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| Subject | Benchmarking of Administration | Status | For Publication |
| Report to | Local Pensions Board | Date | 11 December 2019 |
| Report of | Head of Pension Administration | | |
| Equality Impact Assessment | Not Required | Attached | No |
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1 Purpose of the Report

- 1.1 To update the Board on the outcome of two separate administration benchmarking exercises undertaken for 2018/19

2 Recommendations

- 2.1 Members are recommended to:
- Note the outcomes of the 2018/19 CIPFA benchmarking exercise**
 - Comment on the potential areas for service development highlighted by the CEM Benchmarking exercise**

3 Link to Corporate Objectives

- 3.1 This report links to the delivery of the following corporate objectives:

Customer Focus

To design our services around the needs of our customers (whether scheme members or employers). The new CEM Benchmarking exercise identifies some potential areas for customer service improvements over the next 12 months.

Effective and Transparent Governance

To uphold effective governance showing prudence and propriety at all times. Benchmarking our services against comparators seeks to provide a level of assurance that the service we are delivering to members is of sufficient quality and value for money.

4 Implications for the Corporate Risk Register

- 4.1 The actions outlined in this report does not have implications for the Corporate Risk Register.

5 Background and Options

5.1 For the year 2018/19, SYPA has participated in two separate benchmarking exercises. The CIPFA benchmarking exercise is specifically for LGPS funds and SYPA has been a participant in this exercise for many years, but SYPA and a number of other large LGPS funds also took part this year for the first time in a benchmarking exercise run by CEM who are an independent provider with wider involvement in supporting the pensions world outside of the LGPS. CEM will be presenting their results to the Board at the meeting and there will be an opportunity to review the outcomes of the CEM exercise in more detail.

CIPFA Benchmarking

5.2 SYPA has for a number of years been a participant in the LGPS Benchmarking club run by CIPFA. The Benchmarking club is voluntary and has a varying number of participants with only 27 out of approximately 90 funds choosing to participate in the 2019 exercise. Although this limits the conclusions to be drawn from a national perspective, the Benchmarking club currently remains the principal source of comparative data available specifically for LGPS funds to measure administrative costs and performance.

5.3 It is hoped one of the possible outcomes of the Good Governance review currently being undertaken by the Scheme Advisory Board will be that funds will be encouraged or mandated to participate in an appropriate benchmarking exercise so that the comparator results can be more usefully analysed.

5.4 **Appendix A** shows the report of comparator data which compares SYPA with the 16 funds (out of the 27 who participated) who are most similar in terms of membership numbers. This provides a more accurate picture of administrative costs than the full report which includes a number of smaller funds who could not be expected to benefit from the same economies of scale.

5.5 Section Two of the report shows that the total cost per scheme member for 2019 was **£18.71** compared with an average of **£17.69** for the comparator group (£21.34 for all funds). For comparison purposes, the total cost per scheme member for 2018 was very similar at £18.67 compared with an average of £17.42 for the comparator group.

5.6 It is difficult to draw hard conclusions from the data provided by CIPFA given the limited scale of participation but further analysis of the costs per member on Page 7 of the report suggests that SYPA invested less in Membership Engagement and Employer Engagement in 2018/2019 than the other participating funds. This issue has now been addressed at least in part by the recent administration restructure and the creation of specific engagement posts.

5.7 In seeking to understand the rationale for SYPA costs being slightly above average, it is clear from Page 7 that the higher than average costs associated with 'benefits processing' are the main factor. Most of this cost will be accounted for by the fact that Monthly Data Collection (MDC) was introduced in April 2018 and required the creation of a new team of 6 FTE staff. Over time this initial additional resource requirement has, and will, continue to diminish, as the MDC process is embedded with employers.

5.8 Sections 3 and 4 of the Report include data on workload measures as an attempt to introduce a service quality measure to accompany the data on administration costs. This is an important move in terms of benchmarking but the charts provided in the report should be viewed with caution, partly because only 8 funds submitted data but more importantly because the workload measures are compared against 'local' service

standards which vary from fund to fund. SYPA has traditionally worked to more stringent service standards than other LGPS funds.

CEM Benchmarking

- 5.9 As suggested above, LGPS funds have previously expressed concerns with the limitations of CIPFA benchmarking given the understandable focus on cost which risks providing a limited view of the effectiveness of the administration service. For the first time, a number of the larger LGPS funds have therefore decided to participate in an alternative benchmarking exercise run by CEM.
- 5.10 The main difference between the two exercises is that CEM aims to look at the administration service from the perspective of the scheme member rather than focusing purely on the operating cost. In this way, it is attempting to benchmark the quality of the administration service as well as the cost and reach a more holistic view of how the service is performing.
- 5.11 The draft report produced by CEM following their analysis is attached at **Appendix B** for reference but it was felt Board members may find it helpful to understand the approach adopted by CEM as this was the first time SYPA have participated in this exercise. Therefore, CEM will be presenting their findings at the Board meeting and Members will have the opportunity to question the approach and outcomes in more detail.
- 5.12 Appendix B is the Executive Summary produced by CEM and will be the focus of the presentation to the Board. The full report runs to 118 pages but will be available for Board Members in the online Reading Room.

6 Implications

- 6.1 The proposals outlined in this report have the following implications:

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| Financial | |
| Human Resources | |
| ICT | |
| Legal | |
| Procurement | |

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| Background Papers | |
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| Document | Place of Inspection |
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