

Report for: Pensions Committee 11 April 2016

Item number: 16

Title: Scheme Advisory Board (SAB) Benchmarking Study.

Report authorised by: Tracie Evans – Chief Operating Officer.

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Ward(s) affected: N/A

**Report for Key/
Non Key Decision:** N/A

1. Describe the issue under consideration

- 1.1. The Local Government Pension Scheme Advisory Board (SAB) has developed a number of key performance indicators to enable it to identify any LGPS Funds causing concern. The SAB has been set up by Government to advise the DCLG on LGPS matters and provide guidance to administering authorities on good pensions practice. The SAB is not a regulator such as The Pensions Regulator and has no powers to direct or intervene in the affairs of the pension fund. However, it will publicise poor practice and it has the ability to notify DCLG or TPR when it believes action is necessary and under Regulation 110 of the LGPS Regulations 2013 (As amended) it has a specific role to provide advice to both the DCLG and LGPS Funds.
- 1.2. The SAB carried out a pilot study of the KPI's in late 2015. It will utilise the feedback from the exercise to facilitate the implementation of the exercise across all LGPS Funds in 2016. The SAB's note suggests that the completion and publication of the KPIs will become compulsory in 2016 as the SAB will likely advise the DCLG to implement such a requirement on all LGPS Funds. To ensure that the Haringey scheme is not identified as an outlier requiring intervention it is useful to score the fund and agree areas of actions in advance of the 2016 exercise.
- 1.3. This report highlights the approach adopted for the pilot exercise and applies the principles to the Haringey scheme to establish the degree of performance in comparison to the anticipated range of KPI's

2. Cabinet Member Introduction

- 2.1. Not Applicable.

3. Recommendations

- 3.1. It is recommended that:
 - 3.1.1. The Committee receives and monitors the progress of the Haringey Pension Fund, on a quarterly basis, against the KPI's used by the SAB in its pilot benchmarking study.

4. Reasons for decision

- 4.1. In order to avoid the possibility of failing to meet a number of the anticipated KPI's when they are implemented for all LG Pension Schemes, some early evaluative work
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has been undertaken. It is suggested that the Committee approve appropriate corrective and monitoring action so that the Haringey Scheme is well placed to perform against the KPI's when they are implemented.

5. Alternative options considered

- 5.1. None; at this stage the KPI's are not mandatory and the proposals in this report are voluntary to ensure that the Haringey Scheme is well placed in any future evaluation process.

6. Background information

- 6.1. As part of its work over the last two years the LGPS Scheme Advisory Board has sought to improve the quality and comparability of data associated with the LGPS following criticism from the Hutton Commission Final Report in 2012. This has involved work to consolidate the 89 separate Annual Reports into a single scheme document, published on the Board's website.
- 6.2. There has also been considerable discussion around the ability to identify and compare the financial health of individual LGPS Funds. This led to the establishment of a working party which was tasked with creating a range of meaningful performance indicators to show those funds who were in a stronger or weaker position. This assessment is not necessarily a reflection of the current governance and administration arrangements but will highlight where improvements are required following decisions made over a number of years.
- 6.3. The Haringey fund was not selected for the 2015 pilot study. However, the requirement to complete the assessment and publish the results will be expanded to all LGPS in 2016. Understanding and addressing the gaps now will help ensure the Scheme does not receive adverse publicity.
- 6.4. Attached at Appendix 1 is the Guidance issued by Scheme Advisory Board which sets out the rationale for the exercise and explains the range of KPI's to be completed by each Fund. These are split into 4 core KPI's and 14 supplementary KPI's where the core KPI's are classed as "alarm bells" to identify under-performing funds.

Issues Raised

- 6.5. Officers have completed the KPI pro-forma attached at Appendix 2 based upon data as at 31st March 2015 and a review of the current position of the Fund in respect of these indicators.
- 6.6. The areas in which improvement action can be taken relatively quickly are:
- 1) Approving and publish the risk register and agree that risks will be regularly monitored by the Committee. On April agenda.
 - 2) Development of an annual training plan and agreement that all members will self certify training undertaken and training needs.
 - 3) The proposed restructure within Finance and the appointment of a Head of Pensions together with a Pensions Accountant will increase the dedicated resources available to the pension fund.
 - 4) Completion of the work agreed at the December meeting to address the gaps in compliance with the TPR's code of practice.
 - 5) All statutory documents and employer discretions to be published on the scheme web site and available to all.
 - 6) The reporting of HR pensions administration performance against service level targets
- 6.7. The issues that will take longer to address are:

- 1) Improvements to funding level and reducing deficit recovery period to less than 15 years.
- 2) Adoption of UK Stewardship Code.

Conclusion

6.8. Some of the issues identified overlap the actions identified to meet TPR code of practice. It is proposed that progress in meeting the KPI's is monitored quarterly.

7. Contribution to strategic outcomes

7.1. The use of Key Performance Indicators is one of a number of activities that can be undertaken to judge the relative performance of the Haringey Pension Fund. Although externally determined by the SAB the KPI's provide an indication of the performance of the Fund including its achievement of strong internal controls and outcomes.

8. Statutory Officers comments (Chief Finance Officer (including procurement), Assistant Director of Corporate Governance, Equalities)

8.1. Chief Finance Officer.

8.1.1. Confirms that there are no direct financial implications arising from this report.

8.2. Assistant Director of Corporate Governance

8.2.1. . The Assistant Director of Corporate Governance has been consulted on the content of this report. The work being done on the Pension Code of Practice would enhance the administering authority's duty to manage and administer the Scheme.

9. Use of Appendices

- Appendix 1 – Guidance on SAB Benchmarking Indicators.
- Appendix 2 – Haringey Pension Fund initial KPI Analysis.

