

Notice of Meeting

Surrey Pension Fund Committee – Supplementary Agenda

**Date & time**

Friday, 8 February
2019 at 10.00 am

Place

Ashcombe Suite,
County Hall, Kingston
upon Thames, Surrey
KT1 2DN

Contact

Vicky Hibbert
Room 122, County Hall
Tel 020 8541 9229

Chief Executive

Joanna Killian



We're on Twitter:
[@SCCdemocracy](https://twitter.com/SCCdemocracy)

If you would like a copy of this agenda or the attached papers in another format, eg large print or braille, or another language please either call 020 8541 9122, write to Democratic Services, Room 122, County Hall, Penrhyn Road, Kingston upon Thames, Surrey KT1 2DN, Minicom 020 8541 8914, fax 020 8541 9009, or email vicky.hibbert@surreycc.gov.uk.

This meeting will be held in public. If you would like to attend and you have any special requirements, please contact Vicky Hibbert on 020 8541 9229.

Elected Members

Mr Tim Evans (Chairman), Mr Ben Carasco (Vice-Chairman), Ms Ayesha Azad, Mr John Beckett (Ewell), Mr David Mansfield and Mrs Hazel Watson

Co-opted Members:

Mr Tony Elias (Borough/District Representative), Margaret Janes (Employers) and Philip Walker (Employees)

AGENDA

7 LOCAL BOARD REPORT

(Pages 1
- 8)

Purpose of the report: This report is a summary of administration and governance issues reviewed by the Local Pension Board at its meeting of 17 January 2019 that need to be brought to the attention of the Pension Fund Committee.

Joanna Killian
Chief Executive

Published: 06 February 2019

MOBILE TECHNOLOGY AND FILMING – ACCEPTABLE USE

Those attending for the purpose of reporting on the meeting may use social media or mobile devices in silent mode to send electronic messages about the progress of the public parts of the meeting. To support this, County Hall has wifi available for visitors – please ask at reception for details.

Anyone is permitted to film, record or take photographs at council meetings. Please liaise with the council officer listed in the agenda prior to the start of the meeting so that those attending the meeting can be made aware of any filming taking place.

Use of mobile devices, including for the purpose of recording or filming a meeting, is subject to no interruptions, distractions or interference being caused to the PA or Induction Loop systems, or any general disturbance to proceedings. The Chairman may ask for mobile devices to be switched off in these circumstances.

It is requested that if you are not using your mobile device for any of the activities outlined above, it be switched off or placed in silent mode during the meeting to prevent interruptions and interference with PA and Induction Loop systems.

Thank you for your co-operation

SURREY COUNTY COUNCIL

PENSION FUND COMMITTEE

DATE: 8TH FEBRUARY 2019

LEAD OFFICER: LEIGH WHITEHOUSE, SECTION 151 OFFICER

SUBJECT: LOCAL BOARD REPORT



SUMMARY OF ISSUE:

This report is a summary of administration and governance issues reviewed by the Local Pension Board at its meeting of 17th January 2019 that need to be brought to the attention of the Pension Fund Committee.

RECOMMENDATIONS:

It is recommended that the Pension Fund Committee:

1. Notes the report and particularly issues with pensions administration.
2. Approves the following changes to the Fund risk register:

Amendments to the following risks (shown as Annex 1) chiefly to reflect updates in regards to Border to Coast:

- 1-2, 4-8, 11, 13-15, 17-20, 23-24, 27.

Addition of the following risks:

- Transition of assets to BCPP be included as risk number 29, with a total risk of 40 (Red) and net risk of 10 (Green).
 - The HM Treasury and Scheme Advisory Board cost management process has an implied increase in employer contributions be included as risk number 30, with a total risk of 28 (Amber) and net risk of 7 (Green).
 - Impact of the Pension Services Manager leaving the council be included as risk of 31, with total inherent risk of 21 (Amber) and Residual risk of 7 (Green).
 - Failure to deliver accurate and effective pension administration be included as risk of 32, with total inherent risk of 36 (Red) and Residual risk of 18 (Amber).
3. Concludes whether there are any reviews as to the compliance of particular cases, projects or processes that the Local Pension Board should undertake.

REASON FOR RECOMMENDATIONS:

In order to achieve best possible performance alongside optimal risk management.

