should be operational within a reasonably practicable period after 1 April 2015 (being no longer than 4 months).

6. This consultation is on the Superannuation Fund Committee’s proposals for the membership of the Pensions Board.

PROPOSED APPROACH

7. Membership

Chairman- KCC elected member NOT currently on the Superannuation Fund Committee.

Vice Chairman- to be agreed by board.

Member representation (4):

Staff- 2 representatives; 1 KCC and 1 non KCC.

Kent Active Retirement Fellowship- 1 representative.

Trade unions- 1 representative

Employer (4):

KCC- 2 representatives (including Chair)-not members of the Superannuation Fund Committee

District Councils /Medway Council/Police/Fire- 1 representative

Other employers- 1 representative

8. Selection of members

This will vary by the type of member:

Employee representatives will be asked to nominate themselves and a panel of Finance and HR officers from employers will select.

Pensioner- nominated by KARF.

Trade unions- will be approached direct.

Employer representatives- will be nominated by those employers.

9. Relevant Knowledge and Understanding of Representative Members

The Regulations require that individuals appointed have relevant knowledge and understanding. Much of this will come from serving on the board and there will be a nucleus of member representatives who have experience from currently attending Committee meetings in a non-voting role.

Individuals should not have a conflict of interest but membership of the LGPS or the Fund will not constitute a conflict of interest.

10. Term of Office

Given the substantial investment which will need to be made to bring members skills and knowledge up to an acceptable level it is proposed to have a four year membership period.

11. Termination

A member should cease their office where:

A member has a conflict of interest which cannot be managed in accordance with the Board's conflicts policy;

A member dies or becomes incapable of acting;

A member who is a councillor of the Administering Authority is appointed to a Superannuation Fund Committee;

A member is appointed to the role of an officer of the Administering Authority with responsibility for the discharge of functions under the Regulations;

A member resigns.

A representative member ceases to represent his constituency, for example if an employer representative leaves the employment of his employer and therefore ceases to have the capacity to represent the Fund's employers; and

A member fails to attend meetings or otherwise comply with the requirements of being a Board member, for example fails to attend the necessary knowledge and understanding training.

12. Terms of Reference

The board will assist the Superannuation Fund Committee to secure compliance with the requirements of the LGPS Regulations and of the Pensions Regulator.

The board will receive regular reports on governance and compliance issues.

13. Officer Support

The KCC Corporate Director of Finance and Procurement will be responsible for providing professional advice to the board.

Meeting agendas will be prepared and published by KCC Democratic Services, papers will be available on the KCC website and KCC Democratic Services will minute meetings and publish the minutes on the KCC website.

14. Number of Meetings

The board will meet twice a year in Sessions House, Maidstone.

15. Quorom

A minimum of 4 members will need to be present for the board to be quorate.

16. Substitutes

~~Substitutes will not be allowed.~~

Substitutes will be allowed for the Kent Active Retirement and Unison members of the Board but they must be a named individual who will undertake the necessary training and development. *(Amendment agreed at the County Council meeting on 26 March 2015)*

17. Expenses

Member representatives will be paid expenses for attending the meeting.

Any expenditure the board proposes to incur will need to be agreed in advance by KCC's Head of Financial Services.

18. Data Protection

All members of the board will be required to comply with KCC's data protection and information security policies.

Responses to the consultation should be made to:

nick.vickers@kent.gov.uk

By 6 March 2015

Nick Vickers
Head of Financial Services
03000 416797

This page is intentionally left blank

By: Corporate Director of Finance & Procurement

To: Pension Board – 20 April 2016

Subject: **LOCAL GOVERNMENT PENSION SCHEME POOLING**

Classification: Unrestricted

Summary: To update on the LGPS pooling work and seek agreement to proposed project costs.

FOR DECISION

INTRODUCTION

1. This report is to update the Board on progress of the LGPS pooling work. The proposals published by the Government in November 2015 present the most radical changes to the management of the LGPS since it was first established.

LGPS INVESTMENT REFORM CRITERIA AND GUIDANCE

2. The main issues are:

   (1) Six “British Wealth Funds” (multi asset pools for the purpose of this report) are to be established each with assets of at least £25bn.

   (2) There will be governance arrangements at pool level involving members to oversee the pool investments.

   (3) The target date for establishing the pools is 1 April 2018. We envisage that existing mandates would transfer and after that date processes would commence over an extended period to move funds into new mandates.

   (4) The paper states that “backstop legislation that would require those administering authorities who do not come forward with sufficiently ambitious proposals to pool their assets with others”. This is a very clear statement of intent from Government, that pooling will happen.

   (5) There will be some investments such as close ended funds which will not be included in the pooling arrangements.

   (6) Direct Property is excluded and this is a major move from DCLG’s initial position and is the right answer from an investment perspective.

(7) The proposals leave all the other responsibilities of this Committee unchanged. This Committee will still decide which assets the Fund invests in and all other issues related to the management of the Fund.

(8) Greater investment in Infrastructure.

3. Initial responses are required by 19 February and full costed responses by 15 July.

POOLING OPTIONS

4. The Superannuation Fund Committee agreed that the Head of Financial Services should participate in discussions with other Funds. The Chairman, the Deputy Leader and Cabinet Member for Finance & Procurement and the Corporate Director of Finance and Procurement have been kept fully informed of these discussions. All discussions have emphasized that decisions on the way forward are for this Committee.

5. Hymans Robertson had already facilitated a working group of around 25 non-London funds including the largest LGPS funds and a number of County Council funds. Project Pool had a formal structure and a number of sub-groups and the Head of Financial Services participated in the high level pooling workstream. A report should be published before the Committee meeting and this will represent the group of Funds views on how pooling can best be implemented.

6. This work showed that Funds are coming at the pooling issue from many directions and with many different objectives. In the Hyman's work frequent reference was made to the need for Funds to be "like minded" and this will be an issue that we return to.

7. In summary the main findings of the Project Pool work are:

(1) Preferred option multi-asset pools formed by region and like-minded group.

(2) For most asset types, regional pools may give sufficient size to get the majority of scale benefits / fee reductions.

(3) Regional or like-minded groupings also give individual funds more involvement in the governance of pools.

(4) For Infrastructure a national pool may be the best answer.

(5) Savings will be exceeded in the early years by the costs of setting up the pools and then by the potentially very large transaction costs.

8. Whilst the Hymans work concentrated on the “what” of pooling individual Funds seem to move very quickly to the “who”. This is not a helpful emphasis and it is one which reflects the different agendas Funds have. The main groupings to emerge are:

(1) London Collective Investment Vehicle (CIV) (£24bn) – 31 London Boroughs have been working on this project for the last 2 years. It is seen as the way forward on pooling for London Boroughs. To date this has been a voluntary project but it will become mandatory under the pooling proposals.

(2) M62 (£50-60bn) – dominated by some very large funds including West Yorkshire, Greater Manchester and Merseyside. Includes a large amount of internal management.

(3) Central (35-£40bn) – Midlands funds including the very large West Midlands Fund.

(4) ACCESS (£30-38bn) – Central, Eastern and Southern shire county funds.

(5) South West (£20-24bn) – South West Funds including the Environment Agency who have been working together and have a strong ESG focus.

(6) Border to Coast (£13-17bn) – a disparate geographical group consisting of Surrey, Cumbria, East Riding and Lincolnshire.

(7) London Pension Fund Authority / Lancashire (£12-16bn) – apparently seeking to set up an in house investment management business and sell services to other funds.

(8) Wales (£15bn) – a logical geographical grouping but too small to meet Government requirements.

9. At its February meeting the Committee determined that Kent should join the ACCESS pool. ACCESS is A Collaboration of Central, eastern and Southern Shires. In terms of membership of ACCESS, the group consists of Hampshire, the Isle of Wight, West Sussex, East Sussex, Essex, Suffolk, Norfolk, Hertfordshire, Cambridgeshire and Northamptonshire. ACCESS now has approaching £30bn of assets and so meets the Government’s criteria on size.

10. DCLG asked for the first responses from Funds on how they would meet the Government criteria The KCC submission to DCLG is attached in Appendix 1 and the ACCESS submission in Appendix 2. The issues of working with new partners are not to be underestimated and the fact that the ACCESS submission is a high quality piece of work says much for how good working relationships are being established and about the quality of support from Hymans Robertson.

NEXT STEPS

11. **Governance**

(1) Monthly meetings of the Chairman's Group are being set up.

(2) The Officer Working Group meets regularly and also has a fortnightly conference call and the workstreams set out below have a weekly call.

12. **DCLG Criteria**

(1) For 19 July each fund and pool has to submit "ambitious proposals" for pooling investments against the following criteria:

- Asset pools that achieve the benefits of scale – the pools must be at least £25bn and the proposals should describe the pools, explain how assets will be split between the pools and describe the benefits.

- Strong governance and decision making – set out proposed governance arrangements at pool and local level.

- Reduced costs and excellent value for money – this is across the full range of costs incurred. The savings proposed have to be set out in detail.

- Improved capacity and capability to invest in Infrastructure – how the proportion of investments in Infrastructure are increased. The Project Pool work envisaged a different approach on Infrastructure to other asset classes with a national pool being established.

(2) The Head of Financial Services is on the officer sub-group for asset pools and the Treasury and Investments Manager for cost reduction.

(3) The July response will be very challenging to respond to and it is envisaged that the Superannuation Fund Committee will receive a draft on 24 June. It is already becoming clear that there are a number of key issues where we will need to be robust on our position:

- Investment vehicle- there are two main options here, either a Collective Investment Vehicle (CIV) where investments are made through an Authorised Contractual Scheme with the ownership of assets transferred to the ACS, or a Collective Asset Pool where ownership of assets remains with the member Funds and investments are pooled. ACCESS in collaboration with several other pools is taking legal advice on this.

- Governance arrangements- how the member Funds will collectively take decisions.

- Infrastructure- how Funds meet the Government’s clear desire to see more investment by Local Authority pension Funds in UK Infrastructure.

(4) The DCLG feedback to the ACCESS proposal and the response from the group of Chairman is attached in Appendix 3 and 4.

