

## **WILTSHIRE COUNCIL**

WILTSHIRE PENSION FUND COMMITTEE  
1 March 2011

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### **PENSION FUND BENCHMARKING UPDATE**

#### **Purpose of the Report**

1. This report updates the Committee on the CIPFA Benchmarking club results that the Wiltshire Pension Fund (WPF) joined last summer and reviews the activities undertaken to improve performance in relation to the KPMG Pension Schemes Financial Control Peer Group Comparison report outlined at the previous meeting.

#### **Introduction & Background**

2. The WPF joined the CIPFA benchmarking club in August 2010 with the intention to gain a better understanding of how WPF's service compares to those of its peers.
3. The club compares the Fund against the other 61 LGPS authorities within the club along with a comparator survey where the Fund is able to choose the most relevant peers to be measured against. The comparator report consists of 17 other Funds of a similar size to the WPF.
4. At the last meeting a report was produced looking at the areas that needed to improve to ensure a higher score in the next KPMG Pension Schemes Financial Control Peer Group Comparison report. The specific actions being implemented are explained below.

#### **Main Considerations for the Committee**

##### ***CIPFA Benchmarking Club***

5. The results of the 2010 survey are shown in the Appendix. This covers the financial year 2009/10. As this is the first year no time series analysis is available for WPF. It's important to remember this survey merely review costs and processes but doesn't test or have a measure for 'quality' of service. Lowest cost in itself does not necessarily represent the best outcome, if this is achieved at a cost to the quality of the service.
6. These statistics do come with a health warning. The survey is based on pension administration only. All authorities are set up with different structures. The WPF moved to a single team section including administration, accounting and investment activities in 2007. Most other authorities still include administration within their payroll section with the accounting and investments functions separate within their finance teams. The allocation of costs into the categories, especially the apportionment of overheads, can also be treated differently between authorities. Nevertheless, this data remains extremely useful as it will inform officers to question and challenge areas of performance.

##### ***Administration Costs***

7. The total administration cost per member is £23.47 which is lower than the comparator (£23.49) but slightly higher than the all schemes survey (£22.72). It's comforting that at a high level the cost of operating the scheme is in line with its peers.

8. Staff costs per member (£8.15) are below both the comparator and all schemes (both £10.05). This may indicate WPF has a proportionately smaller administration team.
9. The pension payroll cost per member (£3.14) is in line with both other surveys (£3.91 comparator and £3.49 for all schemes). A more meaningful metric is the cost per pensioner (which this activity relates to) of £17.17 for WPF compared with £17.04 for the comparator and £15.55 for all schemes.
10. The survey shows that the overhead cost per member of £5.00 is lower than the comparator (£6.58) and all schemes (£5.99). This includes IT, accommodation, central services charges and external audit. The largest variation is central charges where WPF is £1.23 lower than the comparator and £0.70 lower than the all schemes figure. However, one needs to be wary of the allocation of these costs between authorities.
11. The direct cost per member is £7.93, significantly higher than the comparator (£3.39) and all schemes (£3.26). This includes communications, actuarial and other running costs.
12. Communications is £0.50 per member higher than the comparator. This may be due to WPF having a dedicated Communications Manager along with a review of its communications documentation undertaken in 2009/10.
13. The actuarial cost per member (£3.61) is significantly higher than both the comparator (£1.36) and all schemes (£1.11). This is surprising and requires investigation. WPF did have a high level of activity in 2009/10 due to the number of outsourcings, cessations and bulk transfers undertaken along with the need for additional support during the period the Pension Manager post was vacant.
14. Nevertheless, on examination of annual reports the WPF fee level doesn't appear out of line with other Fund's in the South West. What isn't clear is whether actuarial costs reported by other Funds include only administration type activities (benefits advice, etc.) and not funding and accounting type work traditionally picked up by the finance teams.

