

By: Chairman Superannuation Fund Committee  
Director of Finance

To: Superannuation Fund Committee – 20 November 2009

Subject: **PENSIONS ADMINISTRATION**

Classification: Unrestricted

---

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

**FOR DECISION**

- Workload position
  - Achievements against Key Performance Indicators (KPIs)
  - CIPFA Benchmarking Survey 2009 – Results
  - Future Technology strategy and issues
  - PWC audit report
  - Internal audit report
  - Other current matters
- 

**INTRODUCTION**

1. This report is to update Members on a range of administrative issues.

**WORKLOAD**

2. Members were advised in November 2008 and July 2009 of an increasing workload for the administration unit and the reasons for this increase. Appendix 1 provides members with an update of the workload position.
3. The figures demonstrate consistent increases in workload over the 4 year period. Production levels have increased and the total outstanding cases have decreased.

**ACHIEVEMENTS AGAINST KEY PERFORMANCE INDICATORS (KPIs)**

4. The team are required to achieve a 95% on target performance in each of the KPI areas. These tasks represent work, directly output to scheme members and, which it is considered reflects the general service quality.
5. As shown in Appendix II, for the second consecutive six month period, the section has outperformed the 95% objective in each of the KPI areas.

## **CIPFA BENCHMARK SURVEY (ADMINISTRATION COSTS)**

6. Members are provided with out results in the CIPFA survey at Appendix III. The survey compares KCC with 56 other LGPS schemes (All Schemes Survey) and against 19 selected 'peer group' authorities (Peer Group Survey). The latter are all 'Shire County' based schemes.
7. Schemes in the survey are ranked by size, calculated, by total scheme members. The peer group range from the smallest at 43,717 to the largest at 130,891. KCC membership totalled 106,972 being third largest.
8. Our position in the peer group compares closely to our rank in the 2007/08 survey. Our cost of administration per member, reduced from £17.90 to £17.66. This places us 7<sup>th</sup> in the Peer Group Survey and 14<sup>th</sup> of 56 in the all schemes survey.
9. The peer group average cost per member was £19.12p (KCC £17.66) and the all scheme average was £21.77.
10. Authorities which have outsourced the function average a per member cost of £23.57. The CIPFA report quotes that private sector costs per member are £46 (in-house) and £39 (outsourced).
11. The remaining figures provide a range of comparative costs. Those which warrant particular comment are as follows:-

	<b>KCC</b>	<b>Peer</b>	<b>All Schemes</b>
<b>Payroll costs per member</b>	£4.90	£10.79	£14.11
<b>IT costs per member</b>	£1.22	£1.99	£2.37
<b>Scheme members per FTE</b>	2540	3237	3304
<b>Communication costs per member</b>	£1.65	£0.72	£0.91
<b>Staff costs per FTE</b>	£27571	£29700	£30418

12. Payroll costs I believe reflects the practice in other authorities of passing to the Pension Fund, an element of County Council payroll costs, rather than those specific to the payment of pensioners. KCC costs reduced sharply when the payroll was moved from the County Council Payroll system to the AXISe pensions payroll software.
13. The remaining figures in paragraph 11 above reflect the following.
  - We pay our staff on average, less than those other schemes in both surveys.
  - However, we have a lower ratio of scheme member per FTE than the average in the two surveys. This will be followed up.
  - Our IT costs per member are lower than the average for both the peer and all schemes surveys.
  - Conversely, we are one of only 10 schemes who communicate, direct to home addresses, the cost per member being higher than both the all schemes and peer group surveys.

14. It is essential to very much bear in mind the surveys have no measurement for 'quality of service' and are simply ranked on a 'per member cost basis'.
15. In addition, members are advised that the Kent Scheme, with something close to 300 employers, has around 3 times the number of employers, proportionately, than both the peer and all scheme averages.

