

By: Chairman Superannuation Fund Committee
Corporate Director of Finance

To: Superannuation Fund Committee - 26 June 2020

Subject: **Fund Employer Matters**

Classification: Unrestricted

Summary: To report on employer related matters.

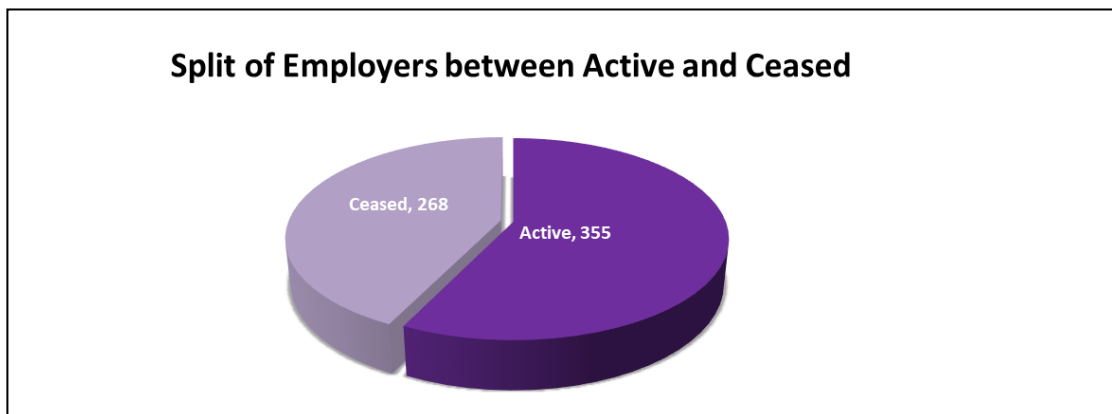
FOR DECISION

INTRODUCTION

1. This report provides an update on employers including COVID-19 issues, the issue of admission employer exit credits and the progress on Hadlow College and West Kent and Ashford College in educational administration.
2. The committee is asked to agree the Fund policies on employer contributions and the payment of exit credits.

EMPLOYER UPDATE

3. There was a total of 623 employers in the Kent Pension Fund at 31 March 2020, an increase of 4 from 31 December 2019.



4. The number of active employers regularly paying contributions increased by 1 in the 3 months from the end of December, 2 new employers in the fund, 4 changed their payroll provider from KCC Schools to in house, 3 employers ceased to have active members in the Local Government Pension Scheme (LGPS) and 2 merged into trust level. The ceased employers no longer have

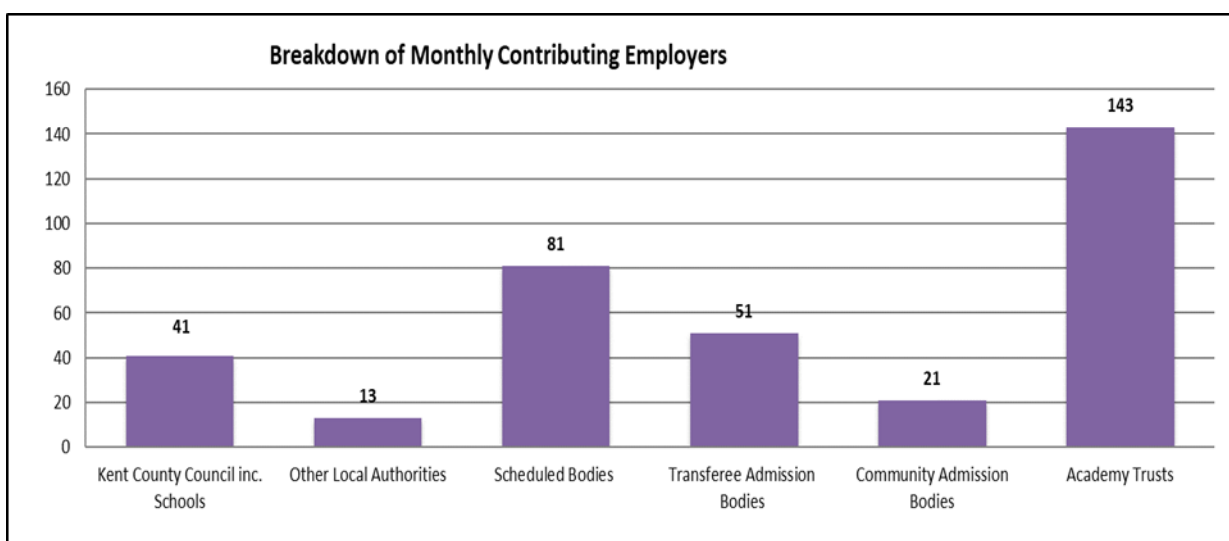
active contributing members in the LGPS and the Fund has an existing or future liability to pay any pensions.