LOCAL PENSION BOARD MEETINGS

-
1. The most recent Local Board meeting was on 17th January 2019.
 2. The next Local Board meeting is scheduled for 25th April 2019.

Administration update report.

3. The Assistant Director of Commercial Operations addressed the Board, following the departure of the Lead Pensions Manager. It was reported that a detailed service review by the outgoing Lead Pensions Manager had identified profound weaknesses in the delivery of pension administration. These included:
 - Unmanaged backlogs
 - Systems constraints in the interface between payrolls and the administration
 - Poor data quality
 - Insufficient roll-out of self service
 - Process delivery bottlenecks
 - Lack of planning for 'scheme events'
 - Insufficient delegation and accountability
 - Limits in technology
 - Insufficient management information
 - Lack of effective use of automated workflow
4. The Board were advised that senior management had compiled an analysis of a number of areas that require immediate attention and set out a series of strategic milestones to be achieved over each of the next four years in order to address them. This would be included in a comprehensive recovery plan which will be costed and shared with pension fund officers, the Board and the Pension Committee where appropriate.
5. The Board required that a working party, including members of the pension fund team, Local Pension Board and senior management of the pension administration team be convened to monitor progress against the recovery plan.
6. A workshop is to be convened for officers and representatives of the Local Pension Board to consider the proposed improvement plan prepared by the former Lead Pensions Manager. A report will be presented to the Board at its next meeting on 25th April 2019.
7. There was some analysis of the key performance indicators in the report but it was acknowledged that it was of limited value until we have more reliable metrics
8. The pension fund team proposes to work with the administration team to review the Service Specification between the Fund and administration functions, to include the continued appropriateness of KPI metrics in parallel with monitoring the recovery plan.

Action tracker

9. CIPFA has extended the deadline for remitting benchmarking data regarding Surrey County Council's pension administration service to 31st January 2019 and officers will give the Board an update at the next meeting.
10. The management action plan is to be revised following the Lead Pension Manager's resignation. The departing manager conducted a root and branch review of the pension administration service and set out a range proposals to improve performance.
11. A meeting to agree a new and more accurate method for reporting KPIs will be arranged.

Forward plan

12. Cyber security training has been added to forward plan and instruction is expected to be provided at April's meeting.
13. Officers were asked to provide an item on annual benefit statements at the Board's meeting in April.
14. Members asked for a report on the implications of the updated tPR guidance on producing annual benefit statements and officers agreed to report at the next meeting.

Risk Register

15. The Board recommended a number of amendments to the Fund risk register. These are detailed in a tracked version of the Fund risk register (shown as Annex 1).

The Discretions Exercise.

16. Officers have sent three mailshots to employing authorities and they suggested sending one more, to reinforce awareness of the exercise, before the Chairman writes to the employing authorities to ask them to publish a discretions policy.
17. It was noted that, although nineteen employing authorities had submitted policies, only one was a borough and officers were asked whether the County Council had published one. They advised the Board that it had but it needed updating and officers will communicate this requirement to Surrey County Council, in its capacity as an employing authority, for revision.

AVC Governance Review

18. Barnet Waddingham had been appointed to review AVC governance and provision and they expect to be able present copies of it to the Local Pension Board at their next meeting.

The Pensions Regulator

19. Surrey County Council has reported itself to the Pension Regulator in connection with a breach of law relating to the annual benefit statements exercise.
20. A total of 33,349 active members' annual benefit statements (ABS) were identified for 2017/18, of which approximately 5% (1,614) were not issued or made available by the deadline of 31 August 2018.

Review of IDRP

21. It was noted that some cases had been through both stages of the internal disputes resolution procedure during the quarter. Officers reported that the adjudicator was very efficient and most cases were being completed well within the prescribed timescales.
22. Members asked for a report on the implications of the updated tPR guidance on producing annual benefit statements and officers agreed to report at the next meeting.

CONSULTATION:

23. Chairman of the Pension Fund Committee and the chairman of the Local Pension Board have been consulted on this report.

RISK MANAGEMENT AND IMPLICATIONS:

24. Risk related issues have been discussed and are contained within the report.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

25. The performance of the Pensions Administration function does present potential financial and value for money implications to the Pension Fund. The monitoring of these implications is discussed within the report.