13. Project Management

(1) The Officer Working Group commissioned Hymans Robertson to provide project and technical support to ACCESS through to the July submission. After the July submission a procurement will have to be undertaken for this work moving forward. The high level project plan developed by Hymans is included in Appendix 3.

(2) Generally the ACCESS work has proceeded on a consensual basis with good collaboration. The approach to the use of investment consultants has though revealed very different approaches between the funds. Some Funds make no use of investment consultants, some work as Kent does commissioning specific pieces of work from consultants and others rely much more heavily on investment consultants.

(3) The Hymans proposal is:

To date:	
ACCESS workshop	£7,000
Consultancy support	£25-30,000
Project support	£27-30,000
Proposed to July:	
Project Management costs	£80-100,000
Consultancy support	£100-200,000
Legal costs	To be confirmed

Based upon an equal split of costs this means a figure per fund of £11,500 - £30,500.

(4) Members are asked to agree a budget of up to £50,000 for the work through to the July submission. This investment should set ACCESS on a solid foundation for receiving Government endorsement of the proposal and for moving on from that.

RECOMMENDATIONS

14. The Board is asked to note this report.

Nick Vickers
Head of Financial Services
Tel: 03000 416797
E-mail: nick.vickers@kent.gov.uk

Appendix 1

From: Vickers, Nick - ST FP (Finance and Procurement)
Sent: 12 February 2016 15:35
To: 'LGPSReform@communities.gsi.gov.uk'
Subject: Local Government Pension Scheme: Investment Reform Criteria and Guidance

Kent Superannuation Fund Response

Thank you for the opportunity to respond to your November 2015 consultation paper.

The Committee welcomes the decision to retain at Fund level all current responsibilities except for investment manager appointments and the exception given to Direct Property from being included in the pool. As you set out in paragraph 1.1 the key issue is achieving good investment returns, not just paying lower investment fees. But we agree that the case for active management has to be made.

In your future thinking we would like you to take account of the following issues:

- Criteria 1.1 – the references to "British Wealth Funds" completely ignore that all LGPS funds are in deficit and that the reductions in local government funding reduce active contributions and increase the proportion of deferred members and pensioners. Funding these current and future liabilities is the prime responsibility of the LGPS funds and will remain so.

- Criteria C – all the preliminary work suggests that the costs of these changes will exceed the savings for many years to come. The investment vehicles will require significant costs – investment adviser and legal, and then there will be very large transition costs.

- Criteria D – investment advice is that green field infrastructure investment is not a suitable investment for mature pension funds. We would invest more in infrastructure if there were more low risk investable opportunities in the UK and we hope to be able to work with Government to enhance these opportunities..

- 2.5 & 3.16 – We support the need to let investments with high penalty costs to withdraw from to be left outside the pool. Equities, fixed income and diversified return / absolute return should account for 80-85% of total assets and we should be able to get all of these into the pool and these are areas where the maximum gains from pooling can be made. We agree that new private equity and infrastructure investments should be made via the pool.

- 3.17-3.20 – Kent has consistently had the best performing Property mandate in the LGPS and we have an allocation of 13% of the Fund – way above the figures you refer to. We welcome that we can maintain the existing mandate but we believe we should be able to add to it outside of the pool. Each individual property is unique and we want to continue the award winning relationship we have with DTZ investors. Direct property investment is just not scaleable in the way that equity and fixed income investments are.

- 3.23-3.25 – These funds exist to pay current and future pensions and the local democratic accountability is crucial.

- 3.46 – The Kent Fund has no in-house management and nor do the shire funds we are in discussion with. We are highly sceptical of the claims made by the 8 funds who do in-house management – there is no independent verification of their investment returns and with passive management available at virtually no cost the in-house management issue is really insignificant for LGPS as a whole.

The Kent Fund is working with a group of Central, Eastern and Southern councils (ACCESS) and there are already good signs that the sharing of best practice between like-minded funds could have real benefits for investment returns. A pragmatic approach by DCLG and HMT to the detail of how the pools will operate should deliver the outcomes the Government desires and we will do all that we can to make ACCESS work.

James Scholes
Chairman Superannuation Fund Committee

Nick Vickers
Head of Financial Services
Kent County Council
03000 416797
07920 428575

ACCESS

Effective • Collective • Investment

The submission from

ACCESS

(A Collaboration of Central, Eastern & Southern Shires)

in response to the

LGPS: Investment Reform Criteria and Guidance

On behalf of

Cambridgeshire County Council

East Sussex County Council

Essex County Council [1]

Hampshire County Council

Isle of Wight Council

Kent County Council

Norfolk County Council

Northamptonshire County Council

Suffolk County Council

West Sussex County Council

[1] Essex County Council has been shown as a participating authority. However its formal s101 Committee meeting to formalise its status will be on 22nd February 2016.

Contents

Please note: if you have any questions regarding the content of this document please contact either Paul Finbow at paul.finbow@suffolk.gov.uk or Rachel Wood at rachel.wood@westsussex.gov.uk.

Introduction

The ACCESS pool takes this opportunity to present details of its plans and the progress it has made in meeting the Government's requirements as published in the Department for Communities and Local Government's *Local government pension scheme: investment reform criteria and guidance* documentation on 25th November 2015.

ACCESS (a collaboration of central, eastern and southern shires) has been formed in order to respond to the Government's investment reform criteria. The map below illustrates the confirmed participants in the ACCESS pool.[2]

The participating authorities reflect a strong commitment to the project and share an approach to achieve common objectives. The ACCESS authorities have set out a clear set of guiding principles, which are summarised below:

The ACCESS authorities will create a pool with assets of circa.£30bn which exceeds the Government's criterion. Historically the authorities have taken a broadly similar approach to investing. For example:

- The average return for the authorities participating in the ACCESS pool exceeded the WM Local Authority Average over the medium term (five years).
- 75% of the pool assets are invested across 12 managers.
- 60% of the pool assets are invested in equities.
- 75% of the pool assets are actively managed.
- All funds have some exposure to passive investment.
- The published 2013 actuarial funding levels for ACCESS authorities show an average of 81%. This compares to a national mean average of 78% for all LGPS's in England and Wales.

[2] Please refer to footnote 1 regarding the inclusion of Essex County Council.

These characteristics illustrate the very solid building blocks on which the pool will be formed. This foundation will assist the ACCESS authorities when working collaboratively during the formative stages of the asset pool. This includes the formulation of final detailed proposals in July 2016, through to the eventual transfer of liquid assets from 2018. This shared approach will stand the ACCESS pool in good stead over subsequent decades and enable participating authorities to execute their fiduciary responsibility to Local Government Pension Scheme (LGPS) stakeholders, as economically as possible whilst achieving optimum investment returns.

The potential for substantial benefits for a group of successful like-minded authorities collaborating and sharing their collective expertise is already clear. Each authority is committed to working together to establish a viable pool and ensuring the permanency and stability of any proposed structure.

Attached are further details of our proposals and we would welcome engagement from Government Officers to discuss matters further.

Signed

Cambridgeshire County Council	East Sussex County Council
Essex County Council [3]	Hampshire County Council
Isle of Wight Council	Kent County Council
Norfolk County Council	Northamptonshire County Council
Suffolk County Council	West Sussex County Council

[3] Please refer to footnote 1 regarding the inclusion of Essex County Council.

Progress in meeting the pooling criteria

The Government's Investment Reform programme, and the creation of six asset pools, represents a significant project with considerable challenges in terms of size, technical and legal issues and agreeing a sustainable demographic governance model. It is important, therefore, that all aspects of the design and implementation are the outcome of collaborative informed and evidenced consideration by each authority participating in the pool.

The authorities participating in the ACCESS pool made a conscious decision to consider carefully the evidence on the most effective design of pools before detailed work on the ACCESS pool was undertaken. The proposal set out here has been heavily influenced by the work of "Project POOL", in which many of the ACCESS authorities participated. The ACCESS pool is now able to make further progress, confident that their proposal is on a sound basis.

Members of S101 Pension Committees, officers and other interested parties participating in ACCESS have engaged in this process and are committed to establishing a viable pool. All participating authorities have signed up to a Memorandum of Understanding (MoU) which underlines our commitment to investment pooling and the permanency of any proposed structure. It also sets out the basis for engagement, cost sharing and governance. The MoU has been appended to this submission.

ACCESS authorities have a clear project plan in place which sets out how each of the participating authorities will collaborate effectively to come to clear, objective, evidence based decisions. The authorities have commissioned Hymans Robertson to provide project support and have established an Officer Working Group to drive forward the business case for submission in July 2016, and the implementation that will follow. The project plan has been appended to this submission and shows how additional professional support will be sought when required. The participating authorities are comfortable with the progress made to date and are confident that the required work can be completed in advance of the July 2016 submission.

Finally, ACCESS authorities are establishing relationships with the wider LGPS community participating in other pooling groups, where possible, to ensure best practice, national coordination and optimal cost savings are achieved.

A: Asset pool(s) that achieve benefits of scale

The ACCESS group has created a pool with assets of almost £30bn.[4]

The current pool size may increase in the near future as additional authorities consider their options.

The assets by authority at 31st March 2015 are set out below.[5] No single authority dominates the pool, which helps ensure a more collaborative approach to governance.

Authority	£m	Allocation
Cambridgeshire County Council	2,268	7.6%
East Sussex County Council	2,740	9.1%
Essex County Council	*4,906*	*16.4%*
Hampshire County Council	5,111	17.1%
Isle of Wight Council	483	1.6%
Kent County Council	4,515	15.1%
Norfolk County Council	2,930	9.8%
Northamptonshire County Council	1,850	6.2%
Suffolk County Council	2,193	7.3%
West Sussex County Council	2,964	9.9%
Total	**29,959**	**100.0%**

Whilst the scale criterion has clearly been met it is important to note that there is a significant commonality in investments and associated suppliers:

- 75% of the assets are invested across 12 managers which will potentially allow ‘early wins’ in delivering cost optimisation for participants.
- There are 71 different managers used across the authorities which will also allow for rationalisation to be a targeted and managed process.

