

By: Deputy Leader & Cabinet Member for Finance & Procurement
Corporate Director Finance and Procurement

To: Superannuation Fund Committee

Subject: **FACING THE CHALLENGE**

Classification: Unrestricted

Summary: To update on the pension implications of KCC's Facing the Challenge programme.

FOR INFORMATION

INTRODUCTION

1. This report sets out issues for the management of the Superannuation Fund from the Council's Facing the Challenge: Delivery Better Outcomes process.

FACING THE CHALLENGE

2. A report on Facing the Challenge was agreed by County Council in September 2013. It is a major transformational programme and Finance was one of 12 service areas included in Phase 1. Service reviews were to be undertaken by April 2014 which would cover:
 - A comprehensive understanding of the current service.
 - A spectrum of options for future design and delivery, including potential providers.
 - A preferred option for decisions, supported by an outline business case.
 - Authorisation to proceed to a full business case to progress the preferred option towards implementation.
3. Finance has undertaken this work and broadly categorised it's activities into:
 - Strategic/client management
 - Intelligence and Shaping

- Transactional activity
4. County Council in May agreed to proceed with a full market engagement process for Finance, HR and ICT on a joint basis reflecting the scope for greater savings from an integrated approach to these services. So these 3 functions will now proceed to a Full Business Case. The County Council report emphasises that no formal decisions have yet been taken and they will not be until the Full Business Case has been fully developed.
 5. Work is now starting on developing output specifications and the EU procurement process has commenced. It is envisaged that the Pre-Qualification Questionnaire will be received in July and then a small number of suppliers will enter into a competitive dialogue process in the last 5 months of 2014. Final decisions will then be taken in the first quarter of 2015.
 6. As far as pensions administration is concerned there is a well developed market and in the South East, West Sussex County Council have outsourced the activity to Capita and East Sussex and Surrey County Councils are working in a shared service arrangement.
 7. At this stage included in the Finance scope are elements of pensions administration, insurance, payments and assessment and income. The final scope will depend upon the programme of work now commencing.
 8. The pensions administration function is a key part of the overall management of Fund's liabilities and a key support service for employers and scheme members. Any changes will only be made if maximum assurance can be given over their future delivery.
 9. There is a great deal of work to be done before the Council will make any decisions and the Committee will be kept fully informed.

KCC EMPLOYER CONTRIBUTION RATE

10. At the last actuarial valuation the actuary calculated an employer contribution rate for KCC of 20.7%. However, the Deputy Leader & Cabinet Member for Finance & Procurement and the Corporate Director of Finance & Procurement retained a rate of 21% to help allow for the impact of the continued fall in the size of the Council's payroll.
11. The 21% rate is split between
 - Future Service Rate (14%) – this is the cost of future pension provision for existing scheme members.
 - Past Service Rate (7%) – this is the deficit element to be made good over a period of 20 years.

12. As KCC moves towards less direct service provision and a more strategic commissioning role it is likely that fewer staff will be directly employed by the Council and more staff transfers will occur, whether through outsourcing, establishing trusts or joint ventures or other options. Under existing legislation we would expect the external providers to apply to become admitted bodies for the future provision of pensions for staff transferring.
13. Where staff transfer the Council will no longer pay the Future Service Rate of 14%. The Past Service Deficit will remain a liability of the Council and we will need to retain funding to be able to pay this. It is proposed that we achieve this by ring-fencing this funding within KCC budget.
14. This approach takes full account of the financial liability the Council has to the Pension Fund and retains core budget to meet this liability.

RECOMMENDATION

15. Members are asked to note this report.

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