### *Membership*

15. It can be seen from the membership profile of WPF has proportionately less pensioners (18%) than the comparator (22%) and all schemes (23%) but a significantly greater proportion of deferred members (34%) than the respective averages (28% & 27%). The proportion of active members is similar at around 40% although WPF has 4% more part timers. Similarly WPF has 5% more female members than males compared to the average Funds.

### *Administration*

16. WPF appears very much in line with the number of joiners, retirements, deaths and other leavers it processed.
17. Of the retirement types processed, these were in line with the averages although WPF appears to have processed more normal retirements (34%) compared to the comparator (15%) and all scheme (19%). This is offset by voluntary retirements (between 60-65) where the WPF proportion was 30% compared to 51% and 45% of the respective averages.

18. The number of pension calculations undertaken per thousand all appears in line with the two averages.

#### *AVCs & ARCs*

19. The number of AVC's taken up by the membership is much lower than the two averages. This may have been the consequence of the previous providers. Prudential, who were appointed last year, take a more active role in promoting AVCs and run a number of presentations for scheme members.
20. ARC's replaced the Added Years schemes that terminated with the change in LGPS scheme in 2008. To date there hasn't been much take up of this new contract where members can purchase additional pension.

#### *Number of Appeals*

21. The number of appeals at either stage 1 or stage 2 of the Internal Dispute Resolution Procedure process was below both the averages.

#### *Staff*

22. The survey indicates shows that 46% of the Administration team have a relevant qualification which is below the comparator (61%) and all schemes (64%). It also reveals that WPF have less staff at the higher qualification levels than the comparator and all schemes. However, WPF have a good proportion of staff who have achieved the Institute of Pensions Professional Managers (IPPM) Foundation level.
23. WPF has a low proportion of staff with more than 10 years experience. The majority of the team have between 1 to 5 years which reflects the recent turnover, especially of longer serving team members who have been replaced with less experience staff over the past three years.
24. The training and development of staff is a key priority to ensure the WPF has the relevant skills and knowledge to undertake the administration of the scheme and its ever increasing complexities. This is an integral part of the current appraisal cycle and the skills level will be carefully considered as part of any structure review.

#### *Conclusions from the CIPFA Benchmarking Survey*

25. The survey does provide an element of comfort that WPF is broadly in line with other LGPS schemes. There are areas to focus on, namely, actuarial and communication costs and the levels of staff knowledge.
26. Over time, WPF will be able to show a trend analysis to demonstrate performance which will make this survey a more meaningful management tool.

#### **Progress on KPMG Benchmarking Report**

27. At the last committee, Members were presented with a report outlining what the Fund needs to implement to improve on its score as part of the 2010 Pension Schemes Financial Control Peer Group Comparison. Explained below are the specific actions undertaken or being undertaken:

### *Internal Audit*

- a. Internal Audit is recommencing its rolling audit of the WPF. There had been a gap of three years during which the service undertook a review of its administration processes. An audit plan has now been agreed and is due for completion before the financial year end.

### *Management Accounting*

- b. To improve the management accounting score this Committee will be provided with bi-annual updates of the budget monitoring position.

### *Administration*

- c. To improve the administration score the Fund is currently undertaking reconciliation of member's data. The objective is more frequent reconciliations. Work has been spent on reconciling the data between the WPF and Wiltshire Council, the schemes largest employer, with each active member on the database now sharing the same SAP payroll number used by Wiltshire Council. This enables future reconciliations to be undertaken much more easily. The Fund will next focus on Swindon Borough Council as the second largest employer. The majority of the members with other employers were reconciled last year as part of the 2010 Triennial Valuation data capture exercise. Processes are being put in place to ensure these are regularly reviewed.
- d. The Fund is currently implementing a workflow system for the allocation and monitoring of administration work. This will enable the Fund to keep track of the status of tasks while providing more accurate management information on the amount, type and turnaround times to assist with performance monitoring (making reporting into the CIPFA Benchmarking club easier). This should be fully implemented by financial year end.