10. Local Government (Access to Information) Act 1985

Guidance for LGPS funds on the 2015 benchmarking exercise

Strategic context

The Secretariat to the LGPS Scheme Advisory Board (SAB) would like your help to undertake a national exercise of a suite of LGPS pension fund key performance indicators (KPIs). By taking part in this exercise it is an opportunity for your fund to:

- 1) Assess your fund against the examples of best practice and concern
- 2) inform us how much effort/time/cost doing the exercise consumed
- 3) Provide feedback to the SAB on the KPIs before their implementation in 2016

The SAB have agreed that individual LGPS fund performance should be assessed in aggregate using the following 5 key themes:

- 1) Fund governance, management, administration, accountability and transparency,
- 2) Funding level, contributions, deficit reduction, and ability to meet pension liabilities,
- 3) Asset management strategy, stewardship, and investment returns,
- 4) Pension benefits, administration, member service, and communications ,and
- 5) Independent external review and assurance.

The SAB considers that maintaining and improving the overall performance of the LGPS is best done by focusing on improving key financial and governance metrics of “underperforming” funds, and concurrently seeking to raise the level of performance of “average” funds to that of the “highest performing” funds.

The SAB has agreed it is not seeking to develop an LGPS fund league table or multi-tier categorization system to rank or group all LGPS funds relative performance, because such rankings might be misinterpreted by scheme members and other parties.

The SAB have identified 4 core KPIs (“alarm bells or trip wires”) to identify underperforming funds, and 14 supplementary (“health”) KPIs that can be used to identify where potential management problems lie and improvements could be made.

The 4 core KPIs are in relation to risk management, funding levels and contributions, deficit recovery, and required investment returns. The suite of KPIs were developed during 2014 by the SAB Scheme Reporting Working Group that comprises of LGPS fund staff and bodies including some LGPS funds, the NAPF, CIPFA, and the ACA LGPS Sub-Group.

The Working Group has devised KPIs that:

- 1) can be considered in aggregate as well as individually, and the examples of high performance which are set high to encourage funds to aspire to best practice and excellence,
- 2) use existing information that each LGPS fund should already have access to, for example in your 31st March 2015 Annual Report and audited financial statements, fund website, from your fund administrator, actuary, 31st March 2013 triennial valuation, asset custodian, investment performance measurer, and internal or external auditors,

- 3) can be used to assess and benchmark funds and the whole scheme and over time via repeating the national exercise in future.

The SAB have agreed that they plan to use these KPIs (as improved, clarified or amended by the exercise) to formally assess and benchmark the health of LGPS pension funds as part of the 2016 triennial valuation of the LGPS.

By undertaking such analyses it will enable the SAB to be proactive in encouraging best practice, continuous improvement, and raising standards within the LGPS. Administering authorities are strongly encouraged to share the KPIs and their assessment and scoring with their Local Pension Board. Following such a local and national performance review process it might be appropriate for any “outliers” and/or any “under-performing” fund(s) to be either:

- 1) supported with technical advice and help from adjacent/higher performing LGPS funds or external advisors/consultants; and/or in extremis
- 2) be placed on watch and possible recommendation to the Secretary of State for intervention and/or remedial action.

However, well before this, the SAB considers the KPIs should be used by individual LGPS funds to develop balanced “score-cards” to undertake an assessment of a fund’s current level of performance (and thus sustainability) against the level of high performing funds. Local Pension Boards may use the indicators as a ‘sense check’ or ‘self-audit’ tool.

Please note your response to this exercise will be seen by the SAB Secretariat and the SAB. The individual fund results from the 2015 exercise are not intended to be made public. However, in future years, individual fund results may be.

LGPS fund actions

The Secretariat would like you to self-assess your fund’s performance relative to the examples proposed for high performing funds and the examples of concern (see Table 1 attached). The intention is that the key sources of information for assessing your funds achievement of the KPIs should come from:

- 1) fund annual report and audited financial accounts for financial year ending 31st March 2015 and other supporting information published on your fund website or hard copy documents relating to the FY 2014/15,
- 2) fund membership/administrative data and any benchmarking data from your internal/external pension benefits administrator for FY 2014/15,
- 3) fund investment performance information and benchmarking data provided by asset custodian and performance measurer for FY 2014/15,
- 4) actuarial data from your 31st March 2013 statutory valuation and any benchmarking reports produced by LGPS actuaries (e.g. Hymans Robertson) (and if available your updated actuarial position to 31st March 2015),
- 5) your internal audit or external audit reports for FY 2014/15,
- 6) your DCLG LGPS SF3 return for FY 2014/2015.

The Secretariat has communicated with the actuarial firms in the LGPS ACA Sub-Group to help facilitate your actuaries’ help to provide you with your 2013 triennial valuation figures for KPI’s 2, 3, and 4. For each KPI, please assess, provide the main

source of your evidence (e.g. see page 21 of our 2015 Annual Report or see the Governance section of our fund website) with an e-link and indicate your fund's status in terms of a score for each of the examples of best practice or examples of concern.

Please provide explanatory notes you feel would clarify your assessment and scoring for this exercise.

The Secretariat would welcome your feedback on how much effort and time and any costs were consumed to respond to this exercise. We would also welcome general feedback on the KPIs and the examples of best practice and examples of concern, and any suggestions for their clarification, refinement, and improvement, or any better or alternative KPIs.

The SAB Secretariat will consider the results of the exercise during December 2015. The SAB will review the outcome of the exercise in early 2016 and will recommend to DCLG the KPIs are considered to be included in LGPS regulations/scheme guidance and/or as part of 31st March 2016 valuation process. They will then be issued in April 2016 and from December 2016 used as tool to assess and support funds accordingly.

Issued by the SAB Secretariat, 4th September 2015.