

Notice of Meeting

Surrey Pension Fund Board

**Date & time**

Friday, 22 May 2015
at 11.00 am

Place

Mess Conference
Room, County Hall,
Kingston upon
Thames, Surrey KT1
2DN

Contact

Cheryl Hardman
Room 122, County Hall
Tel 020 8541 9075

cherylh@surreycc.gov.uk

Chief Executive

David McNulty

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This meeting will be held in public. If you would like to attend and you have any special requirements, please contact Cheryl Hardman on 020 8541 9075.

Elected Members

Ms Denise Le Gal (Chairman), Mr Nick Skellett CBE (Vice-Chairman), Mr W D Barker OBE, Mr Tim Evans, Mr John Orrick and Mr Stuart Selleck

Co-opted Members:

Mr Tony Elias (District Representative), Ian Perkin (Office of the Surrey Police and Crime Commissioner) and Philip Walker (Employees), one Borough/District representative vacancy

AGENDA

1 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

2 MINUTES OF THE PREVIOUS MEETING: 13 FEBRUARY 2015

(Pages 1
- 26)

To agree the minutes as a true record of the meeting.

3 DECLARATIONS OF INTEREST

To receive any declarations of disclosable pecuniary interests from Members in respect of any item to be considered at the meeting.

Notes:

- In line with the Relevant Authorities (Disclosable Pecuniary Interests) Regulations 2012, declarations may relate to the interest of the member, or the member's spouse or civil partner, or a person with whom the member is living as husband or wife, or a person with whom the member is living as if they were civil partners and the member is aware they have the interest.
- Members need only disclose interests not currently listed on the Register of Disclosable Pecuniary Interests.
- Members must notify the Monitoring Officer of any interests disclosed at the meeting so they may be added to the Register.
- Members are reminded that they must not participate in any item where they have a disclosable pecuniary interest.

4 QUESTIONS AND PETITIONS

To receive any questions or petitions.

Notes:

1. The deadline for Member's questions is 12.00pm four working days before the meeting (*18 May 2015*).
2. The deadline for public questions is seven days before the meeting (*15 May 2015*).
3. The deadline for petitions was 14 days before the meeting, and no petitions have been received.

5 ACTION TRACKING

(Pages
27 - 30)

An action tracker is attached, detailing actions from previous meetings. The Board is asked to review progress on the items listed.

6 FREEDOM AND CHOICE

(Pages
31 - 50)

The report explains the statutory changes to pension fund scheme rules that will allow LGPS members over the age of 55 to transfer their LGPS benefits to defined contribution (DC) arrangements, or take advantage of the new trivial commutation limits.

- 7 EMPLOYER BODY ADMISSION/TERMINATION GUIDANCE** (Pages 51 - 56)
- The report explains the need for the creation of comprehensive and focused admission and termination guidance for scheme employers, including the option for the Fund to offer a bespoke solution to allow scheme employers to quantify the financial value of pension risk.
- 8 MANAGER ISSUES AND INVESTMENT PERFORMANCE** (Pages 57 - 88)
- This report is a summary of all manager issues that need to be brought to the attention of the Surrey Pension Fund Board, as well as manager investment performance.
- 9 PENSION FUND BUSINESS PLAN 2014/15: OUTTURN REPORT** (Pages 89 - 104)
- The 2001 Myners Report (later confirmed by the CIPFA/Myners Principles) recommended that local authority pension funds approve an annual business plan in respect of the objectives required for the ensuing year. Business planning is regarded as an important tool, assisting in the identification of how service delivery can be maximised within resource constraints. This report sets out the outturn of the annual business plan for 2014/15.
- 10 REVISED STATEMENT OF INVESTMENT PRINCIPLES** (Pages 105 - 126)
- With adjustments to asset allocation within the Pension Fund, it is necessary to approve a revised Statement of Investment Principles (SIP).
- 11 GOVERNANCE COMPLIANCE STATEMENT** (Pages 127 - 186)
- Local authority pension funds are required to publish and keep under review a Governance Compliance Statement. The Governance Compliance Statement of the Surrey Pension Fund is comprised from the Compliance to Statutory Guidance Statement and a Governance Policy Statement. The Public Services Pensions Act 2013 (The Act) introduces a new framework for the governance and administration of public service pension schemes. The Act has a material impact on existing governance arrangements in the Local Government Pension Scheme (LGPS), which are enforced by changes to the LGPS regulations.
- As a result of the Act, The Pensions Regulator has introduced codes of practice covering specific areas relating to public sector pension schemes. The changes to the LGPS regulations and introduction of the Pensions Regulator code of practice 14 and changes in the Scheme of Delegation approved by County Council on 14 October 2014 require revisions to the existing Surrey Pension Fund Governance Compliance Statement.
- 12 LOCAL PENSION BOARD** (Pages 187 - 202)
- The report explains the implemented changes to the governance of the Local Government Pension Scheme (LGPS) as a result of the Public Service Pensions Act 2013 and Regulations issued on 28 January 2015. The key requirement is for a proposed new Local Pension Board to assist the Administering Authority in the running of the Pension Fund, and to monitor compliance with rules and standards. The Council's Constitution was amended on 17 March 2015, following a report to full Council. This report provides an update on progress achieved.

- 13 CORPORATE GOVERNANCE SHARE VOTING** (Pages 203 - 210)
 This report provides a summary of the Fund's share voting process in Q2 and Q3 2014/15.
- 14 KEY PERFORMANCE INDICATORS** (Pages 211 - 220)
 In line with best practice, Surrey Pension Fund Board members will be supplied with Pension Fund key performance indicators (KPIs) on a quarterly basis, covering investment and administration practices.
- 15 PENSION FUND RISK REGISTER** (Pages 221 - 226)
 Surrey County Council, as administering authority for the Surrey Pension Fund, is responsible for the delivery of benefit promises made to members of the Surrey Pension Fund. It achieves this by setting objectives and goals with varying timeframes. Risks lie in failing to meet the intended goals.
 Risks that are established as an issue must be identified and evaluated via a risk register. The risks must be prioritised with existing controls or new controls implemented to mitigate the risks. This should be recorded in a risk register, which needs monitoring on a quarterly basis.
- 16 EXCLUSION OF THE PUBLIC**
Recommendation: That under Section 100(A) of the Local Government Act 1972, the public be excluded from the meeting for the following items of business on the grounds that they involve the likely disclosure of exempt information under the relevant paragraphs of Part 1 of Schedule 12A of the Act.
- 17 MULTI ASSET CREDIT** (Pages 227 - 242)
 The report recommends a multi asset credit portfolio to replace the Fund's current investment grade credit assets with Legal & General (passive mandate) and the active managed mandate with Western.
Confidential: Not for publication under Paragraph 3
 Information relating to the financial or business affairs of any particular person (including the authority holding that information)
- 18 PRIVATE EQUITY INVESTMENT PERFORMANCE REVIEW** (Pages 243 - 268)
 The Surrey Pension Fund has a commitment to invest 5% of the fund in private equity. This is achieved by investing in funds of funds and directly managed funds, managed by a number of private equity specialists.
 The Surrey Pension Fund Board reviews the private equity strategy. This report is a review of the investment performance of the private equity portfolio.
Confidential: Not for publication under Paragraph 3
 Information relating to the financial or business affairs of any particular person (including the authority holding that information)

19 PORTFOLIO TRANSITION: LGIM TO MAJEDIE

(Pages
269 -
272)

The report explains the transition process from LGIM to Majedie.