SECTION 151 OFFICER COMMENTARY

26. The Section 151 officer is satisfied that all material, financial and business issues and possibility of risks have been considered and addressed.

LEGAL IMPLICATIONS – MONITORING OFFICER

27. A Local Pension Board is a requirement under the Public Service Pensions Act 2013. There are no legal implications or legislative requirements.

EQUALITIES AND DIVERSITY

28. The approval of the various options will not require an equality analysis, as there is no major policy, project or function being created or changed.

OTHER IMPLICATIONS

29. There are no potential implications for council priorities and policy areas.

WHAT HAPPENS NEXT

30. The following next steps are planned: receive further reports and continue collaboration between the Pension Fund Committee and Local Pension Board.

Contact Officer:

John Smith, Senior Advisor

Consulted:

Pension Fund Committee chairman and Local Pension Board chairman.

Annexes:

1. Fund risk register with proposed changes tracked

Sources/background papers:

This page is intentionally left blank

Risk Group	Risk Ref.	Previous	Risk Description	Impact				Likelihood	Total risk score	Mitigation actions	Revised Likelihood	Net risk score
				Fund	Employers	Reputation	Total					
Funding	1	1	Price inflation is significantly more or less than anticipated: an increase in CPI inflation by 0.1% will increase the liability valuation by 1.4%	4	4	4	12	4	48	TOLERATE- 1) The discount rate used for the 2016 actuarial valuation will be derived from CPI inflation, so the value of Fund liabilities will be calculated with reference to CPI. 2) The assumptions of the Fund actuary are prudent and allow for variations in inflation, interest rate fluctuations 3) The fund holds investment in index-linked bonds within a liability driven investment portfolio to mitigate risk. 3) Liability driven investment strategy implementation designed to hedge against future risk approved by Pension Fund Committee on 13 February 2016. Future trigger points for leverage will provide liability protection against inflation risk with the full protection framework in place.	4	48
Funding	2	2	Pensioners living longer: adding one year to life expectancy will increase the future service rate by 0.8%	4	4	1	9	5	45	TOLERATE- 1) Hymans Robertson The Fund Actuary uses long term longevity projections in the actuarial valuation process. 2) SCC has joined Club Vita, which looks at mortality rates that are employer and postcode specific.	5	45
Funding	3	3	Pay increases are significantly more than anticipated for employers within the Fund.	4	4	3	11	4	44	TREAT/TOLERATE- 1) Fund employers should monitor own experience. 2) Assumptions made on pay and price inflation (for the purposes of IAS19/FRS102 and actuarial valuations) should be long term assumptions, any employer specific assumptions above the actuaries long term assumption would lead to further review. 3) Employers to be made aware of generic impact that salary increases can have upon final salary linked elements of LGPS benefits.	4	44
Funding	4	4	Mismatching of assets and liabilities, inappropriate long-term asset allocation or investment strategy, mistiming of investment strategy	4	3	3	10	4	40	TREAT- 1) Active investment strategy and asset allocation monitoring from Committee officers and consultants. 2) 2017/18 2018/19 Investment strategy review is current. 3) Separate source of advice from Fund's independent advisor. 4) Setting of Fund specific benchmark relevant to the current position of fund liabilities. 5) Fund manager targets set and based on market benchmarks or absolute return measures. Overall investment benchmark and out-performance target is fund specific.	3	30
Investment	5	5	Increased risk to global financial stability. Outlook deteriorates in advanced economies because of heightened uncertainty and setbacks to growth and confidence, with declines in oil	4	3	3	10	4	40	TREAT/TOLERATE- 1) Increased vigilance and continued dialogue with managers as to events on and over the horizon. 2) Continued investment strategy involving portfolio diversification and risk control. 3) Investment strategy review will follow post accompany the 2019 actuarial valuation.	3	30
Investment	6	7	Investment Managers fail to achieve performance targets over the longer term: a shortfall of 0.1% on the investment target will result in an annual impact of £3.9m	4	4	4	12	3	36	TREAT- 1) The Investment Management Agreements clearly state SCC's expectations in terms of performance targets. 2) Investment manager performance is reviewed on a quarterly basis. 3) The Pension Fund Committee should be positioned to move quickly if it is felt that targets will not be met. 4) Having LGIM as a rebalancing/transition manager facilitates quick changes in the passive element of the portfolio . 5) The Fund's investment management structure is highly diversified, which lessens the impact of manager risk compared with less diversified structures.	2	24
Financial	7	8	Financial loss of cash investments from fraudulent activity	4	4	4	12	3	36	TREAT and TOLERATE - 1) Policies and procedures are in place which are regularly reviewed to ensure risk of investment loss is minimised. Governance arrangements are in place in respect of the Pension Fund. External advisors assist in the development of the Investment Strategy. Fund Managers/ BCPP have to provide SAS70 or similar (statement of internal controls).	2	24
Operational	8	9	Financial failure of a fund manager leads to increase costs and service impairment	4	3	4	11	3	33	TREAT - 1) Fund is reliant upon current adequate contract management activity. 2) Fund is reliant upon alternative suppliers at similar price being found promptly. 3) Fund is reliant on LGIM as transition manager the scale and risk management opportunity offered by BCPP .	2	22