## **FUTURE TECHNOLOGY STRATEGY AND ISSUES**

16. Our business can essentially be split into three distinct segments:
  - **Data Input.** The transmission of data from scheme employers to the Pension Section.
  - **Administration of data.** How we administer the data received.
  - **Data output.** The communication of our data output to employers and scheme members.
17. To date our investment in technology has been for the largest part, in the development and use of software, to ensure our production is maintained efficiently. I believe our investment to ensure work is scanned, electronically stored, each task is tracked electronically and time recorded reflects in our excellent KPI results and puts us in the forefront of the LGPS schemes across the UK.
18. However, our use of technology in the areas of 'data input' and 'data output' (communication) I regret leaves us now falling behind other authorities of a similar size to Kent.
19. Members agreed the cost of purchasing 'AXISe Employer' which enables employers to undertake a range of tasks on line. This includes simple data changes i.e. addresses but can also include more complex tasks e.g. retirement cost calculations, estimates of benefits, cost of additional regular contributions etc.
20. At present we are still discussing with KCC IS department, a functional method by which employers can access the AXISe software, which is located on the secure KCC Network. The only solution on offer at present is a 'keyring fob password SSL solution', which is both costly and less than functional. Our peers elsewhere use a 'Citrix' link, enabling employers to simply access the system via their desktop but, KCC has no Citrix facility and limited experience of the technology.
21. We also would like to create 'electronic interfaces' with our key employers, in order that basic data i.e. salary figures, hour changes (part time staff) etc. can be downloaded to our system automatically. The benefits are less errors, by removing the need to manually input changes and, the reduction in staff that results from automating basic functions currently undertaken by the administration teams. This would go some way to reduce our staff costs per member and the ratio of scheme members to FTE.
22. To develop such interfaces requires investment by employers whom I understand may have more pressing priorities and budget restraints in the coming years. However, this is where the significant savings can be achieved for both employers

and the administration unit, by reducing the number of inconsistencies in data, which require investigation by both parties.

23. We will work with the top 14 employers, representing around 73% of total scheme membership, to achieve the significant savings, automatic data download would deliver.
24. I have to confirm to members that we face similar frustrations in our efforts to provide 'online self service' facilities for our scheme membership. Such facilities could be provided via the Pension Fund website. However, the website is at present located on the KCC network and once more the problem lies in the ability of scheme members to gain access to the site which has powerful firewall protection.
25. Clearly, it is not possible to provide each member with a manual 'fob' to visit the site. The preferred option is a simple stand alone secure www.domain address and a PIN number to access an individual record. This is in situ in other Local Government Authorities.
26. In this way we could provide members with estimate facilities, on line annual benefit statements, links to AVC accounts and DWP pension statements etc. This would seriously drive down costs and workload.
27. At present the website is merely an information point rather than a dynamic provider of service. We are awaiting agreement to move to a stand alone website domain on a scheme web arrangement. We will keep members advised of progress.

### **PwC AUDIT**

28. An external audit of the Axis Pension System was conducted by PwC to review what assurance could be given to KCC, that the risks, which could prevent the achievement of business objectives for the audited system, are managed effectively. The overall level of assurance given in the audit was 'substantial'.
29. Three recommendations were made of a 'housekeeping' nature which have all been implemented.

### **INTERNAL AUDIT**

30. An internal audit has been conducted, to review the level of assurance, that could be given to KCC in respect of the following:
  - The correct calculation of transfers in and out. The reconciliation of the Pensions Admin system, with the Councils Financial Systems, of all funds flowing in and out of the Pension Scheme, due to transfers both in and out.
  - That retirement benefits are calculated correctly and paid only to those eligible to receive them.

31. I am pleased to confirm the outcome of the audit found all calculations to be correct, reconciliation was complete and a 'high' level of assurance could therefore be given.
32. One minor housekeeping recommendation was made and has been implemented.

## **OTHER CURRENT ISSUES**

### **FRAUD CASE**

33. I reported to members that a potential fraud had been identified with a potential loss to the Pension Scheme of £16,500. For the purposes of confidentiality I will refer to the lady in question as Miss X.
34. Following enquiries by the Kent Constabulary, Miss X was formally charged with fraud and pleaded guilty to the charges when appearing at the County Court in September this year.
35. The case involved the fraudulent completion of Certificates of Entitlement in respect of the deceased mother; the mothers pension continued to be paid following her demise some years previously.
36. Miss X has been given a conditional discharge subject to her paying £5000 by way of compensation to the Kent Pension Scheme.
37. I seek members agreement to write off the balance of £11,650.80 which will not be recovered.

