

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:

- 4) Fund governance, management, administration, accountability and transparency
- 5) Funding level, contributions, deficit reduction, and ability to meet pension liabilities
- 6) Asset management strategy, stewardship, and investment returns
- 7) Pension benefits, administration, member service, and communications
- 8) 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 “under-performing” 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 categorisation 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 under-performing 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. **Table 1** presents the suite of 18 KPIs and **Proforma 1** for the examples of best practice for high performing funds and examples of concern.

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.

Scheme Advisory Board

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:

Scheme Advisory Board Secretariat

Local Government House, Smith Square, London SW1P 3HZ T 020 7187 7344 E liam.robson@local.gov.uk or elaine.english@local.gov.uk W www.lgpsboard.org

Scheme Advisory Board

- 1) your 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 on the attached **Proforma 1**.

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.

Please use and return Proforma 1 and your feedback on the KPI exercise by 31st October 2015.

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.

Your help and support is most appreciated. If you have any queries about this exercise or the Indicators (Table 1 or Proforma 1) please contact Liam Robson (liam.robson@local.gov.uk). If any national clarifications are needed they will be issued as soon as possible to all LGPS funds.

Issued by the SAB Secretariat, 4th September 2015.

Scheme Advisory Board

Table 1

No	Theme	G/P	Key Indicator	Technical owner of the KPI
1	Gov	G	Risk management (covering all pension fund activities)	CIPFA as the KPIs is based on the CIPFA LGPS risk management guidelines.
2	Fund	P	Funding level and contributions	SSAB and ACA LGPS Sub-Group
3	Fund	P	Deficit recovery	SSAB and ACA LGPS Sub-Group
4	Asset	P	Required investment returns	SSAB and ACA LGPS Sub-Group in consultation with WM as required
5	Gov	G	Pensions Committee and Pensions Board members competence	CIPFA because the KPI is based on adoption of the CIPFA LGPS training, knowledge, understanding, and disclosure framework
6	Gov	G	Administering authority staff accountability, leadership, experience, and training	CIPFA because the KPIs is based on the adoption of the CIPFA LGPS training, knowledge, understanding, and disclosure framework.
7	Gov	G	Statutory governance standards and principles (as per DCLG, SSAB guidance, and TPR codes)	DCLG, SSAB and tPR as the creators of the statutory or best practice governance standards, principles and guidance
8	Gov	G	Quality and accessibility of information and statutory statements/strategies/policies (Governance, FSS, SIP, comms, admin authority and employer discretions policies)	DCLG as the authors of the guidance on the production of LGPS statutory strategy and policy statements
9	Asset	G	a) Compliance with Investment Governance Principles (ie Myners principles) and b) voluntary adoption of UK Stewardship Code and UNPRI	SSAB Secretariat in consultation with IGC, FRC, and PRI
10	Asset	P	a) Historic investment returns (last 1, 3, 5, and 10 years) and b) total investment costs compared to other LGPS funds.	WM (State Street) or other investment performance measurer
11	Asset	G	Annual report(s) and audited financial statements	DCLG in terms of legal requirements plus CIPFA in terms of LGPS financial reporting and accounting guidance
12	Pens	G	Scheme membership data	tPR Code of Practice 14 and standards and guidance for common and conditional data
13	Pens	G	Pension queries, pension payments, and annual benefit statements	DCLG in terms of legal requirements and tPR code 14 and best practice guidance.
14	Pens	P	Cost efficient administration and overall VFM fund management	CIPFA in terms of defining LGPS administrative costs.
15	Pens	P	Handling of formal complaints and IDRPCs	DCLG as the KPI is based on their LGPS IDRPC guidance (it needs updating)
16	Ind	G	Fraud prevention	National Fraud Initiative standards
17	Ind	P	Internal and external audit	Auditing Practices Board standards
18	Ind	P	Quality assurance	ISO/BSI quality standards, and or Crystal Mark or Plain English recognition or other recognised e-publishing standards or external awards

Scheme Advisory Board

Table 1 cont.

Theme	Abbreviation
Fund governance , management, administration, transparency, and accountability	Gov
Funding level, contributions, deficit reduction and ability to meet pension liabilities	Fund
Asset management strategy, stewardship, and investment returns	Asset
Pension benefits, member services, and communications	Pens
Independent external review and assurance	Ind

Key indicator type	Abbreviation
Governance (some degree of subjectivity in assessment)	G
Performance (more objective assessment)	P

Scheme Advisory Board

Explanatory notes

The majority of the KPIs are intended to be self-explanatory and have been piloted as such. However, below are some explanatory notes for some of them. Please contact Liam Robson (liam.robson@local.gov.uk) if you have any questions.

No.	Key Indicator	Explanatory definitions and notes
2	Funding level and contributions	<p>Funding level calculated at last triennial valuation (on consistent HMT SCAPE financial assumptions) compared to the actual proportion of the fund's deficit (calculated on the above consistent HMT assumptions) being paid off annually. Actual contributions paid (sourced from annual accounts) as compared with expected total contributions (sourced from last 2 triennial valuations). Net inward cashflows (excluding investment income) as a proportion % pa of fund assets. Use to monitor if negative cash flow is close to or above say 3% of total assets. Above this should be sufficient income from assets to supplement contributions to meet benefit payments without having to sell assets. Not sign of poor performance but risk should be carefully managed.</p>
3	Implied deficit recovery period	<p>Implied deficit recovery period (derived using figures under indicator 2) reducing each triennial valuation. This metric is not the deficit spreading period used to set contributions. It is the estimated number of years required to repay each fund's deficit assuming a) current levels of contributions continue and b) the liabilities targeted for full funding are measured on like for like HMT assumptions (not each funds valuation assumptions). Also the contributions assumed in the calculation (and other metrics like required future investment return) should be the actual total contribution income expected into a fund based on actual payroll information from each employer at the valuation date and the rates of contribution certified at the valuation. The estimate of aggregate contributions for a fund is not the same as the "common rate" in the valuation report.</p>
4	Investment returns compared to the funds required future investment return	<p>The fund's required future investment return (calculated as the return needed to repay its deficit over a specified standard period (say 20 years) using common financial assumptions (HMT SCAPE) for the value of the fund liabilities to be met</p>

Scheme Advisory Board

		<p>over that period and assuming the rates of contributions certified at the last valuation). All returns post 1 April 2014 must be quoted net of fees. The required future investment return should also be compared with the estimated future return being targeted by a fund's investment strategy calculated on a consistent agreed basis.</p>
10	Investment returns and costs compared to other LGPS funds	<p>Historic investment returns (over 1, 3 and 5 year) (and 10 years and longer periods if available) as compared with other LGPS funds from external service provider. Going forward all figures post 1 April 2014 should be net of fees and preferably all investment returns on an agreed and consistent risk adjusted basis. Care will be needed to compare the absolute level of returns between funds because each fund has different asset allocations. Need to use a metric that takes account of performance and/or risk and/or sub-divide funds into high, medium, low growth asset allocation and make comparisons within these categories (not across categories). The required future investment return should also be compared with the estimated future return being targeted by a fund's investment strategy calculated on a consistent agreed basis. Total investment costs should be as per the financial accounts as % of total assets under management. This may need a specialist external service input to do analysis and reporting on a consistent and transparent basis and to enable benchmarking.</p>