

Agenda Item

Subject	Benchmarking – Administration and Investment Functions	Status	For Publication
Report to	Authority	Date	14 th March 2024
Report of	Director		
Equality Impact Assessment	Not Required	Attached	No
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1 Purpose of the Report

- 1.1 To present the results of Benchmarking exercises undertaken on both administration and investment activities by CEM.
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2 Recommendations

- 2.1 Members are recommended to:
- a. Note the results of the most recent benchmarking of the Authority’s activities undertaken by CEM.**
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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).

Investment Returns

To maintain an investment strategy which delivers the best financial return, commensurate with appropriate levels of risk, to ensure that the Fund can meet both its immediate and long term liabilities.

Effective and Transparent Governance

To uphold effective governance showing prudence and propriety at all times.

Undertaking benchmarking exercises using an external provider to analyse the results and draw comparisons with appropriate peer groups provides the Authority with the opportunity to understand how its costs and performance / quality of service rate compared to others and therefore identify areas for improvement.

4 Implications for the Corporate Risk Register

The actions outlined in this report do not directly impact on any specific risks included in the Corporate Risk Register but in the case of investment activity do specifically address the balance of risk and return.

5 Background and Options

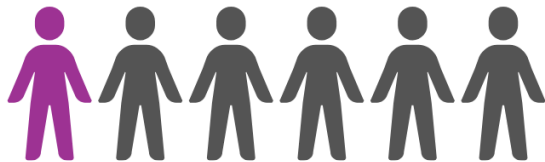
- 5.1 Benchmarking provides a useful way of comparing both costs and performance / quality of service across a wide range of indicators and the comparisons can be enhanced by using a wider range of broadly comparable organisations. The Authority has regularly participated in benchmarking exercises in relation to its administration and investment activities for many years. For administration services this has previously been as part of a benchmarking club run by CIPFA (and in 2019 the CEM survey) and for investment activities as part of a service delivered by CEM. More recently the number of LGPS funds participating in the CIPFA survey has significantly reduced and it is now largely comprised of smaller funds making the comparative data less useful to a larger fund like South Yorkshire. CEM's coverage on the other hand has increased and it is possible for them to provide both LGPS and global comparators. This report provides a summary of the results of the most recent CEM administration and investment benchmarking reports which were presented in detail at a workshop for Authority and Local Pension Board members.

Administration

- 5.2 The Administration report compares SYPA with a peer group of 14 other administration providers, mainly larger LGPS funds but also including several shared service operations (such as LPPA) and large quasi-public sector Defined Benefit Schemes such as Railpen and USS. As a result of this SYPA serves 43% fewer members than the average in the group. Logically this might mean that as a smaller provider we might find it more difficult to deliver the same level of service as some larger providers. The graphics below highlights some of the key messages from the report which is available in the members online reading room.

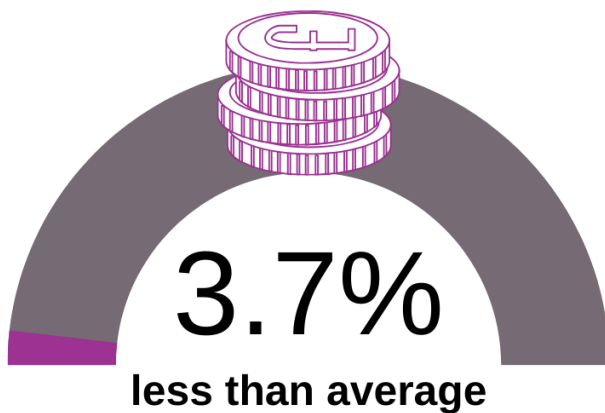
Administration

■ SYPA ■ Average

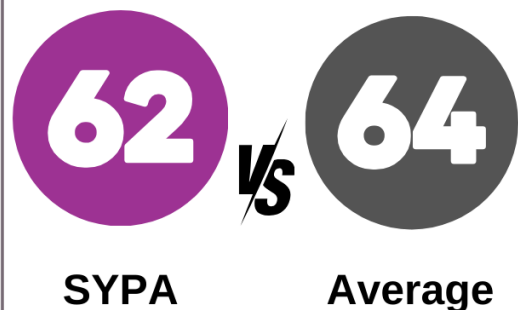


1 FTE staff member per
2,657 scheme members
vs
An average of 1:2,542

Average remuneration



Total Member Service Score



Quality

Positives



Scored 2nd highest score for phone outcomes.