[4] Please refer to footnote 1 regarding the inclusion of Essex County Council.
[5] Please refer to footnote 1 regarding the inclusion of Essex County Council.

B: Strong Governance and Decision Making

The Government's criterion seeks to maintain democratic accountability within pooling arrangements and this is considered crucial to ensuring a successful pool.

ACCESS authorities have a clear set of objectives and principles, set out below, that will drive the decision making process over the next five months and allow participating authorities to help shape the design of the pool.

Objectives

1) Enable participating authorities to execute their fiduciary responsibilities to LGPS stakeholders, including scheme members and employers, as economically as possible.
2) Provide a range of asset types necessary to enable those participating authorities to execute their locally decided investment strategies as far as possible.
3) Enable participating authorities to achieve the benefits of pooling investments, preserve the best aspects of what is currently done locally, and create the desired level of local decision making and control.

In order to achieve these objectives, the ACCESS authorities have established the following guiding principles

Principles

- The participating authorities will work collaboratively.
- Participating authorities will have an equitable voice in governance.
- Decision making will be objective and evidence based.
- The pool will use professional resources as appropriate.
- The risk management processes will be appropriate to the pool's scale, recognising it as one of the biggest pools of pension assets in the UK.
- The pool will avoid unnecessary complexity.
- The pool will evolve its approach to meet changing needs and objectives.
- The pool will welcome innovation.
- The pool will be established and run economically, applying value for money considerations.
- The pool's costs will be shared equitably.
- The pool is committed to collaboration with other pools where there is potential to maximise benefits.

Work is underway to determine the governance structure for the ACCESS pool, the mechanisms by which each Administering Authority can hold the pools to account and the processes for making decisions.

The governance arrangements for the ACCESS pool will facilitate, in an economically efficient way, authorities' preferences on local decision making within the Government's framework for pools.

The project plan sets out key milestones for the governance work stream to ensure proposals are finalised by July 2016 and can be operational thereafter to support the transition of assets within the Government's timetable.

C: Reduced Costs and Excellent Value for Money

ACCESS authorities have initiated detailed work to accurately quantify the potential savings in investment fees, in the near term and over the next 15 years. These savings will be set out in the July 2016 submission.

ACCESS authorities believe it is critical that current costs and potential for savings are assessed professionally and using consistent methodology across all authorities and all pools, whilst always being mindful of the need to maximise investment return in each asset class. To this end the pool is proposing to use third party benchmarking expertise with experience of global market for pension funds.

The accounting year 2012-2013 will be used as the cost benchmark to take account of savings LGPS authorities have made since then.

ACCESS authorities endorse the estimated annual cost savings published by Project POOL indicating that circa £145-190m per annum could be saved across English and Welsh authorities via pooling arrangements, ten years after pooling has been implemented. This could increase to c£240-320m per annum if future asset growth of 5% per year for ten years is assumed.

As Project POOL noted, actual cost savings could be greater due to:

- competition when pools appoint external managers driving fees down
- additional savings on less visible layers of fees on alternative assets
- greater use of "in-house" management

This should mean that over the very long term, the costs of transition, and establishing and running the pool, will be recouped by savings and other benefits.

However, in the short term, the costs of implementing change are likely to exceed the savings.

Work to establish the savings for authorities participating in the ACCESS pool will begin very shortly as set out in the project plan. As part of its work over the next five months, ACCESS authorities will also assess the potential of its intended investment approach including the potential for active management to provide higher net returns. The work will also examine implementation costs and reporting proposals.

ACCESS authorities recognise the long term potential for cost savings from in house management, and are committed to considering how best to develop, or access, such capability over the longer term.

D: An Improved Capacity to Invest in Infrastructure

All of the ACCESS authorities invest in real estate assets (including industrial, healthcare, rental housing, retail, office units) and six of the ten authorities have some exposure to more specialist infrastructure (which fits with the Institute of Civil Engineers definition of networks for transport, energy generation and distribution, electronic communications, solid waste management, water distribution and waste water treatment etc).[6] The table below sets out the range of commitment and investment levels by the participating authorities.

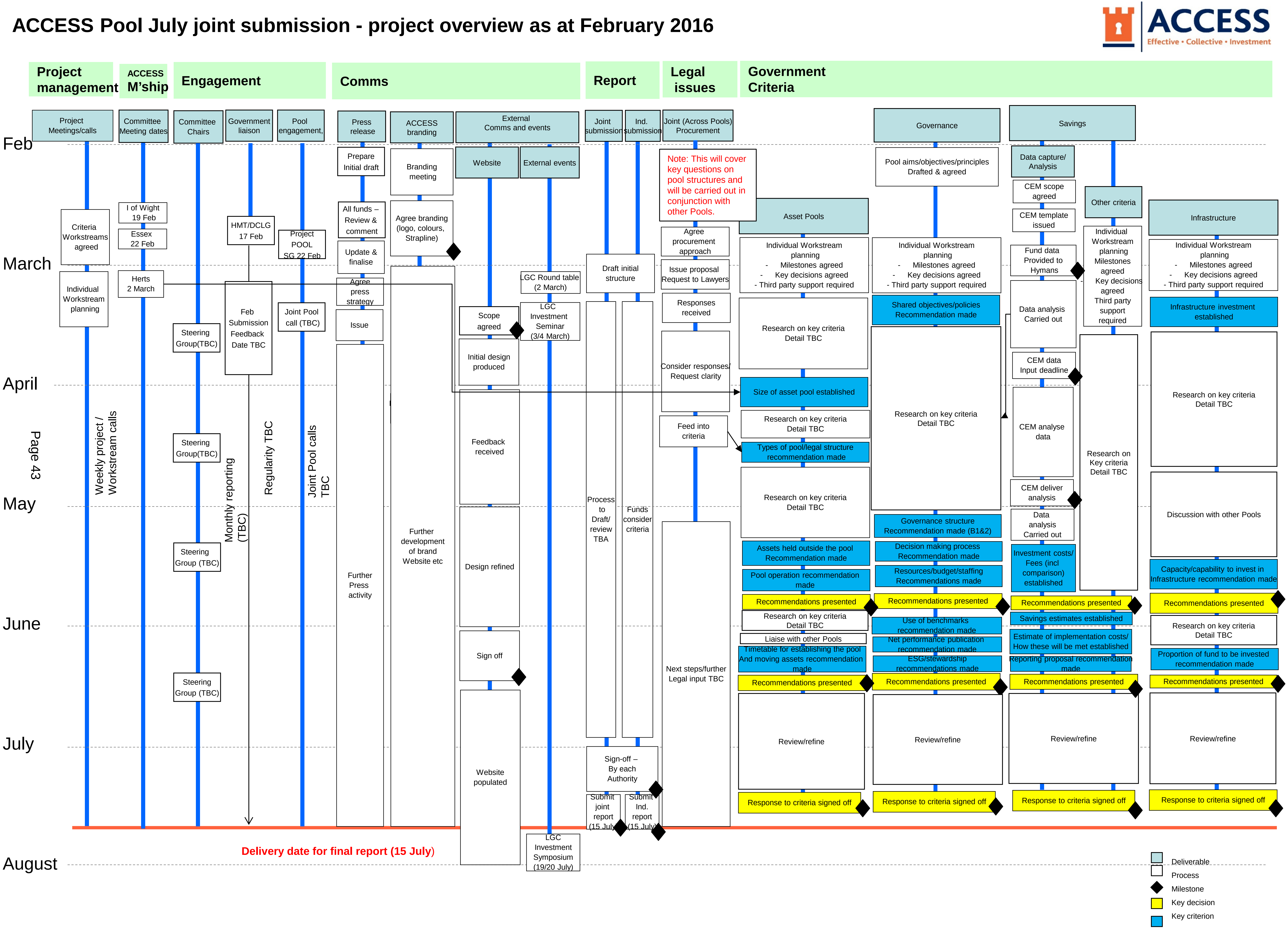
	Real Estate	Specialist Infrastructure
Strategic Allocation	From 8% to 12%	From 1% to 6%
Current Investment Allocation/Value	From 5% to 12% £2,999m	From 0% to 3% £381m
Investment Type	Direct Multi-manager Pooled	Direct Fund of Funds

The differential between the strategic allocation and actual investment for specialist infrastructure demonstrates the significant challenge in finding investments which will yield returns large enough, and of appropriate profile, to justify their acquisition. ACCESS authorities are committed to investigating all options for providing the participating authorities with access to the most appropriate infrastructure investments to match their asset allocations, including, if appropriate, working with other LGPS authorities or pools nationally to create a vehicle which will help make appropriate infrastructure investments more accessible to the LGPS at a lower cost. To ensure success, such a vehicle should be designed to meet the specific needs of LGPS investors given the distinctive nature of LGPS pension liabilities and risk appetite. If the vehicle can deliver access to the appropriate type of infrastructure investment ACCESS authorities believe that in the long term there is potential for the ACCESS pool to achieve an asset allocation closer to larger global funds.

Planning to carry out this work has commenced and a fuller response will be provided in July.

[6] http://researchbriefings.files.parliament.uk/documents/SN06594/SN06594.pdf

ACCESS Pool July joint submission - project overview as at February 2016



This page is intentionally left blank

By:	Corporate Director of Finance & Procurement
To:	Pension Board – 20 April 2016
Subject:	**INTERNAL AUDIT REPORTS**
Classification:	Unrestricted

Summary: To report relevant Internal Audit reports.

FOR INFORMATION

INTRODUCTION

1. One of the sources of independent information for the Board will be the Internal Audit reports on the Treasury and Investments and Pensions Sections.

INTERNAL AUDITS

2. Two audits have been undertaken:

Pension Contributions -	Audit Opinion; Substantial Prospects for improvement; Good
Pension Scheme Administration -	Audit Opinion; Adequate Prospects for improvement; Very Good

Both reports are attached in Appendix 1 and 2.