Investment	9	11	Investment markets fail to perform in line with expectations leading to deterioration in funding levels and increased contribution requirements from employers	4	3	3	10	3	30	TOLERATE- 1) Proportion of asset allocation made up of equities, bonds, property funds, diversified growth funds and private equity, limiting exposure to one asset category. 2) The investment strategy is continuously monitored and periodically reviewed to ensure optimal asset allocation. 3) Actuarial valuation and asset/liability study take place automatically every three years. 4) IAS19 data is received annually and provides an early warning of any potential problems. 5) The actuarial assumption regarding asset outperformance of a measure over CPI over gilts is regarded as achievable over the long term when compared with historical data.	2	20
Funding	10	13	Impact of increases to employer contributions following the actuarial valuation	3	3	3	9	3	27	TREAT- 1) Officers to consult and engage with employer organisations in conjunction with the actuary. 2) Actuary will assist where appropriate with stabilisation and phasing in processes.	2	18
Governance	11	15	Failure to take difficult decisions inhibits effective Fund management	3	2	4	9	3	27	TREAT-1) Ensure activity analysis encourages decision making on objective empirical evidence rather than emotion. Ensure that basis of decision making is grounded in ALM Study/SIP/ISS/FSS/Governance statement/ Responsible investment policy and that appropriate advice is sought.	2	18
Investment	12	16	Volatility caused by uncertainty with regard to the withdrawal of the UK from the European Union and its after effects	3	3	2	8	3	24	TOLERATE- 1) Officers to consult and engage with advisors. 2) Future possibility of looking at move from UK to Global benchmarks on UK Equities and UK Property. 3) Possibility of further hedging of currency movements against Sterling.	2	16
Operational	13	18	Insufficient attention to environmental, social and governance (ESG) leads to reputational damage	1	1	3	5	4	20	TREAT-1) Review ISS in relation to published best practice (e.g. Stewardship Code) 2) Ensure fund managers are encouraged to engage and to follow the requirements of the published BCPP Responsible Investment Policy . 3) The Fund is a member of the Local Authority Pension Fund Forum (LAPFF) and all assets held with BCPP are monitored by Robeco, this , which raises awareness of ESG issues and facilitates engagement with fund managers. 4) The Fund has approved a Stewardship Code and a share voting policy which provides specific guidance in the voting of company resolutions. (5) The Fund complies with the BCPP Responsible Investment Policy	3	15
Governance	14	19	Implementation of proposed changes to the LGPS (pooling) does not conform to plan or cannot be achieved within time scales	1	2	4	7	3	21	TREAT- 1) Officers consult and engage with DGLGMHCLG , LGPS Advisory Board, BCPP OOG , consultants, peers, seminars, conferences. 2) Officers engage in early planning for implementation against agreed deadlines. 3) Participation in Cross Pool Collaboration Groups Future secondment of Surrey officers onto pooling project teams.	2	14
Operational	15	20	Concentration of knowledge in small number of officers and risk of departure of key staff	2	3	2	7	3	21	TREAT-1) 'How to' notes in place. 2) Development of team members & succession planning needs to be improved. 3) Officers and members of the Pension Fund Committee will be mindful of the proposed CIPFA Knowledge and Skills Framework and appropriate tPR Codes of Conduct when setting objectives and establishing training needs.	2	14
Operational	16	22	Failure to hold personal data securely	1	1	4	6	3	18	TREAT- 1) Data encryption technology is in place, which allow secure the sending of data to external service providers. 2) Phasing out of holding records via paper files. 3) Pensions Admin records are locked daily in a secure safe. 4) SCC IT data security policy adhered to.	2	12
Funding	17	23	Impact of government policy on the employer workforce	3	2	1	6	3	18	TREAT/TOLERATE- 1) Hymans Robertson The Fund actuary uses prudent assumptions on future of workforce. Employers to flag up potential for major bulk transfers. The potential for a significant reduction in the workforce as a result of the pressures that the public sector is under may have an additional impact on the Fund. 2) Need to make worst case assumptions about diminishing workforce when carrying out the actuarial valuation.	2	12
Governance	18	24	Changes to LGPS regulations	3	2	1	6	3	18	TREAT/TOLERATE-1) Fundamental change to LGPS regulations implemented from 1 April 2014. 2) Impact on contributions and cashflows will be considered during the 20169 valuation process. 3) Fund will respond to consultations and statutory guidance . 4) Impact of LGPS (Management of Funds) Regulations 2016 to be monitored.	2	12
Governance	19	25	Change in membership of Pension Fund Committee or Local Pension Board leads to dilution of member knowledge and understanding	4	1	1	6	4	24	TREAT- 1) Succession planning process to be implemented. 2) Ongoing training of Pension Fund Committee members. 3) Pension Fund Committee new member induction programme. 4) Training to be based on the requirements of CIPFA Knowledge and Skills Framework and the results of the test undertaken in 2012. New Committee members to take the test.	2	12
Operational	20	26	Inaccurate information in public domain leads to damage to reputation and loss of confidence	1	1	4	6	3	18	TOLERATE- 1) Ensure that all requests for information (Freedom of Information, Member & Public questions at Council, etc) are managed appropriately and that Part 2 items remain so. 2) Maintain constructive relationships with employing bodies to ensure that news is well managed. 3) Update website information as and when required and at least quarterly.	2	12
Operational	21	27	Financial failure of third party supplier results in service impairment and financial loss	2	2	2	6	3	18	TOLERATE-1) Performance of third parties (other than fund managers) monitored. 2) Regular meetings and conversations with Northern Trust take place. 3) Actuarial and investment consultancies are provided by two different providers.	2	12