5. The following table lists employers who either joined or ceased to have active members in the Fund during in 2019-20. This includes backdated admission agreements.

| New Employers | Effective date |
|--|------------------|
| Academy Trusts | |
| Deal Education Alliance for Learning Trust (DEALT) | 1 April 2019 |
| Connect Schools Academy Trust | 1 July 2019 |
| EKC Schools trust | 1 March 2020 |
| Admitted Bodies | |
| Sodexo Ltd (Oasis Community Learning) | 1 September 2018 |
| Compass Contract Services (UK) Ltd T/A Chartwells (re KCSP Primary Schools) | 1 January 2019 |
| Compass Contract Services (UK) Ltd T/A Chartwells (re KCSP Secondary Schools) | 1 January 2019 |
| Deep Beat Entertainment (re Strood Sports Centre) | 1 February 2019 |
| Deep Beat Entertainment (re Medway Park) | 1 February 2019 |
| PT Commercial Ltd T/A Ecocleen | 1 April 2019 |
| Tonbridge & Malling Leisure Trust (Limb C Members) splitting out members from the original admission | 1 April 2019 |
| The Contract Dining Company Limited | 1 July 2019 |
| Compass Contract Services (UK) Ltd (T/A Chartwells Re Fortis Trust) | 1 July 2019 |
| Alliance in Partnership Limited | 1 August 2019 |
| Cleantec Services (Leigh Academies Trust) | 1 August 2019 |
| Scheduled Bodies | |
| Swingate School | 1 September 2019 |

| Ceased / Merged to Trust Employers | Effective date |
|-------------------------------------|-------------------|
| Academy Trusts | |
| Medway UTC | 1 April 2019 |
| Brent Primary School Academy | 31 August 2019 |
| Strood Academy | 31 August 2019 |
| Admitted Bodies | |
| Invicta Telecare T/A Centra Pulse | 31 May 2019 |
| Canterbury Archaeological Trust | 31 August 2019 |
| Churchill Contract Services (SJWMS) | 31 August 2019 |
| Compass Contract Services (UK) Ltd | 31 August 2019 |
| YBC Cleaning Services Limited | 31 August 2019 |
| Birkin Cleaning Services Limited | 30 September 2019 |
| Circle 33 Housing ltd (Epic Trust) | 31 October 2019 |
| PT Commercial t/a Ecocleen Services | 31 December 2019 |
| Kier Facilities Services Limited | 20 January 2020 |
| Kier limited | 20 January 2020 |

6. The following chart shows the Employers from whom the Fund receives monthly contributions by Employer Group. Note the KCC figures reflect the County's and schools' relationships with several payroll providers.