Our website provides high value functionality, especially for pensioners.



Provision of face to face individual meetings. (most do not provide)

Areas for Improvement



Call wait times average 250 secs vs median of 164 secs



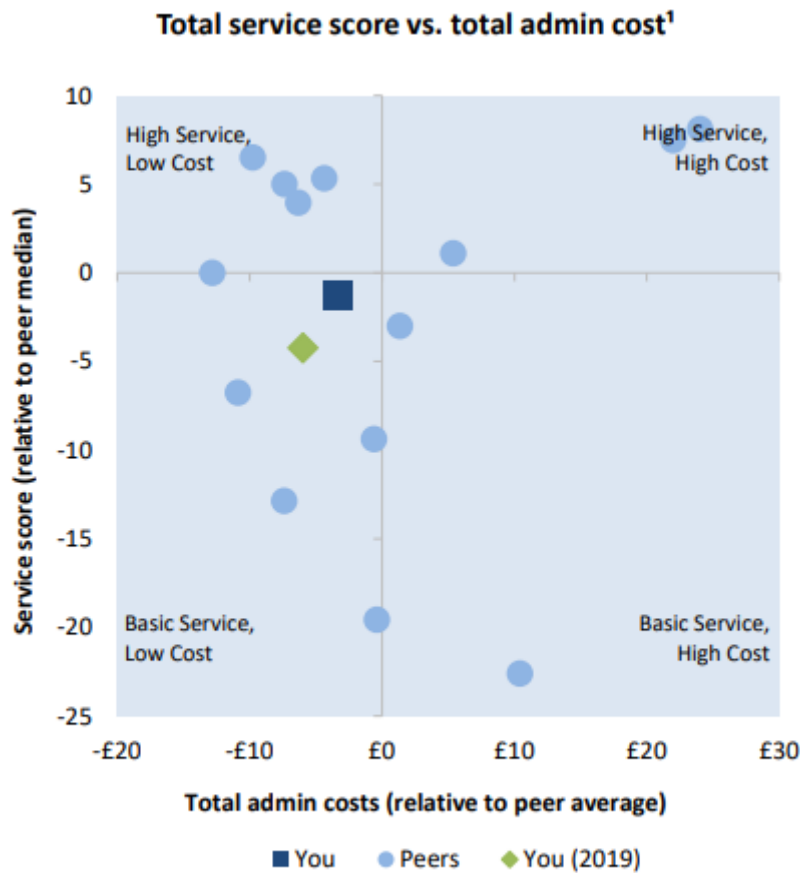
>50% of retiring members paid without a cashflow interruption vs median of 67.5%



31 days to send an estimate vs 12 days for peers

5.3 CEM's summary places SYPA as a basic member service low cost provider on their cost effectiveness chart (as shown below), which tallies with a greater proportion of

cost being directed at what are described as “member transactions”. Although the service score is close to the High Service boundary.



- 5.4 CEM’s research indicates that there is a low correlation between cost and service (as measured in their scale) and it should therefore be possible to increase the service score without necessarily increasing costs. This is the focus of the activities set out in the updated corporate strategy although the budget does provide for a significant increase in staffing to ensure that once eliminated processing backlogs do not recur. This will clearly affect cost comparisons but is a conscious choice to improve the overall quality of service by eliminating backlogs and ensuring we have a properly trained workforce. The Authority will now participate in the CEM survey annually and will use the identified areas for improvement to support its improvement plans.