Confidential: Not for publication under Paragraph 3

Information relating to the financial or business affairs of any particular person (including the authority holding that information)

20 PUBLICITY FOR PART TWO ITEMS

To consider whether the items considered under Part 2 of the agenda should be made available to the Press and the public.

21 DATE OF NEXT MEETING

The next meeting of the Surrey Pension Fund Board will be on 18 September 2015.

David McNulty
Chief Executive

Published: 14 May 2015

MOBILE TECHNOLOGY AND FILMING – ACCEPTABLE USE

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MINUTES of the meeting of the **SURREY PENSION FUND BOARD** held at 9.30 am on 13 February 2015 at Ashcombe Suite, County Hall, Kingston upon Thames, Surrey KT1 2DN.

These minutes are subject to confirmation by the Committee at its next meeting.

Elected Members:

- * Ms Denise Le Gal (Chairman)
- * Mr Nick Skellett CBE (Vice-Chairman)
- * Mr W D Barker OBE
- * Mr Tim Evans
- * Mr John Orrick
- * Mr Stuart Selleck

Ex officio Members:

Mr David Munro, Chairman of the County Council
Mrs Sally Ann B Marks, Vice Chairman of the County Council
Mr David Hodge, Leader of the Council
Mr Peter Martin, Deputy Leader

Co-opted Members:

- * Mr Tony Elias, District Representative
Judith Glover, Borough/District Councils
- * Ian Perkin, Office of the Surrey Police and Crime Commissioner
- * Philip Walker, Employees

In attendance

Cheryl Hardman, Regulatory Committee Manager
John Harrison, Surrey Pension Fund Advisor
Sheila Little, Director of Finance (Section 151 Officer)
Neil Mason, Senior Advisor (Pension Fund)
Alex Moylan, Senior Accountant
Phil Triggs, Strategic Finance Manager – Pensions & Treasury
Steve Turner, Partner, Mercer

1/15 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS [Item 1]

Apologies for absence were received from Judith Glover.

2/15 MINUTES OF THE PREVIOUS MEETING: 14 NOVEMBER 2014 [Item 2]

The Minutes were approved as an accurate record of the meeting.

3/15 DECLARATIONS OF INTEREST [Item 3]

There were none.

4/15 QUESTIONS AND PETITIONS [Item 4]

Three questions were received from County Councillor Jonathan Essex. The questions and responses are attached as **Annex 1** to the Minutes.

Mr Essex asked a supplementary question related to his first question. He highlighted the significant investment of the Pension Fund in fossil fuel companies and suggested that many firms were considering long-term sustainability of investments and consequently divesting themselves of stocks in fossil fuel companies. He queried how the Surrey Pension Fund was addressing this issue. The Chairman responded that the Statement of Investment Principles outlines how this issue is dealt with. The Surrey Pension Fund is also involved with the Local Authority Pension Fund Forum (LAPFF) which discusses investment issues and engages in questions around climate change and fossil fuel with relevant companies.

Mr Essex also asked a supplementary question related to his third question. He asked if the Board would consider amending the Statement of Principles so that, instead of stating:

“...external fund managers **could** deploy ESG considerations in deciding upon selection,”

it states:

““...external fund managers **should** deploy ESG considerations in deciding upon selection.”

The Chairman agreed to consider this under item 8 ‘Revised Statement of Investment Principles’.

5/15 ACTION TRACKING [Item 5]**Declarations of interest:**

None.

Key points raised during the discussion:

1. In relation to A12/14 (training needs analysis), the Strategic Finance Manager – Pension & Treasury informed the Board that this would be addressed under Item 6 ‘Manager Issues and Investment Performance’.

2. In relation to A21/14 (training), the Strategic Finance Manager – Pension & Treasury explained that the synthetic equities training would be deferred to a future meeting date, while training on multi asset credit would be provided later in the day.

Actions/Further information to be provided:

None.

Resolved:

That the action tracker was noted and the committee agreed to remove the completed actions from the tracker.

Next steps:

None.

6/15 MANAGER ISSUES AND INVESTMENT PERFORMANCE [Item 6]

Declarations of interest:

None.

Key points raised during the discussion:

1. The Strategic Finance Manager – Pensions & Treasury introduced the report. He informed the Board that a final report on the transfer of funds from Mirabaud to Majedie Asset Management would be provided at the next meeting.
2. The Strategic Finance Manager – Pensions & Treasury explained the reasons for the sale of Capital Dynamic's US Solar Fund to Terra Forma Power Inc. He would circulate an annualised return and IRR (**Action Review ref: A1/15**).
3. Members expressed difficulties with regard to the proposed meeting on 15 May 2015 and requested that this be changed (**Action Review ref: A2/15**).
4. The Board discussed the increased premium quoted by Legal & General to take out an ill health insurance policy. The Board supported the recommendation to delay the purchase of ill health insurance and suggested that the issue be looked at again in a year. The Strategic Finance Manager – Pensions & Treasury agreed to include information on ill health insurance in an upcoming communication to employers (**Action Review ref: A3/15**).
5. The Board considered the drivers for working towards a liability driven investment (LDI) strategy. In particular the Board addressed funding levels and the real yield trigger. It was generally accepted that a real yield trigger should not be adopted in isolation from the funding level. It was agreed to come back to this later in the meeting.
6. The Strategic Finance Manager – Pensions & Treasury introduced the audit findings for Pension Fund Investment and the Management Action Plan. He highlighted the high priority recommendation on quarterly reconciliations and explained that, while reconciliations had taken place immediately, at the time of the audit there had been a slight delay in updating the council's SAP system. It would be a priority to update SAP in future.

7. The Surrey Pension Fund Advisor responded to the audit recommendation that independent advisers comply with FCA guidance, in particular the RDR rules. He suggested that there was some confusion as he provided strategic investment advice and so did not need to be FCA registered. The Chairman informed the Board that she had discussed this point with the Chief Internal Auditor and did not believe that the recommendation would be pursued.
8. The Board considered investment in the Marathon Emerging Market Fund. The Strategic Finance Manager – Pensions & Treasury and the fund's advisers supported this as a way for Marathon to provide exposure to emerging markets without having to deal with the bureaucracy imposed by particular countries. It was agreed to defer this decision and for the Strategic Finance Manager – Pensions & Treasury to provide more detail (**Action Review ref: A4/15**).
9. The Strategic Finance Manager – Pensions & Treasury tabled the Pension Fund Board's Assessment Results (attached as **Annex 2**). He highlighted areas where the Board had excelled and topics on which training could be provided. The Chairman informed the Board that some of the questions had been badly worded and that feedback had resulted in the test being reviewed. She suggested that she hold one to ones with Board members to discuss the results (**Action Review ref: A5/15**).
10. The Minutes of the Fund Manager meetings were tabled and introduced by the Surrey Pension Fund Adviser, (attached as **Annex 3** to the Minutes). A number of questions were asked and answered by officers and advisers. It was agreed to diversify part of the CBRE portfolio by setting a target of 25% in its Global Alpha Fund within the CBRE benchmark.
11. The Strategic Finance Manager – Pensions & Treasury introduced the Financial and Performance Report.
12. The Board considered the Asset Allocation and in particular the allocation to property. The Surrey Pension Fund Adviser suggested increasing the target allocation to property to 7%.
13. The Senior Accountant explained the differences between the tables on pages 41 and 42 of the report.
14. The Chairman informed the Board that she and the Strategic Finance Manager – Pensions & Treasury had met with Newton's CEO and was reassured that they now have an improved strategy. They felt it prudent to continue with Newton as a global equities manager but to review the fee structures with all fund managers. She also suggested that it was timely to do a deep dive review of the Pension Fund, including the performance and cost of investment advisers, actuarial costs and the costs of other overheads. It was agreed that two Members should work with officers on this review and bring back a report in September (**Action Review ref: A6/15**).