RECOMMENDATION

3. The Board is asked to note the report.

Nick Vickers
Head of Financial Services
Tel: 03000 416797
E-mail: nick.vickers@kent.gov.uk

This page is intentionally left blank

Pensions Contributions

CS05-2016

INTERNAL AUDIT REPORT

Release: Final

Date: 11th March 2016

Report Author: Hazel Strudwick

Audit Manager: Sarah Bubb

Report Distribution & Authors

MEMBERS	
Leader & Cabinet Member for Business Strategy, Audit & Transformation	Paul Carter
Chair of Governance & Audit Committee	Richard Long
Deputy Leader and Cabinet Member for Finance & Procurement	John Simmonds

OFFICERS	
Corporate Director, Strategic & Corporate Services	David Cockburn
Corporate Director, Finance & Procurement	Andy Wood
Head of Financial Services, Strategic and Corporate Services	Nick Vickers
Treasury and Investments Manager, Strategic and Corporate Services	Alison Mings

AUTHORS	
Report Author	Hazel Strudwick
QA	Sarah Bubb

TABLE OF CONTENTS

1 EXECUTIVE SUMMARY

1.1 Introduction

a) As part of the approved 2015-2016 Audit Plan it was agreed that Internal Audit would undertake a review of the controls over Pensions Contributions to the Kent Local Government Pension Scheme. The overall objective of the audit is to provide assurance that pension contributions are being correctly calculated and paid into the Kent Pension Fund. This is an annual review; last year's audit report was issued in January 2015 with a Substantial audit opinion.

b) Kent County Council is the administering authority for the Kent County Council Superannuation Fund (also known as Kent Pension Fund).

c) For the year to 31 March 2015 employer contributions were £168.363m with KCC being the largest contributor at £89.453m. Employee contributions for the year to 31 March 2015 were £49.351m.

d) The function is overseen by the Head of Financial Services and the Treasury and Investments Manager. As at 30 September 2015 there were 635 employers in the Scheme of which 424 are active and pay contributions.

AUDIT OPINION & PROSPECTS FOR IMPRPOVEMENTS	
Opinion (See Appendix A for Definitions)	**Substantial**
Prospects for improvement (See Appendix C for Definitions)	**Good**

1.2 Summary

The overall opinion is based on sample testing, review of documentation and interviews with key officers, which identified that controls are operating adequately and effectively. Based on the sample of transactions tested we are satisfied that there is an adequate system of control in place to ensure contributions are being correctly calculated (based on pensionable pay) and paid into the Pension Fund.

Strengths:

- Detailed and up to date policies and procedures are in place.

- Contributions are calculated based on employers' pensionable pay and at the correct percentage rate.
- Controls within the pension contribution monitoring workbooks identify any differences between the expected employer contributions and the payments received.
- Reconciliations with Oracle are performed monthly.

Areas for development

- Recognise multi–academy trusts as employers in the Fund and ensure the system can manage the establishment of new academies and their movement between trusts.
- Keep the current Excel spreadsheet based system under review to ensure it can continue to support the increasing number of employers in the Fund.
- Explore other options for recording employer contributions including greater use of the Pension Fund website.

Prospects for improvement have been assessed as Good due to the following factors:

- Appropriate action plans have been developed in response to the issues identified from our audits.
- Management are preparing for the upcoming valuation as at 31 March 2016 and implementation of new employer rates from 1 April 2017.
- The systems in place have been developed in-house based on Excel spreadsheets which may not be appropriate if the number of employers in the scheme increases significantly. Management are fully aware of this and are making appropriate plans.
- Pension contributions are processed, monitored and reconciled by a small team who have a good understanding of their role and processes. However, succession planning is required.

Summary of management responses

	Number of issues raised	**Management Action Plan developed**	**Risk accepted and no action proposed**
High Risk	0	0	0
Medium Risk	0	0	0
Low Risk	2	2	0

2 FINDINGS

A. Background

1) The Local Government Pension Scheme (LGPS) is a nationwide pension scheme for people working in local government or for other specified employers.

2) Both employees and employers contribute to the LGPS. Employees' contributions are set by the Government whilst employers' contributions vary in order to ensure that benefits under the scheme are properly funded. The Fund Actuary undertakes an actuarial valuation of the Kent Fund's liabilities every three years and it is from this valuation that the employers' contributions are set. The last actuarial valuation was carried out at 31 March 2013 and the employer contribution rate then certified was payable from 1 April 2014.

3) It is KCC's responsibility to collect and account for employer and employee contributions. The system for recording and monitoring these contributions remains the same as last year. The Excel workbooks have been improved following our recommendations from the 2014/15 audit. Additional workbooks have been developed to ensure anomalies in employers' contributions are flagged for investigation every month.

4) KCC monitors the timing of receipt of contributions compared to a KPI of 95%. To 31 December the KPI had been exceeded each month with an average 98% of all contributions being received on or before the due date.

5) Management recognises that the Excel based system includes inherent risks in particular related to the use of macro based spreadsheets. The risk is mitigated by the monthly monitoring and explanation of differences. A process is in place for evidencing of this review.

6) The Pension Fund risk register includes the following key risks:
   - Failure to collect pension contributions in line with regulatory guidelines,
   - Increased number of employers in the fund.
   - Implementation of actuarial valuation results
   - Employer outsourcing
   - Financial failure of an employer

B. Detailed Findings

Procedure Notes

7) Procedure notes documenting the process are in place, and have been updated during the year. These notes are sufficient to provide guidance on the receipt, recording and reconciliation of contributions.

8) Procedure notes for employers are available on the Kent Pension Fund website and are up to date.

Employer Contributions

9) Each employer in the Pension Scheme is required to pay their contributions and those of their employees to the Fund in arrears, by the 19th of the following month. The employer will complete a PEN 4/1 form by selecting their name via the drop down list on the Kent Pension Fund website. The PEN 4/1 is pre-populated with the contribution rate for that employer and this creates the expected employers' contribution based on pensionable pay. Employers' secondary contributions (deficit contributions) are also pre-populated from the actuarial report. The completed form is submitted to the KCC Treasury and Investments team by email each month and the details are uploaded automatically into individual contribution sheets for each employer, using Excel macros.

10) Testing of a random sample of 20 employers (including KCC) for the months June, July and October 2015 confirmed that they had all provided a PEN 4/1 form and the recording of the data on the contribution monitoring worksheet was correct. The contribution rates used were agreed to the actuarial report.

11) Individual employer data feeds into a summary Excel worksheet which highlights where the employer contribution differs from the expected contribution by 0.5% or more. The PEN 4/1 form is not accepted and processed if a difference has occurred without any explanation. If the difference is not corrected the following month it is investigated with the employer. Reasons for differences are documented and corrections made where necessary to ensure the accuracy of the employer contributions received throughout the year.

12) Contributions are paid directly by BACS, CHAPS or cheque into the KCC Pension Fund bank account. A cash receipts journal is created from a download of the daily Bankline report and manually coded. Once uploaded and posted, this updates Oracle and also updates the contributions monitoring workbook. A key control is the matching of the pension contributions due as per the PEN 4/1 and the payment received. Any difference is highlighted and followed up with an explanation. This ensures the correct expected payment is received and has been coded to the right employer and to the correct income code.

13) A debtor journal is created and posted to Oracle for the expected contributions. At the month end Pension Fund participating employer transactions are downloaded from Oracle and matched to the debtor amounts. The reason for any outstanding debtors is identified and followed up for recovery as necessary. This process is manual and will be completed for each employer every month in order to identify where a receipt does not match the expected contribution.

14) Monthly reconciliations with Oracle are performed for all income codes.

Employee Contributions

15) Examination of the Oracle Payroll system confirmed that the pension contribution bands for 2015-16 had been input correctly for the payrolls run by KCC on Oracle. For non-KCC payrolls, the individual employers are responsible for deducting and passing over the correct pension contributions for their employees.

Year End Reconciliations

16) At the year-end employers are required to submit an Annual Employers Return (PEN 4/B). This is used to confirm that the annual pensionable pay and contributions match the total of the monthly pay and contributions. Exceptions that are greater than 0.5% are investigated with the employer. The onus is on the employer to pay the correct contributions.

17) Contributions are reconciled with Oracle at the year end to confirm that the actual contributions received have been accounted for correctly against each income code and employer. This reconciliation for 31 March 2015 was checked and had been appropriately authorised by the Treasury and Investments Manager.

Risk Management

18) There is a Pension Fund risk register that is approved at the Superannuation Fund Committee. The risks identified in respect of employers are being appropriately managed and mitigated.

System and Resources

19) The current system is adequate but continued changes with KCC recognising academies as part of a multi–academy trust rather than as a single academy trust and the increasing number of employers may result in the need to update and develop the system. **See Issue 1**

20) The day to day processes and monitoring are performed by a few individuals who have the necessary skills and knowledge. However, KCC should consider the risk of losing key members of staff in the future. **See Issue 2**

Back Up and Recovery

21) The Excel workbooks developed to manage and monitor pension contributions are all saved to the KCC shared drive and backed up centrally each night.