### *Contribution controls and record keeping.*

- e. The reconciliation of contribution data is traditionally done annually and loaded into the pension database. This will still be the case although each month the amount paid by each employer is now reconciled to the individual member. This will enable issues arising at year end to be resolved quicker and provides a better audit trail.

### *Investment Managers*

- f. Officers have now included the review of the investment managers AAF01/06 or SAS70 reports as part of their interim meetings.
  - g. For pooled accounts, officers receive the annual accounts and complete a high level review looking for any qualifications or potential issues that may be of concern.
28. There are other areas where scores could be improved but the cost and resource of implementing this outweighs the perceived benefit. These include the setting up of separate administration and investment sub-committees and the more regular review of service providers such as the custodian by specialists.

29. The next version of the KPMG report will be presented at the May 2011 meeting. It's hoped the next report will be LGPS specific unlike the previous version that included both public and private sector KPMG clients.

### **Risk Assessment**

30. The CIPFA benchmarking survey identifies relatively higher costs for actuarial and communications compared to the Fund's peers. Any reduction of costs in these areas could potentially impact on PEN008: *failure to comply with LGPS and other regulations* and PEN013: *failure to communicate properly with stakeholders* highlighted in the risk register elsewhere on this agenda and would need careful consideration.
31. It also highlights the expertise and experience levels of the pension team compared to its peers. The Fund needs to ensure the correct level of knowledge is maintained to ensure risks PEN011: *lack of expertise of Pension Fund Officers and Chief Finance Officer* and PEN012: *over reliance on key officers* is mitigated.
32. The actions being undertaken as a result of the KPMG report will ensure the following risks are mitigated:
- PEN002: *failure to collect and account for contributions from employers and employees;*
  - PEN005: *loss of funds through the fraud and misappropriation; and*
  - PEN010: *failure to keep pension records up to date and accurate.*

### **Environmental Impact of the Proposals**

33. There are none.

### **Financial Considerations & Risk Assessment**

34. The report considers the financial aspects from the CIPFA Benchmarking survey. The KPMG report reviewed the financial procedures and failure to have proper financial controls and good governance within the Fund could lead to poor management of assets, incorrect payments being made and ultimately maladministration claims from the membership with fines from the pension regulator.

### **Proposal**

35. The Committee is asked to note the report and actions being taken to improve the performance of the Fund.

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Unpublished documents relied upon in the production of this report:

*CIPFA Pension Administration Benchmarking Club 2010 – Wiltshire Council Report.*

## CIPFA Administration Benchmark Survey

Costs / Member

	Wiltshire Council	Average comparator survey	Average all schemes survey
Total administration costs per member	£23.47	£23.49	£22.72
Staff costs per member	£8.15	£10.05	£10.05
Direct costs per member*	£7.93	£3.39	£3.26
Pension payroll costs per member **	£3.14	£3.91	£3.49
Overheads per member ***	£5.00	£6.58	£5.99
Income	£0.75	£0.21	£0.18

\* Direct costs per member

	Wiltshire	Comparator Average	All schemes average
Communications	£1.35	£0.85	£0.92
Actuaries	£3.61	£1.36	£1.11
Other	£2.97	£1.18	£1.23

\*\* Payroll cost per pensioner

	Wiltshire	Comparator Average	All schemes average
Payroll cost per pensioner	£17.17	£17.04	£15.55

Wiltshire	£23.47
Club Average	£22.72
Outsourced average	£21.11
In-house average	£22.85

\*\*\* Overheads per member

	Wiltshire	Comparator Average	All schemes average
IT - Pensions Admin	£1.73	£2.12	£2.14
IT - All Other	£0.36	£0.63	£0.68
Accommodation	£0.60	£0.78	£0.75
Other Central Charges	£1.23	£2.37	£1.93
External Audit	£1.07	£0.67	£0.49