Actions/Further information to be provided:

- i. The Strategic Finance Manager – Pensions & Treasury to circulate an annualised return and IRR for Capital Dynamic's US Solar Fund.
- ii. Officers to reschedule the meeting on 15 May 2015.
- iii. The Strategic Finance Manager – Pensions & Treasury to include information on ill health insurance in an upcoming communication to employers.

- iv. The Strategic Finance Manager – Pensions & Treasury to provide further detail on the potential investment in the Marathon Emerging Market Fund.
- v. The Chairman to hold one to ones with Board members to discuss the assessment results.
- vi. Two Members to work with officers on a deep dive review of the Pension Fund, including the performance and cost of investment advisers, actuarial costs and the costs of other overheads and to bring a report back to the Board in September.

Resolved:

- 1. That the report was noted.
- 2. That the purchase of ill health insurance from Legal & General be DELAYED until the full implications of the revised price and new scheme rules have been fully evaluated.
- 3. That part of the CBRE portfolio be diversified by setting a target of 25% to be invested in CBRE’s Global Alpha Fund, with the other 75% remaining in UK property and the CBRE benchmark to reflect this allocation.

Next steps:

None.

The meeting was adjourned at 11.10am for a short break and reconvened at 11.30am.

7/15 PENSION FUND BUSINESS PLAN 2015/16 [Item 7]

Declarations of interest:

None.

Key points raised during the discussion:

- 1. Following on from the previous item, it was agreed to add a review of consultant and advisory arrangements under ‘Investment’.

Actions/Further information to be provided:

None.

Resolved:

Subject to the above amendment, the Pension Fund Board ADOPTS the Business Plan in respect of the 2015/16 financial year.

Next steps:

None.

8/15 REVISED STATEMENT OF INVESTMENT PRINCIPLES [Item 8]

Declarations of interest:

None.

Key points raised during the discussion:

1. The Board considered the earlier request by County Councillor Jonathan Essex that, instead of stating:

“...external fund managers **could** deploy ESG considerations in deciding upon selection,”

The Statement of Investment Principles states:

“...external fund managers **should** deploy ESG considerations in deciding upon selection.”

The Mercer representative stressed that Fund Managers do deploy ESG considerations in deciding upon selection. The Board agreed to make the change.

Actions/Further information to be provided:

None.

Resolved:

1. That, subject to the above amendment, the revised Statement of Investment Principles be APPROVED.
2. That the revised Core Belief Statement be APPROVED.

Next steps:

None.

9/15 RESPONSIBLE INVESTMENT AND STEWARDSHIP POLICY [Item 9]**Declarations of interest:**

None.

Key points raised during the discussion:

1. The Strategic Finance Manager – Pension & Treasury introduced the report and confirmed that Manifest was appointed following a competitive tender process.

Actions/Further information to be provided:

None.

Resolved:

That the voting templates and revised Responsible Investment and Stewardship Policy be APPROVED and ADOPTED.

Next steps:

None.

10/15 CORPORATE GOVERNANCE SHARE VOTING [Item 10]**Declarations of interest:**

None.

Key points raised during the discussion:

1. The Strategic Finance Manager – Pension & Treasury introduced the report.

Actions/Further information to be provided:

None.

Resolved:

That the report be NOTED.

Next steps:

None.

11/15 LOCAL GOVERNMENT PENSION SCHEME: GOVERNANCE REGULATIONS [Item 11]**Declarations of interest:**

None.

Key points raised during the discussion:

1. The Strategic Finance Manager – Pensions & Treasury introduced the report and confirmed that a final report would be brought to the next meeting.
2. The overheads related to the new Local Pension Board were discussed.
3. The Strategic Finance Manager – Pensions & Treasury confirmed that it was possible get permission from the Secretary of State to join the new Local Pension Board with the existing Pension Fund Board. This was not seen as viable as it was difficult to see how effective scrutiny could be achieved.
4. The Strategic Finance Manager – Pensions & Treasury informed the Board that a bulletin on the new requirements would be circulated to employer and member bodies soon, along with an invitation for nominations to the new Board. He would also circulate the draft report to Council to the Surrey Pension Fund Board first for comments **(Action Review ref: A7/15)**.
5. The Board recommended that consideration be given to the name Local Pension Advisory Board for the new Local Pension Board.

Actions/Further information to be provided:

The Strategic Finance Manager – Pensions & Treasury to circulate the draft report to Council to the Surrey Pension Fund Board first for comments.

Resolved:

That the Pension Fund Board NOTED the report.

Next steps:

None.

12/15 KEY PERFORMANCE INDICATORS [Item 12]**Declarations of interest:**

None.

Key points raised during the discussion:

1. The Senior Advisor (Pension Fund) informed the Board that there are ongoing conversations with other local authorities to provide pensions administration. Expansion will bring challenges but it is intended to continue providing outstanding service. The optimum size for pensions administration before inefficiencies develop is 300,000 to 500,000 members. The Chairman requested that officers keep an eye on capacity issues and membership size and report back. The Director of Finance informed the Chairman that a business case is completed for each authority. The authorities that have so far delegated responsibilities for their pensions administration are not large. There are no big rewards from expanding but there is a positive impact on reputation and cost efficiencies.

Actions/Further information to be provided:

None.

Resolved:

That the Pension Fund Board NOTED the KPI statement.

Next steps:

None.

13/15 PENSION FUND RISK REGISTER [Item 13]**Declarations of interest:**

None.

Key points raised during the discussion:

1. A Member highlighted the risks suggested for inclusion by Internal Audit. The Strategic Finance Manager – Pensions & Treasury reminded the Board that it had requested that the Risk Register be rationalised. This had been discussed with Internal Audit and they now accepted the more succinct Risk Register.
2. The Director of Finance informed the Board that it would be necessary to update the mitigation for Risk 5 now it had been decided not to insure against the cost and impact of ill health retirements. The Senior Advisor (Pension Fund) highlighted the existing mitigation in regulations that an independent physician must sign off ill health retirements.

Actions/Further information to be provided:

None.

Resolved:

That, subject to the above amendments, the revised Risk Register be NOTED.

Next steps:

None.

The Board meeting adjourned at 12.10pm for lunch and training and reconvened at 2.15pm without Tony Elias.

MANAGER ISSUES AND INVESTMENT PERFORMANCE [Item 6]

1. The Board returned to its discussion on the liability driven investment strategy (LDI). After further discussion it was accepted that, as it was arguably more difficult for a manager to know as soon as a trigger funding level had been hit, the trigger should be the real yield of appropriate duration to match the liabilities. Following a lengthy debate it was agreed to revise the real yield trigger to 0.27% and incorporate this into the mandate documentation with Legal & General.

Resolved:

4. That the REVISED real yield trigger of 0.27% to switch into the leveraged gilt structure be incorporated into the mandate documentation with Legal & General.

14/15 DATE OF NEXT MEETING [Item 14]

The date of the next meeting would be rescheduled.

