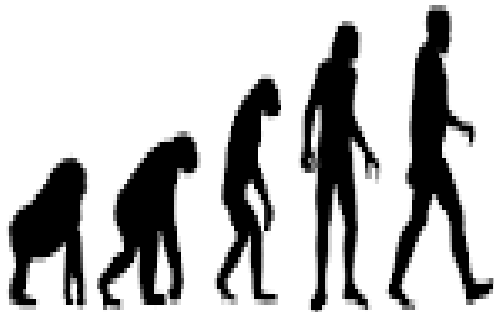# Surrey Pension Fund

Scheme Advisory Board KPIs

Neil Mason
October 13, 2015

1. **How we got here**

2. **Where we are**

3. **Where we're going**

4. **My thoughts**

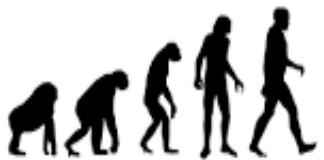5. **Your thoughts**

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1. How we got here

How we got here

- **Throughout 2014:**
  The SSAB scheme reporting working group (NAPF, CIPFA & ACA sub groups) established the KPIs.

- **March 2015:**
  The KPI pilot.

- **June 2015:**
  Revised KPI pro forma.

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Why?

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Why?

"... help the SAB to nationally assess the relative health of the funds and scheme as a whole. More importantly, the indicators are intended to be a valuable benchmarking tool for administering authorities, and the newly formed Local Boards, to help with the governance process and continuous improvement." (SAB)

- Assess your fund against the examples of best practice for high performing funds and the examples of concern for each KPI.

- Inform us how much effort/time/cost undertaking the exercise consumed compared with the < 1 day reported by the pilot funds

- Provide general feedback on the KPIs and the examples of best practice and the examples of concern, and to offer suggestions for their further clarification, refinement, and improvement.

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The KPIs

- **4 core 'alarm bell' KPIs – red risks**
  Risk management (covering all pension fund activity)
  Funding level and contributions
  Deficit recovery
  Required investment returns

- **14 supplementary 'health' KPIs – analysis of total management of the fund**
  Pension board and pension committee member competence
  Administering authority staff accountability, leadership, experience and training
  Statutory governance standards (as per DCLG or SSAB guidance and tPR codes)
  Quality and accessibility of information and statutory statements/strategies/policies
  Compliance with the principles of investment governance
  Historical investment returns
  Annual report and audited financial statements
  Scheme membership data
  Pension queries, pension payments and annual benefit statements
  Cost efficient administration and overall value for money of fund managers
  Complaints handling
  Fraud prevention
  Internal and external audit
  Quality assurance

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4 core 'alarm bell' KPIs – red risks

- **Risk management (covering all pension fund activity)**
  Comprehensive risk management, with a risk register prioritising key risks and mitigations. Evidence that this is quality assured by audit and the pension committee.

- **Funding level and contributions**
  Funding level scored on progress towards becoming fully funded. Cash flow analysis to ensure future income meets benefit payments.

- **Deficit recovery**
  Transparency and appropriateness of recovery plans across employer pool. Deficit recovery periods reducing.

- **Investment returns**
  Required future fund investment returns are aligned to the investment strategy. Returns exceed the returns required on a consistent basis.

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The Pilot

The Pilot

- March/April 2015

- 13 funds

- For each KPI, the Fund assessed its achievement compared to the examples, using the following system **Yes**, **Partly** or **No**

- Provided explanation and indicated main sources of evidence

Core KPI pilot results

Core KPI name	Description	No answer	No	Partly	Yes
Risk management	Comprehensive risk register in accordance with CIPFA guidance		1	4	**8**
Funding level and contributions	Funding level rising and getting closer to 100% funded		5	2	**6**
	Strong funding covenants in place		0	**8**	5
	Rising contributions or actual contributions equate to or exceed certified amounts		0	3	**10**
	Net inward cash flow exceeds outgoing benefits		6	1	**6**
Deficit recovery	Well articulated deficit recovery plan		0	0	**13**
	Implied deficit recovery reducing each triennial valuation	1	3	3	**6**
	Implied deficit recovery period in line with tPR best practice		**8**	3	2
Required investment returns	Consistent with investment strategy		0	0	**13**
	Risk register signed off by Pensions Committee and publicly disclosed		1	3	**9**

KPI pilot feedback

- **Time, effort cost:**
  KPIs took up to one day to complete.
  This was not considered unreasonable or over onerous.

- **Specific:**
  Risk management: internal/external audit reports.
  Some Funds find it difficult to assess pension committee or local board training.
  Need for a standardised basis for valuation, deficit and recovery periods.
  Need for a standard benchmarking of investment performance and all fund costs.

- **General:**
  Should there be a distinction between mandatory items and best practice?
  Could there be a greater distinction between objective and subjective measures?
  Ratings scales could be more granular (e.g. 1-5).
  Some KPI definitions need clarifying with the support of professional bodies (ACA / CIPFA).