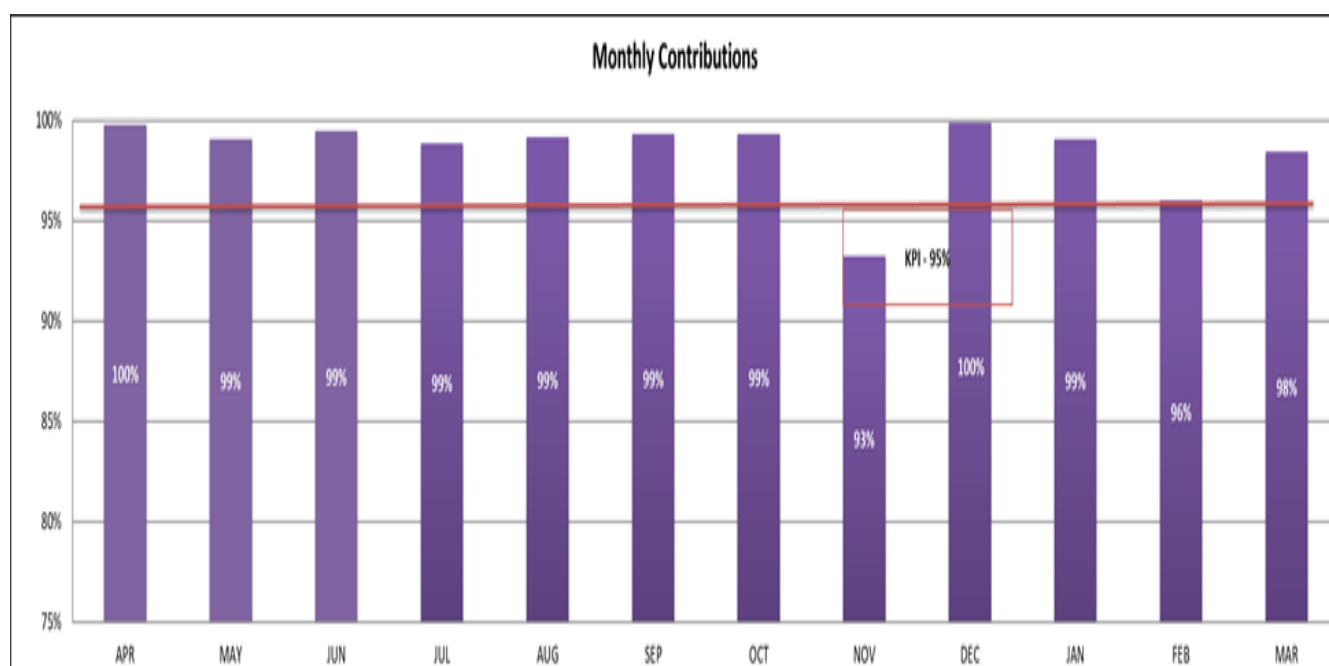


CONTRIBUTIONS FROM EMPLOYERS

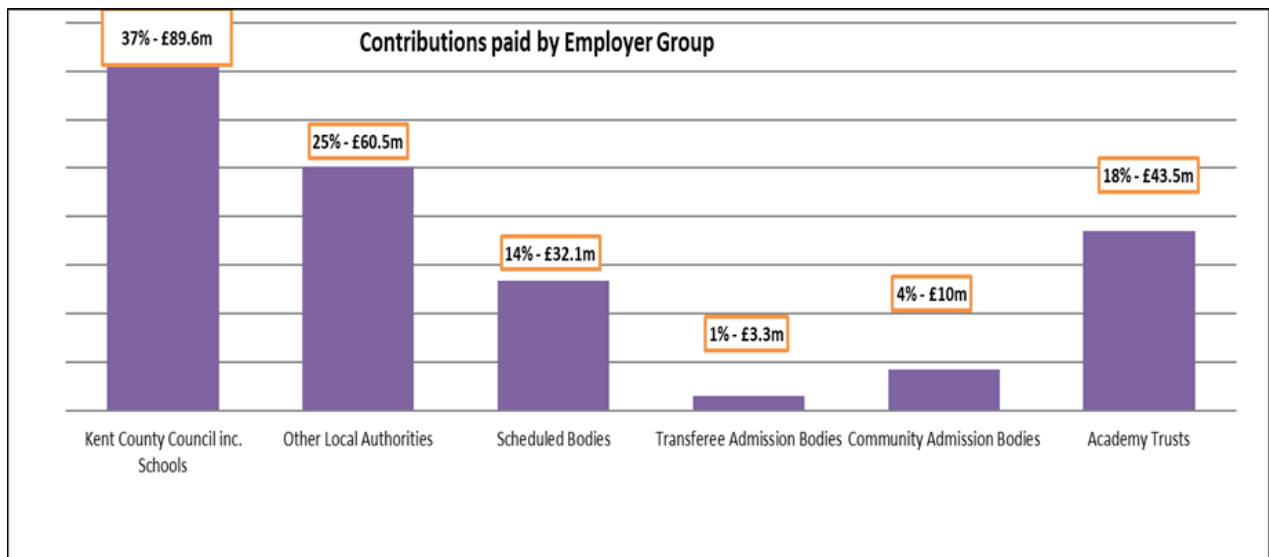
7. In 2019-20 the Fund received £239.4m from employers in respect of their monthly contributions (employer and employee) as follows:

