

REPORT FOR: Pension Board

Date of Meeting:

22 March 2016

Subject:

Information Report - Management and Investment Expenses Benchmarking

Responsible Officer:

Dawn Calvert, Director of Finance

Exempt:

No

Wards Affected:

All

Enclosures:

Appendix: Analysis of reported pension fund costs by Centre for Policy Studies

Section 1 – Summary and Recommendation

Summary

The report updates the Board on developments in connection with benchmarking the management and investment expenses of the Fund.

Section 2 – Report

1. At their meeting on 2 November 2015 the Board considered the details of investment and management expenses incurred by the Pension Fund during 2014-15 and asked that any benchmarking data that was available regarding other funds be provided to the Board after the meeting.

2. The Council, along with all other administering authorities, prepares its Pension Fund accounts in accordance with the CIPFA Code of Practice and in its accounts identifies relevant costs as “Management Expenses” and “Investment Expenses.” These expenses are limited to those actually recorded in the authority’s accounts and, crucially, often exclude many of the investment management costs “hidden” within the performance and valuation data of fund managers. Details of these expenses were provided in the report to the Board. The figures included in the accounts are reported to the Department for Communities and Local Government (DCLG) in the statutory SF3 return in the months following the end of each accounting year. This is probably the only potentially “benchmarking” data which is supplied by all administering authorities every year.
3. However, DCLG report the results only on a “Scheme-wide” basis and not in any benchmarking format.
4. Notwithstanding this, there are several organisations active in the benchmarking market, two of the most frequently mentioned being CIPFA for fund administration and CEM Benchmarking for investment costs.
5. The CIPFA benchmarking club is quite well known but due partly to concerns over commercial confidentiality and the choice of peer groups it is not easy to find the number of authorities in the club and Harrow has never been a member. Its report “Pensions Administration Benchmarking Club 2015” is not in the public domain.
6. CEM Benchmarking have had a few LGPS clients for several years but have only recently sought to expand their activity significantly in this market.
7. However a substantial amount of work on benchmarking, using the SF3 returns has been carried out by the Centre for Policy Studies and they have recently published the results. Their statistical analysis of these returns is included as the appendix to this report. On the face of it, this appendix makes encouraging reading for Harrow but it is provided more to identify an obvious flaw in the methodology rather than to seek approbation or discussion of the data. The Harrow figures are skewed by the fact that fee rebates from various fund managers are included within the costs reported whilst the fees paid both to these managers and several others are not. No doubt similar shortcomings could be identified by many other authorities whose costs have been analysed.
8. The Board are aware of the development of the London Collective Investment Vehicle (CIV) and, over recent months, it has become clear that the Government will require all administering authorities to commit to such a vehicle. In their recent publication “Local Government Pension Scheme: Investment Reform Criteria and Guidance” DCLG have required all authorities to commit to pooling their investments and they expect detailed plans to be reported to them in July. Specifically they will require authorities to provide “a fully transparent assessment of investment costs and fees” for the last three years. This will, and is intended to, require authorities to understand and report on all their investment costs

irrespective of whether they are invoiced directly or taken from the investments at source.

9. In the report to the last meeting of the Board estimates were made of these costs for Harrow but, no doubt, their accuracy can be improved and no benchmarking was attempted.
10. Over recent weeks, officers have become increasingly aware of a company called "CEM Benchmarking" who say they are "an independent provider of objective and actionable benchmarking information for.....pension funds....." In return for investment data they have offered to provide to all London boroughs an advisory and data cleansing service and a 30 page report at no cost. Several boroughs have already provided data and it appears likely that many more will do so. Harrow is providing data and the results will be available for the Board at its next meeting.
11. As regards administration costs the benefits of joining the CIPFA club will be investigated and the results reported to the Board.

Financial Implications

12. There are no financial implications arising directly from this report.

Risk Management Implications

13. Relevant risks are included in the Pension Fund Risk Register.

Equalities implications

14. There are no direct equalities implications arising from this report.

Council Priorities

15. The financial health of the Pension Fund directly affects the level of employer contribution which in turn affects the resources available for the Council's priorities

Section 3 - Statutory Officer Clearance

Name: Dawn Calvert ✓ Chief Financial Officer

Date: 25 February 2016

Ward Councillors notified:

Not applicable

Section 4 - Contact Details

Contact: Ian Talbot, Treasury and Pension Fund Manager
0208 424 1450

Background Papers - None