Meeting ended at: 2.20 pm

Chairman

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SURREY PENSION FUND BOARD**FRIDAY 13 FEBRUARY 2015****ITEM 4 QUESTIONS AND PETITIONS****MEMBERS' QUESTIONS****(1) MR JONATHAN ESSEX (REDHILL EAST) TO ASK:**

The Statement of Investment Principles 13/14 for the Pension Fund, under Stewardship and Responsible Investment states that:

“The Council requires the Fund Managers to take into account the implications of substantial “extra-financial” considerations, and that whilst the Fund has no specific policy on investing or divesting in stock with regard to ESG issues ... external fund managers could deploy ESG considerations in deciding upon selection”.

Please can you confirm in what way the external fund managers are required to do this by Surrey County Council and to what extent this is reflected in Surrey County Council's current stockholdings.

Reply:

The Council maintains an influence on issues of environmental, social or governance (ESG) concerns. Officers, advisors and Board members meet with Fund Managers on a regular basis to discuss investment and ESG issues. The Fund uses the services of a specialist governance advisor to identify potential areas of concern, and the firm advises on various ESG issues via bulletins issued at the time of AGMs and voting resolutions. Managers are expected to contact officers directly by e-mail or telephone if any current reputational issues could bring an issue into public debate. Officers will write to Board members if a particularly contentious issue is current or where a vote is required at an AGM.

In terms of the Fund's current stockholdings, there is no current policy of negative screening. All holdings exist on the fund managers' best judgement as to future returns and ESG issues are expected to part of managers' stock selection criteria. If ESG issues are a current factor in stock selection, then the outcome will be reflected in the managers' stock selection process.

The Fund also participates in all of the votes in its actively managed portfolios, according to its own Responsible Investment and Stewardship Policy. This policy is reviewed annually. A summary voting report is tabled at each quarterly meeting.

(2) MR JONATHAN ESSEX (REDHILL EAST) TO ASK:

The Statement of Investment Principles 13/14 for the Pension Fund, under Stewardship and Responsible Investment states that:

“The Pension Fund also holds expectations of its fund managers to hold companies to account on the highest standards of behaviour and reputational risk management which may damage long term performance, and for those issues to be part of their stock selection criteria”.

With this in mind, please can you confirm how the decision making and risk framework for the Pension Fund currently addresses the issue of stranded assets: i.e. those shares that will become worthless at some point, such as those of fossil fuel companies in the future?

Reply:

Stranded assets are those investments which are made but which, at some time prior to the end of their economic life (as assumed at the investment decision point), are no longer able to earn an economic return, as a result of changes in the market and regulatory environment. Fund managers are required to assess the timing at which such assets can be sold in order to achieve the best outcome for the Fund.

Managers are required to take a long term view when assessing the merits of a particular investment in which market, regulatory and technological factors would be considered.

(3) MR JONATHAN ESSEX (REDHILL EAST) TO ASK:

Please can you confirm what is the process of reviewing the pension fund principles, and how this will include active participation of those with shareholdings in the fund? In particular, please can you confirm the process whereby the Fund would engage in strengthening its ESG policies and fund management in the future, such as introducing a policy of positively investing in ethical stocks and the process of acting to divest in stocks with specific ESG issues.

Reply:

The Statement of Investment Principles and Core Belief Statement is reviewed at every quarterly meeting. Minutes of the meetings are published online. The Fund holds an AGM every November to which every employer organisation is invited. Whilst the Fund has no specific policy on investing or divesting in stock with regard to ESG issues, in comparing potential investment decisions, and where differences in predicted returns are deemed immaterial, external fund managers could deploy ESG considerations in deciding upon selection. The Fund is a member of the Local Authority Pension Fund Forum, a membership group of LGPS funds that campaigns on corporate governance issues, thus demonstrating a commitment to sustainable investment and the promotion of high standards of corporate governance and responsibility.

Surrey Pension Fund Board: Training Assessment

Self Assessment Questionnaire: Results

Member

1

Investments

Asset allocation strategies	3
Appointing Fund managers	3
Investment Risk	3
Liability driven strategies	2
Equities	3
Government bonds	3
Corporate bonds	3
Property	3
Private equity	3
Infrastructure	3
Hedge funding	2
Commodities	2
Currency	2
Global Custody	2
Stock Lending	2

Local Authorities and the Local Government Pension Scheme

Actuarial Valuation and Funding strategies	3
Local government finance and council tax	4
LGPS benefits and administration	3
General pension legislation	3
Admissions Policy	3
Governance policy	3
Roles and responsibilities of an LGPS Board Member and administering authority	3
LGPS investment Regulations and Limits	3

General Management

Financial planning budgetary control	4
Accounting and audit	4
Risk management	3
Procurement	3

Environmental Social and Governance Investment Issues

UK Code of Corporate Governance	2
Stewardship Code	2
CIPFA/Myners Principles	3
Environmental/Social/Governance (ESG) consideration	2
Share voting	2

Test

Member

1

Legislation and Governance	18
Accounting and Audit	8
Procurement and Relationship	13

Investment Performance and Risk	8
Financial Markets	15
Actuarial	16
Total	78

Legislation and Governance	67%
Accounting and Audit	73%
Procurement and Relationship Management	68%
Investment Performance and Risk Management	73%
Financial Markets and Product Knowledge	75%
Actuarial	70%
Overall	70%

Member 2	Member 3	Member 4	Member 5	Member 6	Member 7	Member 8	Member 9
3	3	2	3	4	3	4	4
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1	3	2	3	2	3	4	3
2	2	2	2	2	3	4	2
3	3	2	2	2	3	4	2

Member 2	Member 3	Member 4	Member 5	Member 6	Member 7	Member 8	Member 9	Member 10
18	16	19	13	20	17	12	13	11
5	8	7	5	6	5	7	9	4
12	12	13	13	15	12	11	15	9

9	10	8	9	10	10	8	9	7
18	16	18	15	17	17	11	18	17
15	20	17	14	18	18	9	18	15
77	82	82	69	86	79	58	82	63

67%	59%	70%	48%	74%	63%	44%	48%	41%
45%	73%	64%	45%	55%	45%	64%	82%	36%
63%	63%	68%	68%	79%	63%	58%	79%	47%
82%	91%	73%	82%	91%	91%	73%	82%	64%
90%	80%	90%	75%	85%	85%	55%	90%	85%
65%	87%	74%	61%	78%	78%	39%	78%	65%
69%	74%	74%	62%	77%	71%	52%	74%	57%

Average



3.2
3.2
3.2
2.8
3.3
3.3
3.2
2.9
2.9
2.7
2.7
2.3
2.6
2.2
2.3



3.1
3.3
2.9
2.6
2.4
2.8
2.9
2.4



3.1
3.0
3.0
2.7



2.3
2.2
2.7
2.3
2.6

Total in Section

27
11
19

11
20
23
111

58%
58%
66%
80%
81%
70%
68%

Notes from Meetings with Fund Managers: 12 February 2015

Hosted by Western Asset Management

Manager	Attending
Western	Marian George Andrew Belshaw
Baillie Gifford	Anthony Dickson Patrick Edwardson
Franklin Templeton	Chris Orr Stuart Lingard
CBRE	Max Johnson Ivo de Wit D.Dhananjai

