

Pensions Committee

21 June 2017

Report title	Scheme Advisory Board Annual Report 2016 and KPIs	
Originating service	Pensions	
Accountable employee(s)	Rachel Howe Tel Email	Head of Governance 01902 552091 Rachel.Howe@wolverhampton.gov.uk
Report to be/has been considered by	Rachel Brothwood Tel Email	Director of Pensions 01902 551715 Rachel.brothwood@wolverhampton.gov.uk

Recommendations for noting:

The Committee is asked to note:

1. The Scheme Advisory Board's Annual Report and activities for the year 2016/17.
2. The points highlighted within the Fund's self-assessment against the Scheme Advisory Board KPIs.

1.0 Purpose

- 1.1 To provide Committee with a national overview of the Local Government Pension Scheme (LGPS).

2.0 Background

- 2.1 The National Scheme Advisory Board (SAB) was created under the Public Service Pensions Act 2013. The purpose of the SAB is to be both reactive and proactive in seeking to encourage best practice, increase transparency and coordinate technical and standards issues.
- 2.2 The SAB also has powers to 'step-in' to Local Pensions Boards if it feels they are not performing their duty or that the individual Fund is failing in its duty to meet the standards set out in legislation and guidance.

3.0 Scheme Advisory Board Annual Report

- 3.1 In line with its Regulatory duty, the national Scheme Advisory Board (SAB) every year produces its Scheme Annual Report highlighting national averages in areas such as investment returns, asset allocation, funding and governance.
- 3.2 The SAB produces its report based on published annual report and accounts of all LGPS Funds across England and Wales. It is therefore produced retrospectively each year. This latest report highlights the average position from the 2016 reports, and is a useful point of reference for a variety of stakeholders.
- 3.3 Key LGPS highlights for 2016 as noted by the SAB include:
- The total membership of the LGPS grew by 134,000 (2.5%) to 5.3m members in 2016 from 5.2m in 2015 and the number of LGPS employers increased by 2,635 (22%) to 14,435.
 - Assets held by LGPS Funds totalled £217billion (a change of 0.0%). These assets were invested in pooled investment vehicles (43.6%), public equities (34.6%), fixed interest/index linked (7.5%), property (7.8%), as well as other asset classes (1.0%).
 - The Local Authority net return on investment over 2015/2016 was 0.1%. This was reflective of the difficult market conditions during the year and set against the FTSE All Share Total Return of -3.9%.
 - The scheme maintained a positive cash flow position overall. Scheme income was lower than total scheme outgoings by £279m; this was excluding investment income.
 - The funds all received unqualified external financial audit certificates from the Scheme's external statutory auditors.
 - Over 1.5m pensioners were paid over the year. Fewer than 91 formal complaints about scheme benefit administration were determined and less than 15% were upheld by the Pensions Ombudsman. Overall the LGPS has had relatively few upheld complaints.

3.4 In comparison, WMPF's (Main Fund) highlights for 2016 show

- The total membership grew from 277,558 to 287,874 (3.5%)
- Employers increased from 473 to 536 (11.7%)
- The Fund's total asset value increased from £11.5 billion to £11.6 billion. As at 31 March 2016 these assets were allocated in the following manner
 - Quoted equities: 49%
 - Private equity: 11%
 - Fixed interest/cash: 23%
 - Alternative investments: 17%
- The Fund's net return on investment totalled 7%
- The Fund maintained a positive cash flow position in 2015/16 (receiving more in contributions than it spent on pension benefits), with net income for the year totalling £4.8 million (excluding transfers to/from the Fund and investment income).
- With the number of pensioners being paid totalling 85,558 (WMPF)
- Throughout 2015/16 the fund received 330 complaints (0.11% of total membership).

3.5 This shows an overall positive position of WMPF compared to the national average and showcases the Fund as being a top performer in the LGPS, meeting its objective in the 2017/2022 service plan.

3.6 For the West Midlands Integrated Transport Authority Fund it is difficult to use the national average as a comparator due to the closed status of the Fund.