3 ISSUES IDENTIFIED & MANAGEMENT ACTION PLAN

1. Pension Contribution System	
Issue and Potential Root Cause The current Excel system is adequate for the current number of employers and how the contributions are paid. The increase in the number of employers in the Kent Pension Fund may result in the need to update and develop the system further. This should include exploring other options for how employers submit their contributions. **Risk** The current system may not be effective for identifying errors and anomalies in contributions. **Root Cause** The system being based on Excel spreadsheets was developed in-house. The current system may be less effective with an increase in employers.	**Risk Rating** Low
Management Action Plan We will continue to maintain strong controls on the contributions process and continuously monitor employer returns to ensure they are accurate and the correct cash is received. As more Kent and Medway schools convert to academies we will support the establishment of the multi-academy trusts as single employers in the Fund. We will work with the Pensions Admin team to make greater use of Employer self service and the Pension Fund website for the submission of Employer returns. **Responsible manager** - Alison Mings, Treasury and Investments Manager	**Timescales** Ongoing 31 December 2016

2. Succession Planning	
Issue and Potential Root Cause There is no succession plan in place to ensure staff are recruited and trained appropriately. **Risk** Contributions may not be accounted for correctly. **Root Cause** The Treasury and Investments team is reliant on a very few individuals who have the necessary skills and knowledge to review and monitor the contributions each month.	**Risk Rating** Low
Management Action Plan We are focussing efforts on developing a robust and documented system for processing employer contributions which reduces reliance on the staff themselves. Current staff are encouraged to add to their knowledge and understanding of employer issues in particular by reference to the Pensions Regulator's guidance. Plans are under discussion for the recruitment of a successor to the Kent Accountancy Trainee who is due to move to another placement at the end of August. **Responsible manager** - Alison Mings, Treasury and Investments Manager	**Timescales** Ongoing 31 August 2016

Appendix A – Definition of Audit Opinions

In order to assist management in using our reports we categorise our **audit opinion** according to our assessment of the risks, the controls in place to manage those risks and the level of compliance with these controls. The definitions of assurance levels are as follows:

High	There is a sound system of control operating effectively to achieve service/system objectives. Any issues identified are minor in nature and should not prevent system/service objectives being achieved.
Substantial	The system of control is adequate and controls are generally operating effectively. A few weaknesses in internal control and/or evidence of a level of non compliance were noted during the audit that may put a system/service objective at risk.
Adequate	The system of control is sufficiently sound to manage key risks. However there were weaknesses in internal control and/or evidence of a level of non compliance with some controls that may put system/service objectives at risk.
Limited	Adequate controls are not in place to meet all the system/service objectives and/or controls are not being consistently applied. Certain weaknesses require immediate management attention as if unresolved they may result in system/service objectives not being achieved.
No Assurance	The system of control is inadequate and controls in place are not operating effectively. The system/service is exposed to the risk of abuse, significant error or loss and/or misappropriation. This means we are unable to form a view as to whether objectives will be achieved.

Appendix B – Definition of Risk Ratings

We categorise our issues according to **risk rating** as follows:

High	There is a gap in the control framework or a failure of existing internal controls that results in a significant risk that service or system objectives will not be achieved.
Medium	There are weaknesses in internal control arrangements which lead to a moderate risk of non-achievement of service or system objectives.
Low	There is scope to improve the quality and/or efficiency of the control framework, although the risk to overall service or system objectives is low.

Appendix C – Prospects for Improvement

Prospects for Improvement

Very Good	There are strong building blocks in place for future improvement with clear leadership, direction of travel and capacity. External factors, where relevant, support achievement of objectives.
Good	There are satisfactory building blocks in place for future improvement with reasonable leadership, direction of travel and capacity in place. External factors, where relevant, do not impede achievement of objectives.
Adequate	Building blocks for future improvement could be enhanced, with areas for improvement identified in leadership, direction of travel and/or capacity. External factors, where relevant, may not support achievement of objectives.
Uncertain	Building blocks for future improvement are unclear, with concerns identified during the audit around leadership, direction of travel and/or capacity. External factors, where relevant, impede achievement of objectives.

This page is intentionally left blank

Pension Scheme Administration

CA22-2016

INTERNAL AUDIT REPORT

Release: Final

Date: 4th March 2016

Report Authors: Amanda Palmer & Kelly Neath

Audit Manager: Sarah Bubb

Report Distribution & Authors

Members	
Leader & Cabinet Member for Business Strategy, Audit and Transformation	Paul Carter
Chair of Governance & Audit Committee	Richard Long
Cabinet Member for Finance and Procurement	John Simmonds

Officers	
Corporate Director - Strategic & Corporate Services	David Cockburn
Corporate Director – Finance & Procurement	Andy Wood
Head of Financial Services	Nick Vickers
Financial Services Client Manager	Michelle Vickery
Pensions Manager	Barbara Cheatle
Finance Business Partner	Jackie Hansen
Corporate Risk Manager	Mark Scrivener

AUTHORS	
Report Authors	Amanda Palmer Kelly Neath
QA	Sarah Bubb

TABLE OF CONTENTS

1 EXECUTIVE SUMMARY

1.1 Introduction

a) As part of the 2015-2016 Audit Plan it was agreed that Internal Audit would undertake an audit of Pension Scheme Administration.

b) The Local Government Pension Scheme (LGPS) is one of the largest public sector pension schemes in the UK with over 4 million members. The Kent Pension Fund is a regional LGPS funds and is administered by Kent County Council. The Kent Fund has approximately 36,000 pensions in payment. As of March 2015 the value of the Kent Fund was £4,539 million.

c) The overall purpose of the audit is to provide assurance on the controls over the administration of the Kent Pension Fund, including admitting new members, transfers into and out of the scheme and calculating retirement benefits. The set up and payment of pensions was covered by our audit of Pensions Payroll earlier this year (ref CA21-2016).

AUDIT OPINION & PROSPECTS FOR IMPROVEMENTS	
Opinion (See Appendix A for Definitions)	**Adequate**
Prospects for Improvement (See Appendix C for Definitions)	**Very Good**

1.2 Rationale

There are effective systems in place to ensure the accuracy of processes within the pension administration section. However, key evidence to support these processes and the validity of entitlement is sometimes of poor quality, uncertified or not always retained. There is currently a backlog of work impacting on the timeliness of processing in a number of areas.

Strengths

- Accurate calculations and processing is evident across the Pension Administration section and this is ensured through an internal checking system.

- A training structure is in place to ensure that those who carry out checks are suitably experienced.
- Payments are appropriately authorised.
- Annual Benefit Illustrations are produced for all relevant active members.
- New KCC employees are automatically enrolled in the pension scheme.
- Validation exercises are carried out to ensure the accuracy of data held for each new joiner.
- Scheme member's retirement instructions are followed accurately.
- Scheme members are made aware of potential pension scams when transferring their benefits out of the Kent Pension Fund.
- Transfers in and out of the scheme comply with LGPS regulations and scheme rules.

Areas for Development

- There is a backlog of work, impacting the timely processing of concurrent, aggregation, deferred benefits and refund cases.
- Paper records are not stored securely.
- Uncertified photocopies of documents to verify date of birth are accepted.
- Documents scanned on to scheme member records are inconsistent in quality, with some being illegible.
- Evidence used in the collation of KPI data and the annual data review exercise is not retained and we were therefore unable to confirm the accuracy of reported KPIs.

Prospects for Improvement are considered to be Very Good based on the following factors:

- There is an action plan in pace to address the backlogs of work, although this may take some months for some areas (for example guidance is awaited on the aggregation of benefits).
- Management have responded positively to the issues raised in this report and developed appropriate action plans to address them.
- The Pension Administration system has recently been updated.

Summary of management responses

	Number of issues raised	**Management Action Plan developed**	**Risk accepted and no action proposed**
High Risk	1	1	0
Medium Risk	3	3	0
Low Risk	1	0	1

2 FINDINGS

A. Background

1) The Local Government Pension Scheme (LGPS) is one of the largest public sector pension schemes in the UK with over 4 million members. It is a tax approved, defined benefit occupational pension scheme set up under the Superannuation Act 1972

2) The scheme is administered locally through 90 regional pension funds. The Kent Pension Fund is one of these regional pension funds and is administered by Kent County Council. The Kent Fund has approximately 36,000 pensions in payment. As of March 2015 the value of the Kent Fund was £4,539 million.

3) LGPS 2014 was introduced in April 2014 after changes to pension legislation. The new scheme operates on a Career Average Revalued Earnings (CARE) basis and affects contributions made after 1st April 2014.

B. Detailed Findings

Policies and procedures

4) Up to date policy and procedure guides are accessible to all relevant staff. These are in the process of being moved across to the staff zone on the Kent Pension Fund website. Although version control is apparent within many of the documents, this is not evident in all cases and some refer to the previous software system, Axis, which was replaced by the Altair system. A recommendation was made in our recent Pension Payroll Audit Report (ref CA21-2016) in September 2015 to review all procedure notes. This is currently underway within a timescale for implementation of 31st March 2016.

5) There is a career structure chart in place for staff to ensure their development and that they are competent to complete in their roles.

6) As detailed within the Kent Code, all employees must declare annually, to an appropriate Senior Manager, any financial and non-financial interests or commitments which may conflict with KCC's interests. The annual exercise must be completed even when an employee has nothing to declare. Audit testing found that none of the 59 members of staff within the Pensions Section had completed a declaration of interest form for 2015/2016 and only 9 had completed one in previous years. **See Issue 1**

7) Because pension entitlement is partly dependent on your age, it is necessary to verify a scheme member's date of birth before benefits are put in to payment. When required, members are asked to supply a copy of either their birth certificate or

passport. Photocopies of documentation are accepted; however they are not certified as genuine. In addition, there is no overarching written policy on date of birth verification. **See Issue 2**

8) Any documentation relating to individual members is scanned and stored on to their record in the Altair pensions system. Audit testing found that the quality of the scanned documents was inconsistent and on occasion illegible. It is understood that this is, in part, due to the quality of photocopies received into the pensions section so we will not be raising an issue.

System Access and Data Security

9) Electronic member data is held securely on Altair. Staff require a log on for Windows, Citrix and the Altair system to enter the database. The system administrator places users into “roles” which have varying levels of access. An issue was raised in the Pension Payroll audit that 2 members of the payroll control team had “client” access and could therefore carry out amendments to pension member details. The agreed action to address this has not yet been implemented; however a process has been put in place to identify any unauthorised data input by the Pension Payroll Team.

10) Testing found that members of staff who left the Pension section had their access to Altair and Citrix removed in a timely manner. Data on the Altair system is held by the system provider, Heywood. We have confirmed that Heywood operates within the Data Protection Act 1998 and has clear policies and technical measures in place to safely manage this data.

11) When documents are indexed onto a member’s record, hard copies are kept for 2 months until a backup of the system has been completed by Heywood. Paper records are not currently stored in locked cabinets although they contain member information. Access to the pensions section is not restricted to the Pensions team and can be accessed by anyone with a swipe card for Invicta House. **See Issue 3**

12) Accurate records are maintained through data validation at the point a member joins the scheme (for more detail please see Pension Scheme Joiners). Changes to information can be requested by an employer and must contain the member’s name and National Insurance Number. The details of previous information continue to be held on the member’s record. If a request is made by the member they need to confirm personal details before any update is processed.