Western

1. Met with Marian George and Andrew Belshaw from Western.
2. Western discussed the continued global accommodative monetary policy. In their view, despite the ceasing of the US Federal Reserve's Quantitative Easing (QE) stimulus, monetary policy will remain loose with no expected rate rise until late 2015, despite strong economic growth and recent employment statistics.
3. Despite slightly contradictory pronouncements from Mark Carney during 2014, there will likely be no change to the Bank of England record low rates until 2016. The European Central Bank surprised markets by the scale of the recently announced QE program and recent sluggishness in the Japanese economy will likely lead to further central bank action.
4. Western's relative performance over the last year, and especially in the most recent quarter, suffered from the underweight position in long dated gilts, the yields on which have fallen dramatically. It was argued that the UK economy still retains the key problems which came into focus during the credit crisis: overly dependent upon consumer and domestic demand, which is in turn overly dependent upon credit. There was substantial growth in unsecured credit over the preceding 12 months.
5. The UK has reported consistently large current account deficits and, on a national level, failed to properly apply the fiscal reforms needed. This has led to a twin current account and fiscal deficit and given the prospect for higher medium term inflation. The depressed yield on longer dated UK Gilts was considered unjustified. The outlook for the UK is further complicated by the upcoming general election in which the prospect of a majority government appears unlikely.
6. Western were overweight long dated US credit and high yield which is considered cheap relative to EU and UK equivalent yields. This sector should perform well if the US economy experiences higher than expected economic growth.
7. In response to questioning on individual selections within US credit, Western were previously underweight in the energy sector, but were now looking to move overweight following recent price weaknesses.
8. Western are also positioned in certain emerging market debt bonds, notably index-linked Brazilian and Mexican debt.
9. Western anticipates European QE to continue beyond the current deadline of 2016 with the expectation of further yield compression.

Baillie Gifford

1. Met with Anthony Dickson and Patrick Edwardson from Baillie Gifford.
2. The main focus of the meeting was the departure of Mike Brooks from the multi-asset team at Baillie Gifford. Mike was one of four portfolio managers and one of seven investors within the multi-asset team, although the multi-asset team is supported by the other specialised areas of the firm.
3. Baillie Gifford were keen to stress that this was not considered a significantly damaging departure. Mike Brooks had played a very important part in the creation of the multi-asset team but the organisational structure and investment processes were now very well established.
4. In response to questioning on areas of specialist knowledge or individual ideas that would be lost from Mike Brook's departure, Baillie Gifford highlighted the fact that, whilst individuals within the multi-asset team were given individual areas of focus, the responsibility and accountability for any investment decision making was taken at a team level and the source of a particular investment idea was often the surrounding specialist team, e.g., fixed income.
5. Baillie Gifford is in the process of developing a diversified growth fund in the same vein as the existing fund but excluding the most capacity constrained investments, e.g., insurance bonds, to allow for a larger fund size. This expansion to managing two funds would likely involve external recruitment to cover the increased workload.
6. Looking forward, Baillie Gifford had made further investments into high yield and senior loans following recent volatility and a widening of spreads. In contrast, the fund now has no developed market bond exposure following the recent sale of Australian government bonds. Baillie Gifford were also planning to increase the exposure to global property

Franklin Templeton

1. Met with Chris Orr and Stuart Lingard from Franklin Templeton.
2. The performance benchmark for Franklin Templeton was raised as an issue during the meeting, given the wide disparity between the reported benchmark and performance.
3. The Franklin Templeton absolute return fund is a USD denominated fund, hedged back to Sterling and, as such, Franklin Templeton maintained that the appropriate benchmark is the USD benchmark rather than the Sterling benchmark as has been previously reported in the board reports.
4. The performance for Franklin Templeton updated for comparison against the USD global bond benchmark is as follows.

	Return %	Benchmark %	Difference %
Quarter 3	-1.7	-1.2	-0.5
12 Months	0.6	0.5	0.1
Inception (Feb 2013)	1.7	-0.1	1.8

5. The fund portfolio was positioned very defensively in terms of duration with an average duration of just over one year, which has decreased over the past six months. Franklin Templeton were not convinced that estimates of global deflation would materialise beyond short term oil related dips. There was considered to be a fundamental mismatch in the pricing of developed market bonds.
6. Franklin Templeton were very positive on the US economy with the potential for the economy to surprise on the upside of market expectations. Given the strength of the US economy, it was likely that there would be a rise in US treasuries in 2015 regardless of an actual movement in the US Federal Reserve rate.
7. The portfolio was positioned to take advantage of US growth with investments closely linked to the US economy. The fund has a large exposure to short dated South Korean and Mexican government debt. In currency terms, the fund is long the USD versus the Yen and the Euro.
8. The fund has two small holdings in Ukrainian and Russian government debt as well as a bond holding in a Russian government backed bank. The portfolio is required by US law to be 100% liquid within 7 days and this is assessed on a regular basis by an independent provider. The portfolio is still considered to be 100% liquid and the market has sufficiently priced in the risk for Ukraine. Franklin Templeton were confident that Internal Monetary Fund (IMF) support for Ukraine would continue. Russia was considered to be more at risk in the long term but the investment was of short duration and was currently affordable.

CBRE

1. Met with Max Johnson Ivo de Wit and D.Dhananjai from CBRE to discuss the current UK focused mandate and the potential to invest in global property through CBRE's Global Alpha Fund.
2. The Global Alpha Fund is a perpetual open ended fund which launched in November 2010 with a focus upon a developed market and sustainable high income strategies. The target is a total return of 9-11% per annum of which 50% is distributable dividend income.
3. The leverage ratio is currently 33% and is likely to vary between 30-35%. This is broadly higher than in the UK strategy as other geographic regions are typically exposed to higher levels of leverage.
4. There is a three-year lock in period once funds are committed. The entry price is at net asset value but the exit price is at net asset value minus trading costs.
5. The fund does not target an equal weighting in all geographic markets and sectors but focuses upon areas of strong rental income and capital growth driven by fundamentals rather than capital flows.
6. The CBRE fee would be 50 bps if over £20m is committed, with other fund and operating costs expected to comprise about 110bps.
7. The fund's performance is measured in local currency with the decision to hedge currency movements the decision of the client. CBRE suggested that if a decision was taken to invest in the global fund, a currency hedge be utilised as well.
8. CBRE recommended that, given the impressive recent rally in UK property, it would be sensible to diversify some part of the portfolio to the global fund. A target of 75% UK to 25% global was suggested.

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**Surrey Pension Fund Board
22 May 2015**

ACTION TRACKER

PURPOSE OF REPORT:

For Members to consider and comment on the Board's action tracker.

INTRODUCTION:

An action tracker recording actions and recommendations from previous meetings is attached as **Annex A**, and the Board is asked to review progress on the items listed.

RECOMMENDATION:

The Committee is asked to monitor progress on the implementation of recommendations from previous meetings (Annex A).

REPORT CONTACT: Cheryl Hardman, Regulatory Committee Manager
020 8541 9075
cherylh@surreycc.gov.uk

Sources/background papers: None

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Surrey Pension Fund Board – ACTION TRACKING

ACTIONS

Number	Meeting Date	Item	Recommendation / Action	Action by whom	Action update
A21/14	15 May 14	Investment Strategy Review	The Board to receive training on synthetic equities.	Strategic Manager, Pension Fund & Treasury	To be scheduled for a future meeting. Multi-asset credit training is scheduled for 15 May 2015.
A5/15	13 Feb 15	Manager Issues and Investment Performance	The Chairman to hold one to ones with Board members to discuss the assessment results.	Chairman	Pending.
A6/15	13 Feb 15	Manager Issues and Investment Performance	Two Members to work with officers on a deep dive review of the Pension Fund, including the performance and cost of investment advisers, actuarial costs and the costs of other overheads and to bring a report back to the Board in September.	Strategic Manager, Pension Fund & Treasury	To be considered at the meeting on 18 September 2015.