| | Received Early | Cash on 19th | Received Late | Total |
|--------------|--------------------|-------------------|------------------|--------------------|
| | £ | £ | £ | £ |
| April | 10,379,145 | 9,614,534 | 50,104 | 20,043,783 |
| May | 11,947,101 | 7,654,450 | 190,395 | 19,791,947 |
| June | 12,711,002 | 7,416,605 | 107,899 | 20,235,506 |
| July | 11,666,419 | 7,860,946 | 228,796 | 19,756,161 |
| August | 13,209,586 | 6,267,185 | 163,762 | 19,640,534 |
| Sep | 11,782,559 | 7,789,521 | 140,151 | 19,712,231 |
| October | 12,515,959 | 7,292,194 | 136,202 | 19,944,356 |
| Nov | 11,583,924 | 7,085,807 | 1,352,294 | 20,022,026 |
| Dec | 11,442,340 | 8,816,867 | 22,082 | 20,281,290 |
| January | 11,663,800 | 8,117,641 | 189,132 | 19,970,573 |
| Feb | 12,550,008 | 6,628,925 | 796,748 | 19,975,681 |
| March | 12,400,221 | 7,299,774 | 314,072 | 20,014,067 |
| Total | 143,852,068 | 91,844,451 | 3,691,639 | 239,388,159 |

8. KCC monitors the timing of receipt of these contributions compared to a KPI of 95%. The following chart shows that the KPI was exceeded in 11 of the 12 months. This is due to Medway Council paying their November contributions a day late.



9. The following chart shows the proportion paid by KCC and other employers of contributions received.



COVID - 19

10. Since the start of the COVID-19 pandemic officers have been working closely with Fund employers to understand their issues and challenges at this unprecedented time.

Contributions

11. Despite these difficulties, the Fund's monthly KPI for the receipt of contributions by the due date has not fallen below 95%.
12. Most employers in the Fund pay over employer contributions together with employee contributions on a monthly basis. However, we are aware that the current crisis may have caused some admission bodies eg leisure centres and theatres, some financial difficulties and they are having difficulty paying contributions.
13. **Employee contributions** - Employers have been made aware that if they deduct contributions from employees, they must continue to pay these to the Fund by the due date of the 19th after the month end.
14. The level of employee contributions may reduce if their pay falls, per the Pensions Act 1995. If an employee is furloughed and their pay is reduced the view of the Local Government Association (LGA) is that it would be reasonable to expect that the employee's contribution band would also reduce.
15. **Employer contributions** - The Fund has some discretion regarding the timing of receipt of employer contributions during a financial year as the LGPS Regulations state that contributions due for the year, as set out in the rates and adjustments certificate from the 31 March 2019 valuation, must be received by

the appropriate year end. The LGPS regulations do not permit a contribution holiday.

16. However, we need to consider the risks to the Fund and these include but are not limited to, the risk of the employer not being able to meet the full amount by year end and the risk to the fund's cash flow requirements. As any approach to contribution deferral should be applied consistently the Kent Fund needs to consider agreeing a policy position.

Proposed employer contributions policy

17. The Committee are recommended to agree the Fund's policy based on the regulations and taking account of guidance from the Pensions Regulator as follows:
 - That we agree to deferring payment for up to 3 months provided the employer can provide assurance as to the state of its financial difficulties. These arrangements will be regularly monitored and reviewed with the employer and referred to the fund actuary to get advice on any implications, as appropriate.