Investment

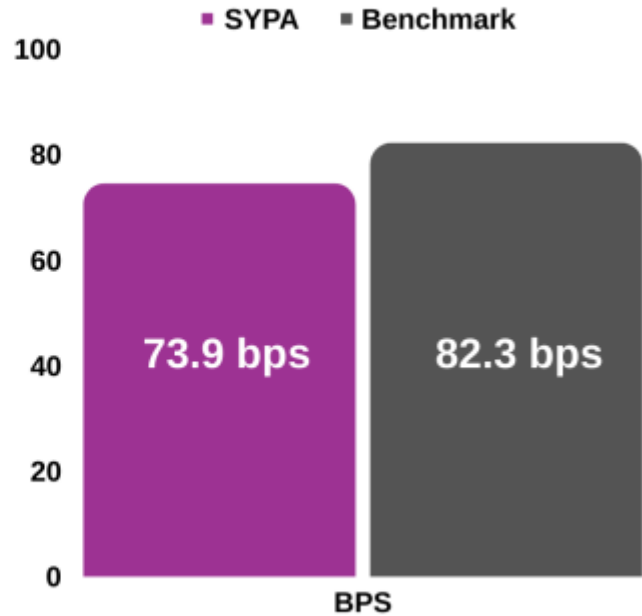
- 5.5 SYPA has participated in the CEM investment benchmarking since 2107. The report compares SYPA to a group of 6 other larger LGPS funds and 39 other global pension funds including both public and private sector funds. The average fund in this peer group has assets of £9.7bn compared to SYPA’s assets for the purpose of this exercise of £9.9bn. CEM also have a wider LGPS universe of 34 funds which is used for some LGPS only comparisons. This includes 10 of the 11 Border to Coast funds and a statistically significant proportion of the other pools except for Wales and the London CIV. The graphic below sets out key highlights from the report which was the subject of a separate briefing for both Authority and Local Pension Board members with the full report available in the online reading room.