COMPLETED ACTIONS

Number	Meeting Date	Item	Recommendation / Action	Action by whom	Action update
A12/14	15 May 14	Pension Fund Business Plan 2013/14: Outturn Report and Final 2014/15 Plan	A training needs analysis to be conducted later in the year.	Strategic Manager, Pension Fund & Treasury	A training needs analysis was circulated by email on 14 August 2014. Progress was highlighted in the papers for the 14 November 2014 meeting. A number of questionnaires were outstanding. The results were brought to the February 2015 meeting.

Surrey Pension Fund Board – ACTION TRACKING

A1/15	13 Feb 15	Manager Issues and Investment Performance	The Strategic Finance Manager – Pension & Treasury to circulate an annualised return and IRR for Capital Dynamic's US Solar Fund.	Strategic Manager, Pension Fund & Treasury	The information was circulated by email on 24 February 2015.
A2/15	13 Feb 15	Manager Issues and Investment Performance	Officers to reschedule the meeting on 15 May 2015.	Regulatory Committee Manager	The meeting was rescheduled to 22 May 2015.
A3/15	13 Feb 15	Manager Issues and Investment Performance	The Strategic Finance Manager – Pension & Treasury to include information on ill health insurance in an upcoming communication to employers.	Strategic Manager, Pension Fund & Treasury	Communication was sent to employers on 10 April 2015.
A4/15	13 Feb 15	Manager Issues and Investment Performance	The Strategic Finance Manager – Pensions & Treasury to provide further detail on the potential investment in the Marathon Emerging Market Fund.	Strategic Manager, Pension Fund & Treasury	Report included in Board papers for 15 May 2015.
A7/15	13 Feb 15	Local Government Pension Scheme: Governance Regulations	The Strategic Finance Manager – Pensions & Treasury to circulate the draft report to Council to the Surrey Pension Fund Board first for comments.	Strategic Manager, Pension Fund & Treasury	The draft reports were circulated on 5 March before being considered by Council on 17 March.

SURREY COUNTY COUNCIL

SURREY PENSION FUND BOARD

DATE: 22 MAY 2015

LEAD OFFICER: SHEILA LITTLE, DIRECTOR OF FINANCE

SUBJECT: FREEDOM AND CHOICE



SUMMARY OF ISSUE:

The report explains the statutory changes to pension fund scheme rules that will allow LGPS members over the age of 55 to transfer their LGPS benefits to defined contribution (DC) arrangements, or take advantage of the new trivial commutation limits.

RECOMMENDATIONS:

It is recommended that the Pension Fund Board note the report.

REASON FOR RECOMMENDATIONS:

The Pension Fund Board must be aware of the changes implemented by the Government with regard to freer access of members' pension assets by those approaching retirement.

DETAILS:

Background

- 1 In a written statement on 21 July 2014, the Chancellor announced Government proposals to give more "freedom" to defined benefit (DB) pension scheme members. This appeared to have the private sector largely in mind as it was expressly stated not to extend this freedom to the unfunded public service schemes (because of the potential significant impact on public finances). However, it has since been confirmed that the proposals would include the funded public service schemes, principally the LGPS, with safeguards required that are similar to those in the private sector.
- 2 On 24 November 2014, the Department for Communities and Local Government (DCLG) published a paper on the proposed safeguards that will apply to public service pension schemes, following Government amendments to the Pensions Schemes Bill. From 6 April 2015, LGPS members have the flexibility to take their benefits as up-front cash, via a transfer to a defined contribution (DC) arrangement. However, this flexibility comes at the expense of the remaining life-long pension, and it will not always be obvious whether this will be in a member's best interest. Furthermore, it is acknowledged that this may have a positive or negative material impact on LGPS funds' financial positions.

Safeguards

- 3 To take advantage of the new flexibility, a member would need to transfer their LGPS benefits into a DC arrangement before retirement. The chosen benefit payments would then come from that arrangement, with no further input or administration by the LGPS fund. As a result, the following safeguards apply to the transfer from the LGPS fund to the DC arrangement:

Financial Advice: A fund will need to clarify and check that a member has received appropriate independent advice before being allowed to transfer to a DC arrangement. However, members with 'pension wealth' below £30,000 will be exempt from having to take advice. LGPS members will have to pay for their own independent advice.

Cash Equivalent Transfer Value (CETV) Reductions: The DCLG will have the right to arrange for reductions in CETVs from funded public service pension schemes, in the event that there is the need to protect the taxpayer (and the pension scheme).

- 4 There is also an existing safeguard that allows schemes to apply to the Pensions Regulator to delay the payment of transfers. This power however is only likely to be of use in limited circumstances. Both main safeguards are potentially problematic.

Financial Advice

- 5 Initially, the only exception to the requirement for advice will be for those with pensions wealth below £30,000. The Government has since decided that this limit will apply to the member's cash equivalent transfer value (CETV) and therefore LGPS funds will not need to consider the value of any benefits the member has in other registered pension schemes. However, it is not clear if the LGPS counts as one 'scheme' for these purposes. If it does, account would have to be taken of service in other LGPS funds that has not been consolidated in the LGPS fund handling the transfer request.
- 6 Government statistics show that a typical employee has, on average, 11 jobs during his or her working lifetime. One consequence of this is that a member with deferred pensions in a number of previous pension schemes, LGPS or otherwise, could have several transfer values below the advice requirement limit. This would result in significantly more than £30,000 being transferred into a DC arrangement without the member receiving any advice.
- 7 LGPS funds will not be required to review whether or not the financial advice is "correct", just that it exists. The LGPS will need to check that a member has received independent advice and that the advice is from a reputable source e.g., an adviser authorised by the Financial Conduct Authority (FCA). The rules around this check will be set out in secondary legislation. Inappropriate financial advice could leave members with much poorer retirement incomes. The potential for member poverty as a result of incorrect advice should not be underestimated.

- 8 Even if appropriate independent advice is received, there is no obligation on the member to act upon that advice. This could lead to members taking CETV transfers when it is in their best interest to remain in the LGPS (which is likely to be the case for most LGPS members). If a member has provided evidence of taking advice then, in general, the fund must pay the transfer value. The advice cost is to be borne by the LGPS member and must be paid even if the transfer does not proceed.
- 9 LGPS administrators will need to be sure that their processes are robust enough to ensure that transferring members have received advice from a properly qualified financial adviser that complies with all the requirements of the legislation. If this is not properly evidenced and recorded, funds will be open to challenge in future. Information about the increased options now available at retirement will need to be clearly communicated to employers and members before any financial advice is sought to avoid any unnecessary expense being incurred. Equally, LGPS funds will also need to avoid the situation where members retire while unaware of the new flexibility, after which it would be too late to do anything.

The approach to Freedom and Choice of the Surrey Pension Service

- 10 The Pension Service team has established new processes to enable the education of scheme members and ensure the efficient and compliant administration of Freedom and Choice.
- 11 Information about Freedom and Choice, including the necessity or recommendation to take independent financial advice has been included in a member newsletter, a revision to the scheme guide and as part of notifications to deferred members.
- 12 For those members who request a transfer a compliant new suite of documents have been produced which include the following risk warnings:
- Discharge forms will include new questions to confirm whether the member has other LGPS rights (to determine whether a transfer out is permitted. Also, to establish whether the CETV in all LGPS funds is over £30,000) and whether the transfer is to a scheme which offers flexible benefits;
 - Where the CETV is over £30,000 and the new scheme offers flexible benefits, members will be supplied with a Confirmation of Advice Form to be completed by the qualified adviser.
- 13 In addition to these safeguards members who enquire about transfer options will be warned of the dangers of pension liberation fraud and provided with contact details of the Pensions Regulator.