4.0 Cost Transparency

4.1 The move toward investment fee transparency and consistency is seen by the SAB as an important factor in the LGPS being perceived as a value led and innovative scheme. Transparency is also a target for the revised CIPFA accounting standard issued for inclusion in the statutory annual report and accounts and included in the government's criteria for pooling investments.

4.2 WMPF is recognised within the industry as a "front runner" in promoting transparency in the reporting of investment management costs, voluntarily embracing and disclosing deeper layers of costs and working with CIPFA and the National LGPS Scheme Advisory Board to develop a code of transparency for asset managers.

4.3 On a like for like basis, compared to 2012/13 the total investment costs for WMPF are £58 million per year. This has been achieved through re-shaping the portfolio to focus on value added and without compromising risk and return opportunities.

5.0 Academisation

5.1 As part of its workplan for 2016/17 the SAB set about investigating the issues around Academisation of local authority schools and what it would mean for the LGPS and their host authorities. As part of this work, the SAB commissioned PWC to produce a report on the options for Academies.

- 5.2 The report was published on 31 May and its publication will enable the SAB to engage with key stakeholders including pension funds, actuarial firms and academy trusts as appropriate on the issues raised by those interviewed by PWC. The Board will continue to gather relevant evidence and then develop specific proposals for change before submitting its recommendations to Ministers for their consideration.

6.0 SAB Key Performance Indicators

- 6.1 Committee may recall in December 2015, the Fund reported on its role in a pilot with the SAB to produce Key Performance Indicators to develop a suite of 18 KPIs to assess and benchmark the health of LGPS funds. The 18 KPIs were made up of 4 core KPIs and 14 supplementary KPIs. For each of these KPIs, the Fund was required to score itself against stipulated examples of best practice and concern; the possible scoring range being -56 to +60. At the time of the pilot, the Fund identified 10 areas where it failed to achieve the maximum available score.

- 6.2 Following the pilot, the SAB reviewed the feedback and in May 2017 reissued the KPI's for assessment and completion by Funds. WMPF has submitted its assessment and on this occasion has identified 5 areas where maximum scores were not achieved.

a) The fund has more than 3 risks identified as "high" on its risk register. Through the Fund's proactive approach to risk management, existing and emerging risks are captured and routinely reviewed through the risk register which outlines the assessment and controls in place for each identified risk, as noted in the compliance report.

b) Benchmarking historic investment returns.
Independent benchmarking consultants CEM Benchmarking adjust the costs of global pension funds to reflect asset allocation and their data shows that on a like for like basis, WMPF costs are almost 20% cheaper than the average fund. A number of Funds are continuing to sign up to this benchmarking platform to expand the global comparison. Due to the closure of the WM50 LGPS Benchmarking platform the Fund does not currently benchmark its performance against its peers, however work is underway by the industry to replace this and with the introduction of pooling, we expect the Fund to improve its scoring in this area over the course of the year.

c) Scheme Membership Data

As previously reported to Committee, the Fund has in place a data management program, incorporating greater employer liaison and dedicated section of the pension administration team, to address issues early ensure the cleanliness and accuracy of its data.

d) Pension queries, pension payments, annual benefit statements and Quality Assurance
The Fund does not hold a certification or crystal mark for plain English publications, however it has held for a number of years the accreditation for Customer Excellence Service which includes a review of the information we present to our Customers.

e) Complaints upheld by the Ombudsman

In the last 3 years the Fund has had 4 Internal Dispute Resolution complaints partially upheld by the Ombudsman 2, Stage one Fund decision and 2 Stage 2 employer decision.

7.0 Financial implications

7.1 There are no implications

8.0 Legal implications

8.1 There are no implications

9.0 Equalities implications

9.1 There are no implications

10.0 Environmental implications

10.1 There are no implications

11.0 Human resources implications

11.1 There are no implications

12.0 Corporate landlord implications

12.1 There are no implications

13.0 Schedule of background papers

13.1 Scheme Advisory Board Annual Report

<http://www.lgpsboard.org/index.php/foreword-2016>

13.2 Scheme Advisory Board Report on Options for Academies

http://www.lgpsboard.org/images/PDF/LGPS_Advisory_Board_Options_for_Academies_20170525.pdf