Investment

Lower Cost



bps = basis points
or 0.1%
100 bps = 1%

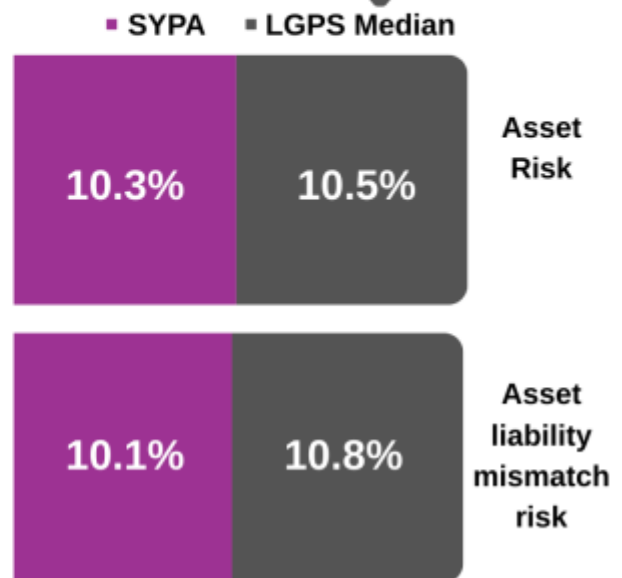


Positive Performance

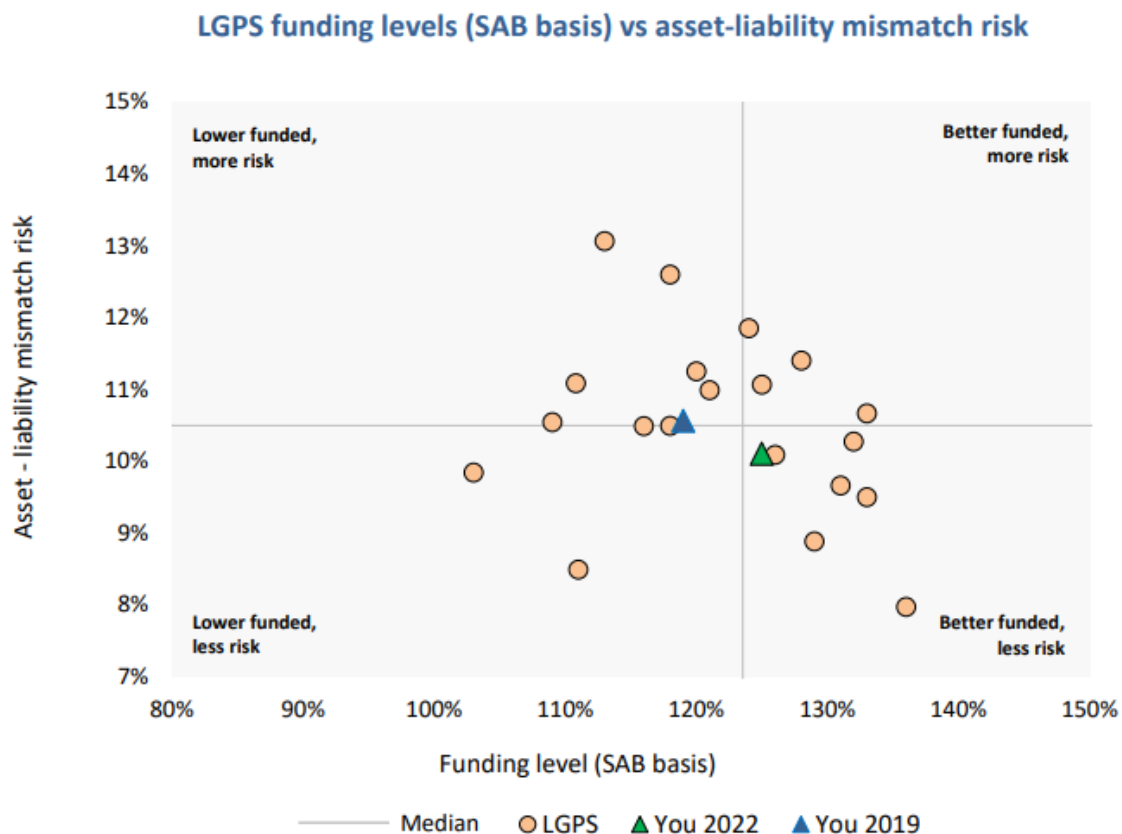


Over 5 years we
have achieved
Net Value Added
of 0.9% which
equals £437m

Lower Risk

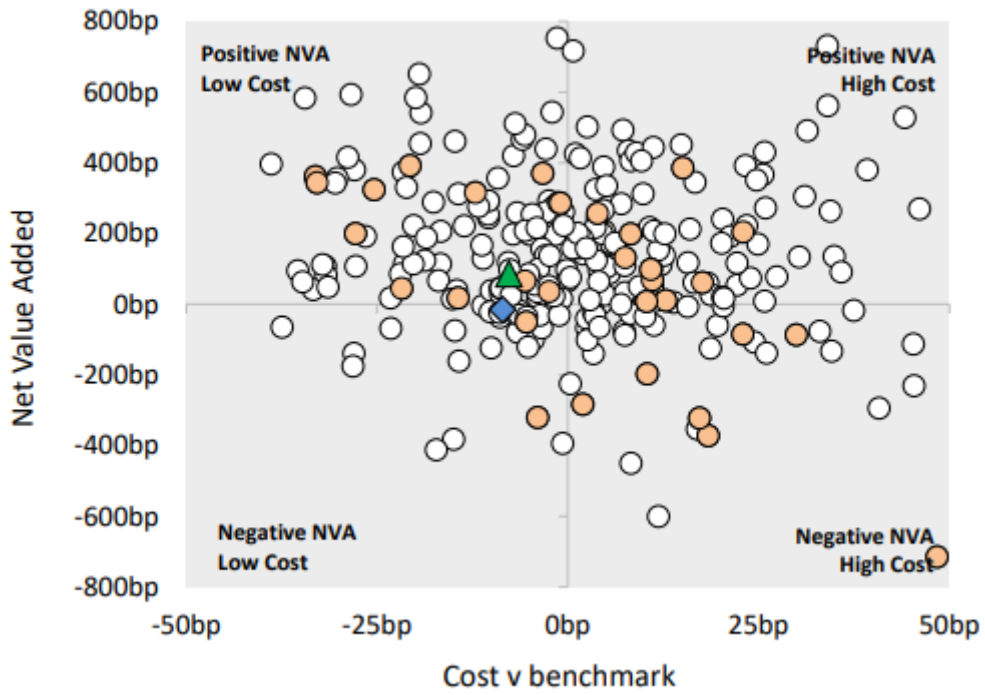


- 5.6 The key conclusions which can be drawn from the report are also summarised in the charts below. Firstly, SYPA is better funded with less risk when compared to the other LGPS funds which participated in the survey in both 2019 and 2022 and shows that as the SYPA funding level has increased the level of risk taken has reduced, in line with the intentions set out in the review of the investment strategy.