Cash Equivalent Transfer Value (CETV) Reductions

- 14 The method of calculating any reduction in CETVs will be set out in secondary legislation. This will be subject to consultation in due course. There are a number of other factors, including how the trigger for any reduction will be managed and quantified. The proposal to reduce CETVs in certain circumstances raises a number of issues:

- There is a question mark over whether CETVs should be reduced at all. LGPS benefits are guaranteed and paid under statute and therefore members have every reason to expect full payment of those benefits. The introduction of reduced CETVs could be inconsistent with this.
- Requiring funds to reduce CETV payments becomes a paradox where the payment of the full CETV is a lower cost to the fund, and payment of the CETV will actually reduce pension risk, as the fund no longer has to meet that future liability.
- An approach adopted to reduce CETVs could result in very different reduced transfer payments for (say) two members with identical benefits in two separate funds. The impact could vary between different employers within the same fund, potentially resulting in added cost and administration.
- Any reduction reduces the amount of cash available to members, and thus reduces the likelihood that the member will be advised that a transfer is in his or her best interests, resulting in a waste of advice fees incurred by the member.

Take Up Rates in the LGPS

- 15 The degree of any potential CETV reduction will affect the likelihood of members exercising the option and the profile of payments which, in turn, will affect the funding and investment impacts. The temptation of a lump sum payment, even if subject to a large reduction, may still be enough to ensure some transfers occur, especially where the value is less than £30,000.
- 16 A more generous approach (little or no reduction to the CETV) could result in more members exercising the option across the pension spectrum. In any event, financial advisers may find it difficult to recommend that a transfer is in the best interests of members based on the level of the transfer amounts available using current CETV factors.
- 17 The Government's initial estimate was a take-up rate of around 10% of those approaching retirement. It was suggested this would depend on, amongst other things, whether transfers are actively promoted by employers/funds, what is available in the DC market, and the quality of financial advice. Income tax may also affect the take-up rate, with any cash taken above HMRC tax-free pension limits subject to the individual's marginal rate of tax. LGPS members tend to be cautious when transferring pension rights, and perhaps this will mean that the new rules will be used less widely in the LGPS than elsewhere. It is difficult at this stage to predict what will happen with any certainty. Employer engagement and education with members may increase take-up levels.

Impact of Increased Transfer Activity

- 18 There could be a material impact on LGPS funds, particularly for the more mature ones due to cash flow implications or for those that are badly funded. For funds and employers that are in deficit, it is possible that the underlying asset share is lower than the corresponding CETV. This would mean that, although a liability gain generally arises if a CETV is paid, the asset share (or funding level) would be lower for those benefits left behind in the fund.

Conversely, a well-funded employer where the asset share is bigger than the CETV would see both the deficit reduce and the funding level improve.

Effect on Cash Flow

- 19 Transfer values will crystallise liabilities as a result of being settled up-front rather than being spread as pension payments over many years. This can affect investment strategy and impact cash flow. Larger one-off cash payments may mean that funds need access to more liquidity, to avoid disinvestment costs if assets have to be sold to meet liabilities. The impact of up-front settlement will also accelerate negative cash-flow positions. Funds may need more readily available income from existing assets. But transfers out will remove some key risks, such as investment, inflation and longevity, in respect of the liabilities transferred.

Effect on the Surrey Fund

- 20 Further analysis concerning the effect on the Surrey is attached as Annex 1 (Freedom and Choice in the LGPS), involving the following:
- Identification of active and deferred members due to reach age 55 or above (and their split of liabilities above and below the £30,000 'pension wealth' advice threshold) over the short to medium term.
 - Comparison of CETVs versus funded pension liabilities and assets actually held.
 - Investigation of the impact on funding level, cash flows and pension cost of different percentage levels of assumed transfer to DC at retirement.
 - Calculation of liquidity levels required to meet the increased level of transfer payments.
 - Impact on individual employers, focusing on particular employers that are mature, or are badly funded.

Conclusion

- 21 The new freedoms are more aimed at members of the private sector rather than public service schemes. They have extended to funded public service pension schemes because of the existence of a separate pool of assets to pay transfer values. The Government has felt the need to put in place protection in the form of CETV reductions to ensure there will never be the need for future taxpayer support.
- 22 Of more concern is the fund's responsibility for ensuring that a member has received appropriate independent advice. There is clearly the potential for members receiving the wrong advice and future mismanagement of DC monies, resulting in pensioner poverty.
- 23 The Surrey Fund has communicated the new rules to members and employers. In particular, retirement packs have been adapted to reflect the new flexibility as an extra option for members approaching retirement to consider.

CONSULTATION:

- 24 The Chairman of the Surrey Pension Fund Board has been consulted on the report.

RISK MANAGEMENT AND IMPLICATIONS:

- 25 Risk related issues are contained within the report, most notably the effect on cash flow, funding levels and the need to check and monitor the provision of independent financial advice to members.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

- 26 Financial implications for the Surrey Fund are included in the Hymans Robertson study shown in Annex 1.

DIRECTOR OF FINANCE COMMENTARY

- 27 The Director of Finance is satisfied that all material, financial and business issues and possibility of risks have been considered and addressed within the report and attached Annex 1.

LEGAL IMPLICATIONS – MONITORING OFFICER

- 28 Following the enactment of the Pension Services Act 2015, all LGPS Funds (as 'defined benefit' schemes) are required to implement these changes with effect from 6 April 2015. As further Regulations and statutory guidance are published in due course, these changes will need to be reviewed to ensure continued compliance by the Surrey Fund.

EQUALITIES AND DIVERSITY

- 29 There are no equalities or diversity implications associated with this report.

OTHER IMPLICATIONS

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

WHAT HAPPENS NEXT

- 31 The following next steps are planned:
- Further updates on outcomes will be presented at future Board meetings.

Contact Officer:

Phil Triggs, Strategic Finance Manager (Pension Fund and Treasury)

Consulted: Surrey Pension Fund Board Chairman

Annexes: Hymans Robertson study on the Surrey Fund.

Sources/background papers: None

Freedom and Choice in the LGPS

Addressee

This paper has been commissioned by and is addressed to Surrey County Council in its capacity as Administering Authority to the Surrey Pension Fund (“the Fund”). It has been prepared in my capacity as Fund Actuary.

Purpose

The purpose of this paper is to investigate the potential funding and cash flow impact of members making use of the new ‘freedom and choice’ legislation by either transferring their LGPS benefits to a defined contribution (DC) arrangement, in order to have full access to the cash transferred, or by taking advantage of the new trivial commutation limits.

Background – Funding approach

At the 2013 valuation, the assessed funding level (i.e. the assets as a proportion of the value of the past service liabilities) was 72.3% and contributions were set for each employer in the Fund from 1 April 2014 to 31 March 2017.

Full details of the approach taken for assessing contributions are included in the 2013 valuation report (dated 31 March 2014) and the Fund’s Funding Strategy Statement (included in the 2014 Annual Report).