Membership

	Count of members	%	Comparator Average	All schemes average
Total scheme members	49,597			
Total pensioners	9,058	18%	22%	23%
Full time	7,180	14%	19%	20%
Part time	12,240	25%	21%	20%
Deferred	16,859	34%	28%	27%
Dependants	1,693	3%	4%	4%
Other	2,567	5%	6%	5%
	<b>49,597</b>	<b>100%</b>		

## Composition of active members

	Count	%	Comparator Average	All schemes average
Male	4,346	22%	27%	29%
Female	15,074	78%	73%	71%

Administration

## Joiners &amp; Leavers (per '000 active members)

	Count	Per 1000	Comparator Average	All schemes average
Joining	2,309	119	135	118
Retiring	741	38	37	39
Deaths	293	15	19	19
Other leavers	323	17	79	80

## Retirements

	Count	%	Comparator Average	All schemes average
Normal	252	34%	15%	19%
Incapacity/ill-health	41	6%	6%	6%
Redundancy/inefficiency	126	17%	14%	18%
Under 60 (emp. consent)	12	2%	2%	3%
60-65 (voluntary)	224	30%	51%	45%
Over 65 (late)	74	10%	10%	8%
Flexible	12	2%	2%	2%
	<b>741</b>	<b>100%</b>		

## Actual calculations

	Count	'000	Comparator Average	All schemes average	Active members
Retirements	741	38	39	41	19,420
Transfers in	191	10	20	18	
Transfers intra	125	6	11	14	
Transfers out	262	13	12	11	
Refunds	61	3	7	9	
Frozen refunds	21	1	2	4	
Preserved benefits	1600	82	90	85	
AVCs, ARCs etc	9	0	2	2	
Divorce cases	6	0	1	1	
Deaths in service	17	1	1	1	
Death of pensioners	276	14	16	19	

## Contributors to AVCs and ARCs

	Count	%	Comparator Average	All schemes average	Active members
Currently contributing					19,420
- AVC	245	1.30%	2.40%	3.40%	
- ARC	0	0.00%	0.10%	0.10%	
Total	245	1.30%	2.50%	3.40%	
New contributors this year					
- AVC	9	0.05%	0.17%	0.23%	
- ARC	0	0.00%	0.06%	0.04%	
Total	9	0.05%	0.23%	0.28%	

## Number of Appeals

	Count	Per '000 members	Comparator Average	All schemes average	Club total
In progress at start of year	1	0.05	0.13	0.07	48
New appeals during year	2	0.10	0.16	0.16	195
In progress at end of year	3	0.15	0.17	0.09	69

## Staff

### Staff qualifications

	FTE	%	Comparator Average	All schemes average
Pensions Manager Institute			3%	2%
APSA	1.0	5%	8%	10%
IPPM Nat. Cert - Diploma	1.0	5%	17%	20%
IPPM Nat. Cert - Intermediate			0%	1%
IPPM Nat. Cert - Foundation	4.0	19%	12%	13%
QPA			2%	5%
QPSPA			0%	0%
Other relevant	3.5	17%	18%	13%
No relevant	11.3	54%	39%	36%
	<b>20.8</b>			

APSA: Association of Pension & Superannuation Administrators

IPPM: Institute of Pension Professional Managers

QPA: Qualification in Pension Administration

QPSPA: Qualification in Public Sector Pension Administration

### Staff experience

	FTE	%	Comparator Average	All schemes average
< 1 year	0.0	0%	7%	5%
1 - 5 years	11.3	54%	26%	27%
5 - 10 years	6.5	31%	24%	22%
10 - 15 years	0.0	0%	11%	15%
> 15 years	3.0	14%	32%	30%
	<b>20.8</b>			

### Staff turnover

	FTE	%	Comparator Average	All schemes average
Total section FTE	20.8			
Joining section	2.0	9.6%	11.1%	6.6%
Leaving section	3.0	14.4%	8.4%	6.5%