13) The Pension Regulator requires Pension Administrators to hold certain common data including:
    - National Insurance Number
    - Surname
    - Forename
    - Data of birth
    - Sex

- Address and postcode
- Membership status
- First contribution date
- Expected retirement age
- Last status event

This common data should be recorded on a member's record. Audit testing found good record keeping in line with Pension Regulator requirements and KCC's record retention policy. Electronic records are held in line with the Data Protection Act.

14) The Pension Regulator requires data review exercises to be carried out at least annually on common data. For the Kent Scheme this was first carried out in August 2015 by the system administrator. Although we were able to obtain a copy of the initial exception report which identified items for investigation and missing data fields, no record has been kept of what action has been taken to rectify each exception. The report has not been re-run after any action had been taken. Therefore it is not possible to establish whether the exceptions have been corrected. **See Issue 4**

Pension Scheme Joiners

15) It is a government requirement for employers to automatically enrol new staff into a Pension Scheme. Employees have the option to opt out of the scheme if they wish. Upon examination of a sample of new joiners from KCC, all had been enrolled into the Kent Pension Fund, and where they had opted out there was documentation to support this.

16) It is the employer's responsibility to send new joiner information to the Pension Team and this is checked by the Pension Section for errors in formatting and any missing data. Once a new member record is created, a validation report is run to member with a previous record and is compared to ensure the data matches. If there are any errors, these are investigated and returned to the employer, if necessary, to ascertain the correct information.

17) A validation report is printed for each new member and the data checked against the newly created record for accuracy. New starter checklists and consistency checks are also completed to ensure there is no missing information and data matches. Audit testing of a sample of new joiners established that all had a validation check completed, however it was only possibly to test April 2015 - July 2015 as there is currently a backlog in checks due to the end of year process.

18) Annual benefit illustrations for active members for the 2014/2015 financial year were issued in August 2015. Of the 48,138 active members 9,904 were not issued with an annual benefit illustration. Sample testing identified that those members with outstanding queries on their record did not receive a statement, as it was not able to ascertain what their annual benefit would be. We understand there is a backlog in dealing with these queries due to the April 2014 Legislation changes.

Transfers in and out

19) Pension Regulation 100(6) requires that a notice to transfer membership into a pension scheme must be made within 12 months of membership. From a sample of transfers in it was established that all requests and election forms were received within the deadline.

20) Once a transfer in has been agreed, a request is made to the previous scheme for the funds to be released. These payments are made to the Treasury and Investments Team (T&IT) and should not be applied to the members account until the previous scheme have written confirming the transfer of funds and T&IT have processed a journal transfer of the money. Testing found the correct processes had been followed and the correct amounts applied to each member.

21) A member can only transfer their funds out of the scheme to a HMRC registered pension scheme. If a transfer is made to a non-registered scheme it is deemed unauthorised and can result in a sanction to the pension administrator of 40% of the value. The scheme can also lose their status as “registered”. Checks should be made with receipt of the receiving schemes HMRC registration certificate or a check on the Registered Overseas Pension Scheme list (ROPS). Testing identified that all transfers out from the sample went to registered pension providers and evidence of a check was on the member’s record.

22) A transfer out quotation must be calculated and sent to the member directly before a transfer out can actually proceed. Checks are made to ensure all information required has been received and that the member is eligible to transfer, the Cash Equivalent Transfer Value (CETV) is then calculated. This calculation is checked for accuracy by another member of staff, indexed on to the member’s record and sent directly to the member, with a leaflet on how to avoid pension scams. This process was evident for the entire sample in testing of 14 transfers out.

23) If a member decides to continue with their transfer, completed discharge forms are required from the member and receiving scheme. Upon receipt of the correct forms the transfer amount payable can be calculated. This is then checked by a second member of staff for accuracy. This was completed in all instances within audit testing. However, there was one occasion where the correct forms were received in December 2012 but the amount payable was not calculated until October 2015. This was due to no task being set up at the time and has now been actioned.

24) To pay the transfer amount, a payment voucher is generated and signed by the member of staff who completed the calculation and the one who checked it. The voucher is then authorised for payment by one of 3 appropriate authorisers. This was evidenced for each of our sample when we obtained each payment voucher.

Leavers

25) When a member leaves the Kent Pension Fund they are either subject to a refund or a deferred benefit entitlement. If a member leaves within 3 months of joining the scheme, their employer's payroll department are responsible for processing a refund. If they leave after 3 months to 2 years of service, the member is entitled to a refund from the Pension Team, or can choose to retain their deferred benefit. Leavers after 2 years are entitled to a deferred benefit. Employers must send a leavers pack to the Pension Team from which a refund or deferred benefit is calculated.

26) Audit testing found that although all processing of deferred benefits was calculated and checked for accuracy, there was a delay in processing the deferred benefit once the correct leaver paperwork had been received. Of a sample of 15 only 3 were completed within the KPI date. On average there was 108 days between receiving the necessary paperwork and writing the member with details of their benefit.
Issue 5

27) Examination of a sample of 15 refunds found that all were eligible for a refund from the Pension Team and each member had returned a signed refund declaration form requesting the reimbursement. All were processed and checked by another member of staff for accuracy, with payment vouchers signed off and authorised by an appropriate member of staff.

Retirements

28) When a member wishes to receive retirement benefits they need contact their employer to ask for an estimate. The employer collates all the necessary information on the member and fills out an estimate request form which is sent to the Pension Team. This is checked to ensure all the data required is provided. It is then processed and checked by second member of staff for accuracy. Not all members request an estimate but it is advised. Sample testing of 22 retirement estimate requests found that all were processed and checked for accuracy. However, 17 of these were completed outside the KPI target date. **Issue 5**

29) If a member wishes to go ahead with retirement, their employer sends a final retirement package to Pensions including a retirement declaration form which details a member's instruction to either take the standard lump sum or to trade some pension rights for a larger lump sum. Audit testing established that for a sample of 30 retirements all had a retirement declaration form indexed on their record and member's instructions were followed when their lump sum was paid.

30) Once the correct forms have been received, the retirement actuals can be calculated. These are then checked for accuracy. Again all of our sample were processed, calculated and checked correctly.

Monitoring and reporting

31) The Pension Section has the following KPIs, some which are only reported internally and some to the Superannuation Fund Committee bi annually:
   - Benefits
   - Correspondence
   - Divorces
   - Estimates
   - Deferred Benefits
   - Transfer in Actuals
   - Transfer in Quotes
   - Transfer out Actuals
   - Transfer out Quotes
   - Widows/Dependants

32) Although it is evident that KPIs are produced monthly and are reported to the Superannuation Fund Committee every 6 months, it is not possible to verify the accuracy of these figures as source data is not retained and cannot be re-run. Audit testing has also identified a number of backlogs within certain processes which the KPIs do not support. **See Issue 5**

3 ISSUES IDENTIFIED & MANAGEMENT ACTION PLAN

1. Declaration of interest	
Issue Of the 59 members of staff working within the Pension Administration Team, none had completed a declaration of interest form for 2015/2016. This exercise needs to be completed yearly, even if there is a nil return, in line with the Kent Code. **Risk** Managers are not aware of whether staff have financial and non-financial interests which may conflict with their role at KCC. **Root Cause** There is no process in place to ensure all staff complete an annual declaration of interest.	**Risk Rating** **Medium**
Management Action Plan All staff have been instructed to complete a declaration of interest on Oracle self-service and to update on an annual basis. A annual reminder has now also been setup to ensure that these are reviewed and completed annually. **Issue Owner**: Barbara Cheatle – Pensions Manager	**Timescales** 31 March 2016

2. Verifying date of birth	
Issue There is no overarching written policy on verifying dates of birth, which is a key piece of information for calculating pension entitlements. When required to provide evidence of date of birth, uncertified photocopies of documentation are accepted. **Risk** Fraudulent and poor quality documents are received leading to incorrect calculation of entitlement of benefits and financial loss to the pension fund or scheme member. **Root Cause** Pension Team procedures do not require that photocopies of birth certificates and passports are certified as genuine.	**Risk Rating** Low
Management Action Plan This issue has been considered and is seen as a low risk. The administrative processes that would have to be put into place to enforce this would be too great to add any benefit. In addition members of the scheme would be liable to pay for obtaining proof of authenticity and may choose to bring in the original documents which would also be time consuming and not viable once the offices have been relocated. **Issue Owner:** Barbara Cheatle – Pensions Manager	**Timescales** n/a Issue not accepted

3. Storing paper records	
Issue It was identified that paper records are not stored in locked cabinets within the Pension Section Offices. This breaches the Data Protection Act and also contravenes KCC's Information Management Manual. **Risk** Unauthorised access to personal information . Breach of the Data Protection Act. **Root Cause** Documents are not stored in locked cabinets	**Risk Rating** **High**
Management Action Plan The offices that were occupied at Brenchley House were restricted to pension staff only. When moving to Invicta no advice was received via new ways of working that we needed to ensure that all documents were stored in lockable cabinets. The section is being relocated again in the near future to Cantium and a request has been made that lockable cabinets need to be provided for all documents. **Issue Owner**: Barbara Cheatle – Pensions Manager	**Timescales** 30th June 2016

4. Data review – retaining documents	
<u>Issue</u> Although an annual data review exercise was carried out in August 2015, there is no record of the actions taken to address the errors and missing data fields identified. The data report was not re-run once the necessary actions were taken. It is therefore not possible to establish if all exceptions had been acted upon and corrected. **Risk** Data held may be incomplete **Root Cause** No evidence of action on data exceptions is retained.	**Risk Rating** **Medium**
<u>Management Action Plan</u> Evidence of the action taken during the data review exercise will be retained in the future. The data review exercise may be carried out more regularly than annually. **Issue Owner**: Barbara Cheatle – Pensions Manager	**Timescales** 30 September 2016