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2. Where we are

Where we are

- 4 September 2015 request from SAB to take part in a 2015 LGPS benchmarking exercise.

- 18 KPIs (4 core / 14 supplementary).

- 10 governance, 8 performance related metrics.

- Scored 1 – 5 in achieving the KPI on the pro forma.

- Provide evidence of main source.

- Provide general feedback, examples of best practice and concerns.

- Replies in by 31 October 2015.

No.	Key Indicator	Examples of level of concern	Examples of good practice for high performing fund
1	Risk Management	No or only partial and/or an unclear risk register with no or poorly specified or un-implemented migration actions over time leading to increased fund risk. No evidence of a risk register being: a) Prioritised b) Annually reviewed by Pensions Committee c) Annually reviewed by internal audit or external audit d) Used to reduce high risk e) Available for public scrutiny Self score - 1 point for each one	Comprehensive risk register covering the key risks (in accordance with the current CIPFA guidelines) with prioritisation, robust mitigation actions, defined deadlines, with action tracking completion. Evidence and e-links to demonstrate: a) Risks prioritised on a RAG red, amber, green or by a scoring Methodology b) Completed actions signed off by Pensions Committee after at least annual update c) Annual review by internal audit and external audit d) <3 priority/"red" risks e) Public disclosure of a summary version published on fund website or in fund annual report. Self score +1 point for each
2	Funding level and contributions	a) Decreasing funding level (calculated on a standardised and consistent basis) and/or in bottom decile of LGPS, over the last three triennial valuations on a standardised like for like basis. b) No or minimal employer funding risk assessment and monitoring and not reported to Pension Committee c) Total actual contributions and actual received in last 6 years less than that assumed in last 2 triennial valuations d) Net inward cash flow less than benefit outgoings so need for any unplanned or forced sales of assets. Self score 1 point for each one.	Evidence and e-links to demonstrate: a) Funding level rising and getting closer to 100% funded (or above) over last three triennial valuations on a standardised like for like basis. Funding % 91 to > 100 = score + 5 80 – 90 = +4 70 – 79 = +3 60 – 69 = +2 <59 = + 1 b) Employer funding risk assessment and monitoring reports to the Pensions Committee. Net inward cashflow forecasts meeting planned income or significantly exceeding benefit outgoings c) Total actual contributions received in last 6 years equate to (or exceed) that assumed and certified in the last 2 valuations d) Net inward cash flow significantly exceeds benefit out-goings Self score a) as above and rest + 1 for each one

Are We There Yet?

No.	Key Indicator	Examples of level of concern	Examples of good practice for high performing fund
3	Deficit recovery	a) No or opaque deficit recovery plan b) Lengthening implied deficit recovery period (for contributions) c) Implied deficit recovery periods > 25 years for last 3 valuations. Self score – 1 point for each one	Evidence and e-links to demonstrate: a) Transparent deficit recovery for tax raising and non-tax raising bodies b) Implied deficit recovery reducing each triennial valuation c) Implied deficit recovery period in line <15 years for the last valuations Self score + 1 point for each one
4	Investment returns	a) Required future investment return (calculated on standardised and prudently consistent basis) not aligned to the investment strategy target return so lower likelihood of the fund achieving its funding strategy b) Actual investment returns consistently undershoot actuarially required returns. Self score – 1 point for each one	Evidence and e-links to demonstrate: a) Required future fund investment return (calc by actuary) are consistent with and aligned to investment strategy (asset mix expected target returns) so higher likelihood of the funds meeting its funding strategy b) Actual investment returns consistently exceed actuarially required returns. Self score + 1 point for each one

Are We There Yet?

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Sources of information

- Annual report and audited financial accounts for 31 March 2015.

- Fund membership/administration data and benchmarking data.

- Investment performance information and benchmarking data from custodian 2014/15 financial year.

- Actuarial data from 2013 valuation (if possible updated position as of 31 March 2015) – SAB has been in contact with actuaries in preparation.

- Latest internal and external audit reports.
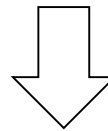
- DCLG SF3 returns for 2014/15 financial year.

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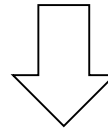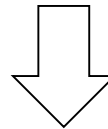
3. Where we're going

Where we're going

December 2015 / early 2016: SAB will consider the results of the exercise

⬇

SAB will recommend to DCLG that the KPIs are included in the LGPS regulations and guidance and/or as part of 2016 valuation process.

⬇

April 2016: KPIs Issued in April 2016.

⬇

December 2016: Used as a tool to assess and support funds.

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4. My thoughts

My thoughts

- The opportunity to create a consistent benchmark to the benefit of all funds.

- The KPIs represent a template work plan for Local Pension Boards and a way they can truly "assist" the administering authority.

- Be tough with performance standards and use the KPIs as a wider investment and governance improvement framework.

- An example of the LGPS working together to produce positive outcomes.

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5. Your thoughts

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Thanks to Geik Drever and her team at the West Midlands Pension Fund