### **MORTALITY SCREENING**

38. Members agreed that a contract could be entered into with Faraday Tracing Bureau (FTB) at an annual cost of £7,600. FTB provide a comprehensive screening service against each Register Office in the UK to minimise losses similar to the circumstances in the fraud case above.
39. The contract requires we provide FTB with data on our entire pensioner population (38,000) including a number of key personal identifiers i.e. name, address, date of birth, National Insurance Number etc.
40. We are advised that KCC does not currently have an 'encryption' facility under which this volume of potentially sensitive data can be electronically transmitted to FTB. I do not recommend simple password protection when sending such volumes of data. I will advise members of progress, if any, at the next report.

## **RECOMMENDATIONS**

41. Members are asked to note the content of this report.
42. Members are requested to write of £11,650.80 in respect of the loss due to the fraud contained in this report.

**Patrick Luscombe  
Pensions Manager  
Extension 4714**

## Workload Summary

### Cases completed in key areas

<b>Case Type</b>	<b>2005/06</b>	<b>2006/07</b>	<b>2007/08</b>	<b>2008/09</b>
<b>Benefit Calculation</b>	1255	1547	1544	1814
<b>Divorce Quotations</b>	No data	304	306	373
<b>Estimate Calculations</b>	1206	2302	2121	2364
<b>Preserved Benefit Calculations</b>	No data	3810	3923	4443
<b>Transfers In (Actual &amp; Quote)</b>	No data	499	754	597
<b>Transfers Out (Actual &amp; Quotes)</b>	No data	239	430	542
<b>Widows Benefits</b>	342	307	346	379

### Total cases completed and total outstanding cases (20 weeks each year May/September)

	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>
<b>Total cases completed</b>	11464	15240	14885	15641
<b>Total cases outstanding</b>	7844	9937	9129	7753

## Achievements against Key Performance Indicators

Case Type	Target Time	6 months to April 2008		6 months to Sept 2008		6 months to April 2009		6 months to September 2009	
		No	% in Target	No	% in Target	No	% in Target	No	% in Target
Calculation and payment of benefit award	20 days from receipt of all paperwork	731	96%	977	92.5%	837	98.5%	907	98%
Calculation and payment of dependant benefit	15 days from receipt of all paperwork	170	91%	172	95.8%	200	100%	134	99%
Provision of Benefit estimate	20 days from receipt of all paperwork	951	95%	1198	91.5%	1166	98.0%	1161	98%
Reply to correspondence	Full reply within ten working days	607	95%	741	91.0%	862	98.0%	785	99%

## Achievements against Key Performance Indicators

Cost Centre	KCC	Average peer group (19 authorities)	Average all schemes (56 authorities)	Rank position in peer survey (19 authorities)
Staff costs per scheme member (excl. payroll)	£10.85	£9.49	£9.74	7 <sup>th</sup>
Staff costs per FTE administration staff	£27,571	£29,700	£30,418	8 <sup>th</sup>
Payroll costs per scheme member	£1.08	£2.16	£3.18	5 <sup>th</sup>
Payroll costs per pensioner	£4.90	£10.79	£14.11	5 <sup>th</sup>
Communication costs per scheme member	£1.65	£0.72	£0.91	19 <sup>th</sup>
Actuarial costs per scheme member	£0.83	£1.14	£1.24	7 <sup>th</sup>
IT costs per scheme member	£1.22	£1.99	£2.37	4 <sup>th</sup>
Accommodation costs per scheme member	£1.26	£0.73	£0.83	17 <sup>th</sup>
Number of scheme members per FTE	2540	3237	3304	18 <sup>th</sup>
<b>Total administration costs per scheme member</b>	<b>£17.66</b>	<b>£19.12</b>	<b>£21.77</b>	<b>7th</b>