5. Performance reporting	
Issue During audit testing it was identified that the reports run from the Altair system including the statistics which make up the KPIs are not retained and it is therefore not possible to ensure all figures reported are correct and supported by evidence. Audit testing, also identified a number of areas including leavers and retirements where there were backlogs of work and large percentages of the samples tested were completed outside the KPI deadlines. **Risk** Incorrect KPIs could be reported leading to misinformation and understanding of performance of the Pension Section. **Root Cause** Base data used to calculate KPIs is not retained.	**Risk Rating** **Medium**
Management Action Plan Relevant staff have now been instructed to retain the KPI reports for 12 months. We currently have a team of 10 to try and clear the back log and hope to recruit additional staff **Issue Owner**: Barbara Cheatle – Pensions Manager	**Timescales** Immediate

Appendix A – Definition of Audit Opinions

In order to assist management in using our reports we categorise our **audit opinion** according to our assessment of the controls in place and the level of compliance with these controls. The definitions of assurance levels are as follows:

High	There is a sound system of control operating effectively to achieve service/system objectives. Any issues identified are minor in nature and should not prevent system/service objectives being achieved.
Substantial	The system of control is adequate and controls are generally operating effectively. A few weaknesses in internal control and/or evidence of a level of non compliance were noted during the audit that may put a system/service objective at risk.
Adequate	The system of control is sufficiently sound to manage key risks. However there were weaknesses in internal control and/or evidence of a level of non compliance with some controls that may put system/service objectives at risk.
Limited	Adequate controls are not in place to meet all the system/service objectives and/or controls are not being consistently applied. Certain weaknesses require immediate management attention as if unresolved they may result in system/service objectives not being achieved.
No Assurance	The system of control is inadequate and controls in place are not operating effectively. The system/service is exposed to the risk of abuse, significant error or loss and/or misappropriation. This means we are unable to form a view as to whether objectives will be achieved.

Appendix B – Definition of Issue Priorities

We categorise our **issues** according to their level of priority.

High	Immediate management action is required to remedy a gap or failure of internal control that has led, or may lead, to non achievement of service or system objectives.
Medium	Timely management action is required to remedy weaknesses in internal control that could lead to non achievement of service or system objectives.
Low	Management action is suggested to improve the quality and/or efficiency of the control environment of the system or service.

Appendix C – Prospects for Improvement

Prospects for Improvement

Very Good	There are strong building blocks in place for future improvement with clear leadership, direction of travel and capacity. External factors, where relevant, support achievement of objectives.
Good	There are satisfactory building blocks in place for future improvement with reasonable leadership, direction of travel and capacity in place. External factors, where relevant, do not impede achievement of objectives.
Adequate	Building blocks for future improvement could be enhanced, with areas for improvement identified in leadership, direction of travel and/or capacity. External factors, where relevant, may not support achievement of objectives.
Uncertain	Building blocks for future improvement are unclear, with concerns identified during the audit around leadership, direction of travel and/or capacity. External factors, where relevant, impede achievement of objectives.

Appendix D – Engagement Plan

Objective

As part of the 2015-2016 Audit Plan it has been agreed that Internal Audit will undertake an audit of Pension Scheme Administration.

The overall purpose of the audit is to provide assurance on the controls over the administration of the Kent Pension Fund.

Scope

Policies and Procedures

- Up to date policies and procedures are available to all relevant members of staff.

System Access and Data Security

- Member data is held securely with access restricted to those staff who require it.
- Accurate and up to date records are maintained on all Pension Scheme members.
- Member data is held in line with LGPS regulations and the Data Protection Act.
- Data review exercises are completed to maintain high standards of data quality.
- Access rights to Altair are relevant to each job role.
- Members of staff who leave the Pensions team have their access rights removed in a timely manner.

Pension Scheme Joiners

- New employees are automatically enrolled.(Employer responsibility)
- Pension scheme joiners are processed promptly and accurately.
- An annual benefit statement is produced for all active members.

Transfers in and out

- Only eligible members can transfer funds in and out of the Kent Pension Fund.
- Transfers comply with LGPS regulations and scheme rules.
- Earned pensions are awarded only after confirmation from the Treasury & Investments Team (T&IT) of the transfer of funds.
- Discharge forms are completed promptly and accurately.
- Cash Equivalent Transfer Values (CETV) are calculated correctly.
- Proactive ‘Pension Scam’ checks are carried out.

Leavers
- Members leaving the scheme are processed correctly and in a timely manner.
- Deferred benefit calculations are accurate.
- Contributions are returned to members in line with scheme rules.

Retirements
- Retirement benefit entitlements are calculated accurately.
- Member instructions regarding their retirement benefits are followed.

Monitoring and Reporting
- Key Performance indicators are reported to the Superannuation Fund Committee on a regular basis.

This page is intentionally left blank

By:	Corporate Director of Finance and Procurement
To:	Pension Board – 20 April 2016
Subject:	**PENSIONS ADMINISTRATION**
Classification:	Unrestricted

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

- Workload position
- Achievements against Key Performance Indicators (KPIs)
- CIPFA Benchmarking Survey Results 2015
- Annual Benefit Illustrations 2014/15
- Scheme Sanction Charge
- Staffing

FOR INFORMATION

INTRODUCTION

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

WORKLOAD POSITION

2. Appendix I shows the year on year comparison of work levels being received in the section together with the 6 month position as at September 2015.

3. Most work categories appear to be in line with 2013/14 levels with the exception of correspondence and transfers out.

4. The level of enquiries and correspondence has again increased dramatically with 2427 general enquiries being dealt with during the 6 month period ending September 2015. This is a continuation of the increase in this area seen in the 12 month period ending in March 2015 and is representative of the increasing high profile of pensions in general and for members to receive information regarding the pension scheme.

5. In April 2015 the Government announced 'Freedom and Choice' options for those in defined contribution (DC) schemes. Although this provision was not replicated in the Local Government Pension Scheme (LGPS) there have been a growing number of enquiries and requests from members, particularly deferred beneficiaries, to transfer their pension rights to a DC scheme in order that they may take advantage of the changes.

ACHIEVEMENTS AGAINST KEY PERFORMANCE INDICATORS (KPIs)

6. Appendix II shows the achievements of the section in meeting its KPIs in the 6 month period to September 2015 compared to the previous 4 years.

7. We are required to complete 95% of the recorded KPI tasks, within the agreed target turnaround times.

8. The period from April to September is a particularly busy time in the section as in addition to dealing with the normal workload we deal with the year end process which culminates in the issuing of Annual Benefit illustrations to all current members of the scheme. This added pressure has an impact on the KPIs during this period and this is reflected in these results. The calculation of retirement benefits and dealing with correspondence are given priority during this period and as result these 2 areas did remain in the 95% target.

9. However as a result of concentrating efforts on these areas of work the targets were not met with regard to the calculation and payment of dependent benefits and the calculation of estimates.

10. The targets with regard to all these areas of work have improved subsequent to these results.

CIPFA BENCHMARK SURVEY RESULTS 2015

11. The Kent Pension Fund participates in the annual CIPFA administration costs benchmark survey.

12. The survey this year compared our costs with those of 44 other authorities (all authorities survey) and 19 comparator authorities, largely Shire Counties.

13. Appendix III shows our performance against both groups in a range of administrative areas. I have shown the Kent performance for 2014 and 2015 for additional information.

14. The results place Kent 8th of the 44 authorities (1st being the lowest) in terms of the cost of administration per member of the scheme.

15. In comparison to all schemes and comparator group figures total administration costs per member at £14.97 is lower than both averages (£19.17 and £17.94 respectively).

16. Staff costs remain higher than both the comparators however in analysing the staff pay and staff experience breakdown provided it would appear Kent has a larger number of staff with more than 5 years experience in Pensions Administration than other comparators which could explain the higher staff costs.

17. In previous years the number of scheme members dealt with by each FTE staff member has fallen below the club average however this has improved with the

number of scheme members being dealt with by each FTE staff member in 2014/15 increasing to 4226 members per FTE with the club average being 4230 members.

18. Although payroll costs per member have increased they are still lower than both survey averages (£1.59 compared to £1.85 and £2.17).

19. Accommodation costs tend to be higher than the average.

20. Actuarial costs tend to be lower than the averages. We believe this is because our interpretation of the requirement of this category is that these costs should relate solely to the actuarial costs associated with the administration of the scheme rather than the Kent Pension Fund’s total actuarial costs. The balance of the costs are as a result of work undertaken by the Investments and Treasury section and should not be reported in this benchmarking exercise.

21. The report indicates that Kent has the fourth highest number of employers in the Fund when compared to the other 44 authorities.

22. The most significant variance is seen in our communication costs. These are high when compared to others but the Kent Pension Fund has always strived to provide clear and regular communication which receives positive feedback from our members. The costs have decreased slightly when compared to last year, despite the increase in postage costs, and we continue to strive to reduce communication costs without impacting on the service we provide.

23. Another anomaly with regard to the communication costs is that we believe there is disparity between some of the participants in the benchmarking survey as to the costs that are included in this category. We have a member of the pensions section on the CIPFA working party with regard to this survey and continue to pursue clarity regarding the costs that should be included in the communication category.

24. In general terms I believe the results reflect well on our achievements particularly given, there is no ‘quality’ measure, built into the survey.

ANNUAL BENEFIT ILLUSTRATIONS 2014/15

25. The Public Service Pensions Act 2013, together with the regulations governing the LGPS now require that all active members of the scheme receive an annual benefit illustration no later than five months after the end of the Scheme year to which it relates. In the LGPS this date is 31 August and unfortunately due to the non submission and inaccuracy of data provided by employers we were only able to supply 55% of active members with an illustration by this date. Further illustrations were produced with the last being despatched at the end of October.

26. The Local Government Association (LGA) became aware that the non compliance with this statutory requirement was a national problem and was due to the lateness of submission of data together with incorrect data from employers and IT issues in producing illustrations containing CARE benefits. As a result the LGA liaised with

the Pensions Regulator on behalf of all administering authorities and on 9 October the Pensions Regulator's office issued their response (Appendix IV).

27. Kent decided that as they had not been able to issue all active members with an illustration by the 31 August that this was a material breach and therefore reportable to the Pensions Regulator. Appendix V contains a copy of the letter sent to the Pensions Regulator.