Risk Group	Risk Ref.	Previous	Risk Description	Impact				Likelihood	Total risk score	Mitigation actions	Revised Likelihood	Net risk score
				Fund	Employers	Reputation	Total					
Governance 7	22	28	That the Border to Coast Pensions Partnership disbands or the partnership fails to produce a proposal deemed sufficiently ambitious.	3	2	4	9	1	9	TOLERATE-1) Partners for the pool were chosen based upon the perceived expertise and like-mindedness of the officers and members involved with the fund to ensure compliance with the pooling requirements. 2) Ensure that ongoing fund and pool proposals are comprehensive and meet government objectives.	1	9
Governance	23	29	Failure to comply with legislative requirements e.g. ISS, FSS, Governance Policy, Freedom of Information requests	4	1	4	9	2	18	TOLERATE -1) Publication of all documents on external website. 2) Managers expected to comply with SIP ISS and IMA. 3) Pension Board self-assessment to ensure awareness of all relevant documents. 4) Annual audit review.	1	9
Operational	24	30	Procurement processes may be challenged if seen to be non-compliant with OJEU rules. Poor specifications lead to dispute. Unsuccessful fund managers may seek compensation following non compliant process	1	1	4	6	3	18	TREAT/TOLERATE - 1) Ensure that assessment criteria remains robust and that full feedback is given at all stages of the procurement process. 2) Use the National LGPS of other established procurement frameworks	1	6
Governance	25	31	Failure to comply with recommendations from the local pension board, resulting in the matter being escalated to the scheme advisory board and/or the pensions regulator	1	1	4	6	1	6	TOLERATE -1) Ensure that an cooperative, effective and transparent dialogue exists between the pension committee and local pension board.	1	6
Financial	26	32	Counterparty risk within the SCC treasury management operation	2	2	2	6	2	12	TOLERATE - 1) Lending limits with approved banks and other counterparties are set at prudent levels 2) The pension fund treasury management strategy is based on that of SCC.	1	6