Cash flows

18. To date only a small the number of employers has advised that they are unable to pay contributions on time however should this number grow then this will impact the level of cashflows paid into the Fund.
19. Officers are closely monitoring employer payments and keep in contact with those employers having difficulties. So far, the Fund's cash balance has been largely unaffected by these issues. Officers will update the Committee on this issue at its September meeting.

EXIT CREDIT POLICY RE ADMISSION EMPLOYERS

20. The Funding Strategy Statement (FSS) is currently being updated following the completion of the 2019 valuation and MHCLG has advised that the Fund should set out its exit credit policy in respect of employers leaving the Fund, in its FSS.
21. When an employer leaves the Fund the Actuary will calculate their cessation position on a minimum-risk basis unless it can be shown that there is another employer in the Fund who will take on financial responsibility for the liabilities in the future. If the Fund is satisfied that there is another employer willing to take on responsibility for the liabilities (or that there is some other form of guarantee in place) then the cessation position may be calculated on the ongoing/long-term funding basis. If there is no other employer to take on responsibility for the liabilities then the exit credit policy will apply.

Proposed policy

22. In order that this policy can apply immediately in respect of exiting employers the Committee are recommended to approve the following approach to the payment of exit credits having regard to any relevant considerations:
- Any employer who cannot demonstrate that they have been exposed to underfunding risk during their participation in the Fund will not be entitled to an exit credit payment. This restriction will apply to most “pass-through” arrangements and is on the basis that these employers would not have been asked to pay an exit payment had a deficit existed at the time of exit.
 - The Fund must be satisfied that a risk sharing arrangement has been in place before it will pay out an exit credit and the level of risk that an employer has borne will be considered when determining the amount payable. It is the responsibility of the exiting employer to set out in writing why the arrangements make payment of an exit credit appropriate.
 - Any exit credit payable will be subject to a maximum of the actual employer contributions paid into the Fund.
23. The Fund will pay out any exit credits within six months of the cessation date where possible. A longer time may be agreed between the Fund and the exiting employer where necessary, for example if the employer does not provide all the relevant information to the Fund within one month of the cessation date the Fund will not be able to guarantee payment within six months of the cessation date.
24. Under the Regulations the Fund has the discretion to take into account any other relevant factors in the calculation of any exit credit payable and officers will seek legal advice where appropriate.

HADLOW COLLEGE

25. As previously advised, staff at the Mottingham Campus were transferred to Capel Manor College (CMC) on 1 January 2020 and, with support from the Kent Fund the administrators BDO have applied to the Secretary of State for Education for a Direction Order allowing CMC to be a Scheduled Body concurrently in the Kent Pension Fund and the London Borough of Enfield Pension Fund.
26. In response to the application MHCLG issued a formal consultation email on 15 June 2020 to CMC, Kent County Council and Enfield Borough Council. Each of these bodies is invited to make any representations as to whether the Direction should be made and come into force on 1 January 2020 and any comments are required by 29 June 2020.
27. The email from MHCLG sets out the allocation of the LGPS liabilities relating to the employees of CMC as well as deferred and pensioner members. Officers will respond to the consultation by 29 June having taken advice from Barnett Waddingham.

28. The Committee is advised that the staff at the Canterbury Campus were transferred to East Kent College on 31 March 2020 and it is understood the remaining staff will be transferred to North Kent College in August 2020.
29. It is also understood that the successor colleges will take on the LGPS liabilities.

WEST KENT AND ASHFORD COLLEGE

30. The Committee is advised that the staff at the Ashford Campus were transferred to East Kent College on 31 March 2020.
31. It is understood the remaining staff will be transferred to North Kent College in August 2020.
32. It is also understood that the successor colleges will take on the LGPS liabilities.

RECOMMENDATION

33. Members are asked to note the report, the update on Hadlow College, the update on West Kent and Ashford College and to resolve to agree:
 - a) the employer contributions policy
 - b) the exit credits policy re admission employers

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