28. As the letter explains we continue to provide information and training to employers to ensure that the same problems do not arise with regard to the illustrations to be issued by 31 August 2016.

SCHEME SANCTION CHARGE

29. In September 2011 on the request of a former member of the scheme we paid transfer values totalling £14263.06 to an Overseas Pension Scheme calling itself 'Danica', registered in Sweden. The member signed all the relevant transfer discharge forms together with the scheme administrator who also provided a letter issued by HMRC on 10 May 2011 to Danica which provided them with a QROPS (Qualifying Recognised Overseas Pension Scheme) reference number and confirmed that Danica had provided HMRC with notification that it wanted to be published on the HMRC's QROPS list and that it satisfied the conditions as a QROPS.

30. On payment of the transfer values it is normal practice to check the HMRC QROPS list and on that day a scheme 'Danica Pension' was on the list and so payment was made.

31. At that time all transfers paid to QROPS had to be notified to HMRC on an annual basis on an event report. In November 2015 HMRC informed KCC that 'Danica' was not a QROPS and had not appeared on the HMRC list since 29 June 2011. They confirmed that they had issued Danica with a QROPS reference number however had subsequently established that 'Danica' represented itself as a QROPS but that it was not a pension scheme. It confirmed that 'Danica' should not be confused with 'Danica Pension' which was a genuine pension scheme.

32. They highlighted that transfers to overseas schemes which are not QROPS are treated as unauthorised member payments which give rise to tax charges on the scheme member and the scheme administrator. As a result they have raised a scheme sanction charge against the Fund which is 40% of the value of the transfer with a 25% deduction where the scheme member's unauthorised payment charge has been settled.

33. I have written to HMRC explaining that Kent had undertaken due diligence before making the payment of the transfer values and that the transfer was made in the reasonable belief that the receiving scheme was a QROPS and asking for the scheme sanction charge to be discharged. However it would appear that HMRC are unwilling to do this and therefore a charge of £5706.00 will have to be made by the Fund.

34. Internal procedures for dealing with transfers to QROPS have been tightened to ensure no further unauthorised payments are made.

STAFFING

35. We are currently running with 8 FTE vacancies within the section and in order to meet our statutory obligations under the pension scheme regulations and to deal with upcoming projects and backlogs of work we are to redeploy one of our current Pension Support Assistants to the role of Pensions Administrator and to recruit 4 new Pension Support Assistants.

36. All staffing costs are met by the Kent Pension Fund.

RECOMMENDATION

37. The Board is asked to note this report.

Barbara Cheatle
Pensions Manager
03000 415270

Appendix I

Tasks created in key administration areas
Workload summary

Case Type	2011/12	2012/13	2013/14	2014/15	6 months to September 2015
Benefit calculation	2434	2056	1978	1928	944
Correspondence	1473	1152	1467	3450	2427
Divorce case	449	351	312	293	179
Estimate calculation	3133	2672	2861	2541	1611
Deferred benefit	5185	4769	5244	2475	1137
Transfer in	283	365	374	189	124
Transfer out	418	403	478	558	363
Dependants	364	305	364	323	201
Total	**13,739**	**12,073**	**13,078**	**11,757**	**6,986**

Appendix II

Achievements against Key Performance Indicators

Case Type	Target Time	11/12		12/13		13/14		14/15		6 months to September 2015	
		No	% in target	No	% in target	No	% in target	No	% in target	No	% in target
Calculation and payment of retirement benefit	20 days	2434	99%	2056	99%	1978	99%	1928	99%	944	95%
Calculation and payment of dependant benefit	15 days	364	98%	305	99%	364	99%	323	87%	201	77%
Calculation and provision of benefit estimate	20 days	3133	99%	2672	99%	2861	98%	2541	63%	1611	51%
Reply to correspondence	15 days	1473	98%	1152	99%	1467	98%	3450	98%	2427	98%

NB. All target turnaround times commence when we have all the necessary documentation to complete the particular task.

Appendix III

CIPFA Administration Benchmark Survey 2014

	Kent County Council		Average comparator group 2015*	Average all schemes 2015
	2014	2015		
Total administration costs per member	£17.61	£14.97	£17.94	£19.17
Staff costs per member	£8.49	£9.17	£7.69	£7.83
Payroll costs per member	£1.45	£1.59	£2.17	£1.85
Communication costs per member	£2.18	£1.96	£0.75	£0.78
Actuarial costs per member	£0.57	£0.21	£1.10	£1.14
Accommodation costs per member	£1.12	£1.04	£0.56	£0.65

* 19 shire counties

The Pensions Regulator

9 October 2015

Dear Jeff,

Thank you for outlining the issues faced by Local Government Pension Scheme (LGPS) funds for England and Wales in meeting the legislative deadline for providing annual benefit information statements to members.

The Pensions Regulator recognises the significance of the public service pension reforms, including the requirement to redesign benefits and new requirements about governance and administration.

We are aware that LGPS Funds, like all public service schemes, face a significant task in implementing the major reform of their benefit design, establishing new governance arrangements and putting in place systems to deal with the administration of the new and transitional arrangements while maintaining and integrating their legacy systems.

However, as you are aware, all public service schemes must be governed and administered in accordance with the requirements of the law. We therefore expect those involved in the governance and administration of public service schemes to comply with the law and strive to deliver good outcomes for members. It is vital that members are provided with information on their pension benefits so that they have a clear understanding of their financial position and can make informed decisions.

Where a legal duty relevant to the administration of the scheme has not been, or is not being complied with, certain people (including scheme managers, pension board members and those involved with administering the Funds) are under a duty to report breaches of the law to us if they consider that the breach is likely to be of material significance to us.

Some LGPS Funds have already contacted us to report a breach of the requirement to issue benefit information statements in accordance with the deadline stipulated in the Public Service Pensions Act 2013 (31 August 2015). Where the cause of the breach is explained as being due to significant data and IT system issues faced by Funds and Fund employers, we are minded to advise those Funds that we expect them to issue the statements as soon as possible and by the 30 November 2015 at the latest. As a matter of best practice, we also expect LGPS funds to take steps to inform affected members of the delay and when they can expect to receive their benefit statement.

Where these Funds are unable to meet this timeframe, they will need to provide us with further information, including their plan of action for remedying the breach. Plans will be considered on a case by case basis and we will consider what action to take if satisfactory plans are not in place.

Napier House	Customer support:	0845 600 0707
Trafalgar Place	Email:	customersupport@tpr.gov.uk
Brighton	Website:	www.thepensionsregulator.gov.uk
BN1 4DW		

The Pensions Regulator

However, where the breach arises for other reasons, or in conjunction with other issues, we will consider whether a different response is appropriate in accordance with our Compliance and Enforcement Policy.

Where other Funds are in breach of the requirement and have not yet considered whether or not the breach must be reported to us, scheme managers, pension board members and those involved with administering the Funds will need to consider whether they must do so, whether or not they anticipate that benefit information statements will be issued by 30 November 2015.

Our Public Service Code of practice provides guidance on judging whether a breach needs to be reported, and if so, how to report a breach of law, and our compliance and enforcement strategy outlines our approach in response to any breach that is reported to us or of which we otherwise become aware.

If LGPS Funds decide that they need to report to us, they should explain the reasons for the breach occurring and their plan to remedy it, including the timeframe, which we will take into account in determining our response.

We would welcome the opportunity to engage with you further in relation to public service pensions schemes and to better understand how LGPS funds are addressing issues they face in complying with the legal requirements. Please do not hesitate to contact me if you wish to arrange.

Yours Sincerely
Joey

Joey Patel
Policy Lead
Public Service Pensions Regulation Team

The Pensions Regulator
Napier House
Trafalgar Place
BRIGHTON
BN1 4DW

Direct Dial: 03000 415270
Ask For: Mrs Cheatle
Date: 17 December 2015

Dear Sir

Local Government Pension Scheme
Annual Benefit Illustrations 2014/15

As you are aware the Public Service Pensions Act 2013, together with the regulations governing the Local Government Pension Scheme (LGPS), require that all active members of the scheme receive an annual benefit illustration no later than five months after the end of the Scheme year to which it relates. In the LGPS this date is 31 August and this letter is to highlight to you that for the year 2014/15 unfortunately the Kent Pension Fund did not meet this requirement with regard to all of its' active membership and consider this to be a material breach and are therefore reporting it to the Pensions Regulator.

I would now like to supply you with more detail of the delays and the reasons for this. Again as you know the LGPS went through major changes in its benefit design from 1 April 2014. Prior to the changes and during the year 2014/15 we communicated with all of the employers in the Fund concerning the changes to the scheme and the change in our requirements from them regarding scheme member data both during the scheme year and at year end in order that systems could be put in place to ensure correct data could be extracted from payroll systems. The form of the communications undertaken were bulletins, information on our website, employer forums and specific training events.

The spreadsheet to be completed with regard to year end data was despatched to 433 employers at the beginning of February with a return deadline date of 10 April. Unfortunately as at that date only 33% of returns had been received, with a further 12.5% being received by the end of April. As well as delays in supplying the data unfortunately the data received was not correct in all cases with data having to be returned for correction.

In order to comply with a despatch date of 31 August the printing company which we allocated with the task of printing the annual benefit illustrations required a lead in time of 4 weeks. Although we had not received all the data from all our employers at this time we decided to despatch as many illustrations as possible by the statutory deadline with 55% of the active membership illustrations being despatched on 27 August. A further 1 % were despatched on 18 September, 11.5% on 30 September with the remainder of the illustrations being despatched on 30 October.

In July when we realised that certain illustrations would not be able to be despatched by 31 August we contacted the relevant employers to explain the situation and asked that they make their employees aware of the situation.

Going forward we are already liaising with all our employers regarding the data that we will require for the year ending 2015/16 in order that we can comply with the despatch date in 2016 and continue to supply training sessions and one to one help where required.

I hope that the above is self explanatory if however you require any further information please do not hesitate to contact me.

Yours sincerely

BM Cheatle

Mrs Barbara Cheatle
Pensions Manager
Pension Section