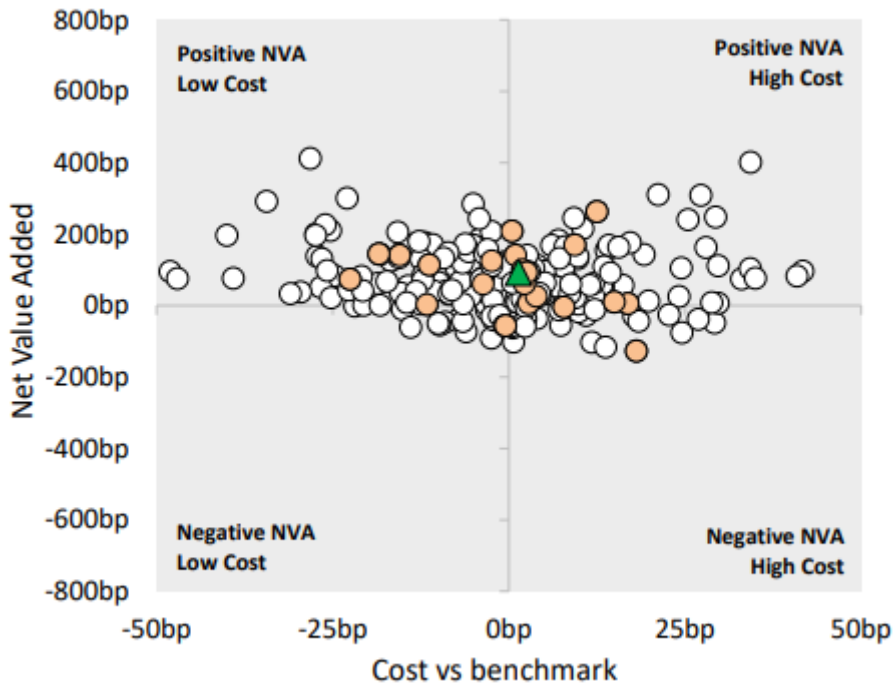


- 5.7 The other key conclusions from this survey relate to value for money. Here the position differs between the one-year picture and the longer term 5-year picture. The longer-term picture is very significantly influenced by the high level of performance fees paid for private market investment in the 2021 survey. In both cases though the charts below indicate that the Fund is delivering positive value added through both its investment strategy and its implementation choices. The 5-year cumulative net added value is c£437m of which pooled assets have contributed c£55m This reflects the fact that much recent performance has been driven by the legacy alternatives portfolio rather than listed assets which are managed through the pool and also that fixed income assets within the pooled assets have had significantly negative performance although less so in two of the pooled products than the market generally.

(Your 2022/23: net value added 86.0 bps, cost savings 7.7 bps)



(Your 5-year: net value added 93.0 bps, cost 1.4 bps)



5.8 Other key conclusions are that:

- SYPA has a higher cost implementation style compared to other LGPS fund. This is a function of a significantly greater allocation to alternatives than the average

LGPS fund. As previously reported alternatives are significantly more expensive than listed assets.

- In aggregate SYPA pays less than LGPS peers for similar assets. This is likely in part to be a function of scale relative to LGPS peers but could also relate to implementation style for some asset classes such as property where direct ownership rather than investment through funds reduces costs and the use of Border to Coast's lower cost internal funds.
- Pooled assets saved 8.5bps relative to LGPS peers. This is likely to be almost entirely due to the lower costs of Border to Coast's internally managed funds.
- Compared to the wider universe SYPA's investment costs increased over the five-year period by less than expected by 20.1 bps compared to an expectation of 29.3bps based on the changes in asset mix over the period.

5.9 These data broadly support the conclusion that Border to Coast which manages over 70% of the Fund is delivering value for money and that the investment strategy is succeeding in delivering positive value added and reducing risk. Some of the more granular information in the full CEM report will support the Investment Advisory Panel's annual review of Border to Coast.

Conclusion

5.9 The overall conclusion from the two benchmarking exercises is that broadly the Authority continues to be able to demonstrate that it is delivering value for money across its administration and investment activities.

6 Implications

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

Financial	None directly, the costs of participating in benchmarking exercises are provided for in existing budgets. The fact that the results demonstrate broadly positive value for money will contribute to the evidence base for the external auditor's value for money conclusion.
Human Resources	None
ICT	None directly.
Legal	None
Procurement	None

George Graham

Director

Background Papers	
Document	Place of Inspection