Background – Freedom and choice reforms

In its 2014 budget the Government announced measures to give savers more freedom and choice about how they use their pension savings. In particular;

- From April 2015, LGPS members will have the flexibility to **take their benefits as up-front cash via a transfer to a DC arrangement.**
- From March 2014, **the limit applying to the payment of a trivial lump sum increased from £18,000 to £30,000.** This limit applies to the value of a member’s pension rights under all registered pension schemes. In addition, planned changes being effected through the Taxation of Pensions Act 2014 mean that from April 2015 **trivial commutation of benefits will be payable from a member’s minimum pension age (i.e. currently age 55).**

These reforms may have an impact on the funding position of the Fund and are likely to lead to an increase in the short term outgo.

The reforms have no impact on the cash flow profile of pensioner members, i.e. only active and deferred members in the Fund are able to transfer out to a DC arrangement or take advantage of the higher trivial commutation limits.

This paper does not provide detail on the safeguards in place to protect members considering the option to transfer to a DC arrangement. Further information is provided in our Briefing Note: “[What price freedom](#)”.

Summary

CETV exposure

The maximum exposure to the Fund in respect of possible CETVs over the 2015/16 year is c£1,111m (or c£1,006m on the assumption that all members over age 65 are in receipt of their pension as at 1 April 2015). This can be broken down between active and deferred members as follows;

	Maximum CETV exposure	
	Members over age 54 at 1 April 2015	Members over age 54 and less than age 65 as at 1 April 2015
Active	£811m	£716m
Deferred	£300m	£290m
Total	£1,111m	£1,006m

Relative to the assumptions underlying the calculation of CETVs, the Fund's valuation assumptions (based on recent market conditions) are currently more *prudent*, i.e. the assessed value of the past service liabilities on the 2013 valuation assumptions is generally slightly *greater* than the valuation of the same benefits for CETV purposes. This means that, on average, each CETV payment will reduce the fund's deficit in absolute terms. The effect on the funding level is negligible (see table on page 7).

Based on the scenarios modelled in this paper, we expect any increase in CETVs to lead to a reduction in the past service deficit. This is due to the difference between the funding assumptions and the CETV assumptions.

The impact of CETVs on the funding position is sensitive to market conditions underlying the ongoing funding basis. A rise in the real gilt yield (all else being equal) will reduce the funding gain arising from CETVs and have a negative effect on the funding level.

Trivial commutation

From April 2015, LGPS members will be able to commute all of their pension benefits if they have reached age 55 and the total value of their benefits (across all registered schemes) is less than £30,000. The rise in the trivial commutation limit (it is currently £18,000) may lead to a higher incidence of trivial commutation pay-outs in the future. Furthermore, the lowering of the age from which members may choose to take a trivial commutation (it is currently age 60) may bring forward the resulting payments.

The table below shows the split of the estimated trivial commutation entitlement over 2015/16 between actives and deferreds.

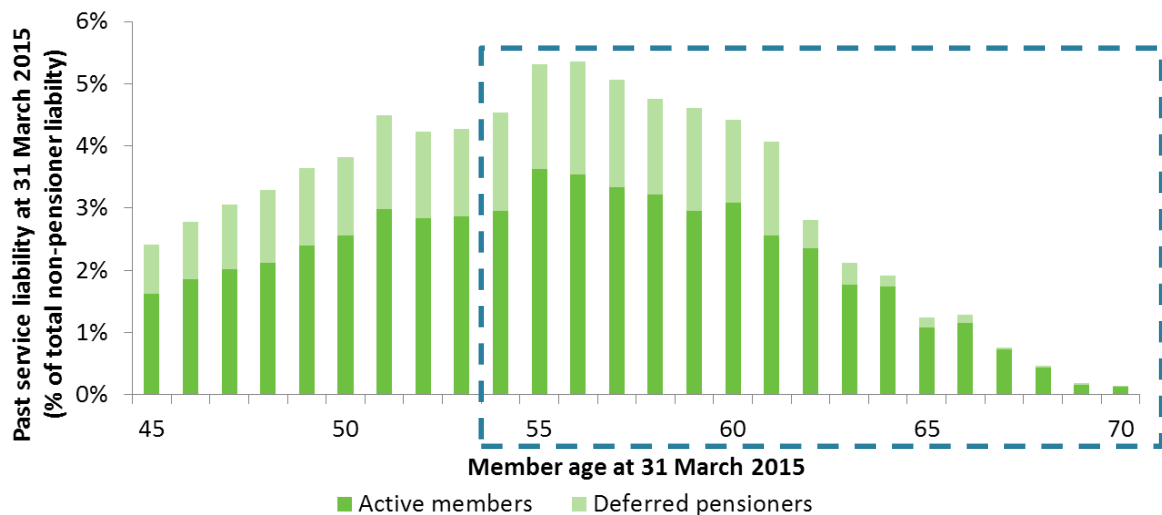
	Estimated trivial commutation entitlement in 2015/16			Total	Eligible members (new rules)
	Old rules	Increase in limit to £30k	Reduction in eligible age		
Active	£7.5m	£9.6m	£22.7m	£39.8m	3,738
Deferred	£12.2m	£10.9m	£30.1m	£53.2m	6,116
Total	£19.7m	£20.5m	£52.8m	£93.0m	9,854

Non-pensioner membership profile

Membership data was last provided for the purpose of the 2013 formal valuation. Based on this data, we have identified the members who are able to take advantage of the freedom and choice reforms and estimated the maximum exposure to the Fund of increased cash payments in the short term and the potential funding impact.

Chart 1 below shows the age distribution of the non-pensioner past service liability as at 31 March 2015, based on the 2013 valuation data, service to 31 March 2015 and ongoing funding assumptions as a recent date (31 December 2014).

Chart 1 – age distribution of the non-pensioner past service liability as at 31 March 2015



Notes on Chart 1;

- It is assumed that all members in the Fund as at 31 March 2013 have the same status as at 31 March 2015. In practice, it is highly likely that some members have left the scheme (and become deferred or transferred-out), retired, or died since the 2013 valuation.
- The total non-pensioner liability as at 31 March 2015 is estimated to be £2,727m (split £1,901m for actives and £826m for deferreds). The whole fund liability as at 31 March 2015 is assumed to be £4,095m (i.e. the whole fund liability reported in the 31 December 2014 Funding Update.)
- Actuarial assumptions are based on the approach adopted at the 2013 valuation, allowing for market conditions at 31 December 2014. Further details are included in the appendix.
- Pension benefits as at 31 March 2013 for active / deferred members have been increased in line with expected pay growth / actual pension increase orders to 31 March 2015.
- The active liability allows for the expected accrual of benefits from 1 April 2013 to 31 March 2015.

From Chart 1, it can be observed that around 49% of the total non-pensioner liability at 31 March 2015 is attributable to members who will be 55 or over during the 2015/16 financial year (i.e. age 54 or over as at 1 April 2015, as represented by the blue dotted line). This represents around 33% of the whole fund liability at this date.

Broken down by active and deferred status;

- c35% of the non-pensioner liability (or c23% of the whole fund liability) is in respect of active members who will be over age 55 during the 2015/16 year.
- c14% of the non-pensioner liability (or c9% of the whole fund liability) is in respect of deferred members who will be over age 55 during the 2015/16 year.

Cash Equivalent Transfer Values (CETVs)

All non-pensioner members

In the event of a member opting to transfer their LGPS benefits out of the Fund, a Cash Equivalent Transfer Value (CETV) is paid to the receiving DC scheme. The CETV amount is determined in a different way to how we determine the valuation past service liability.

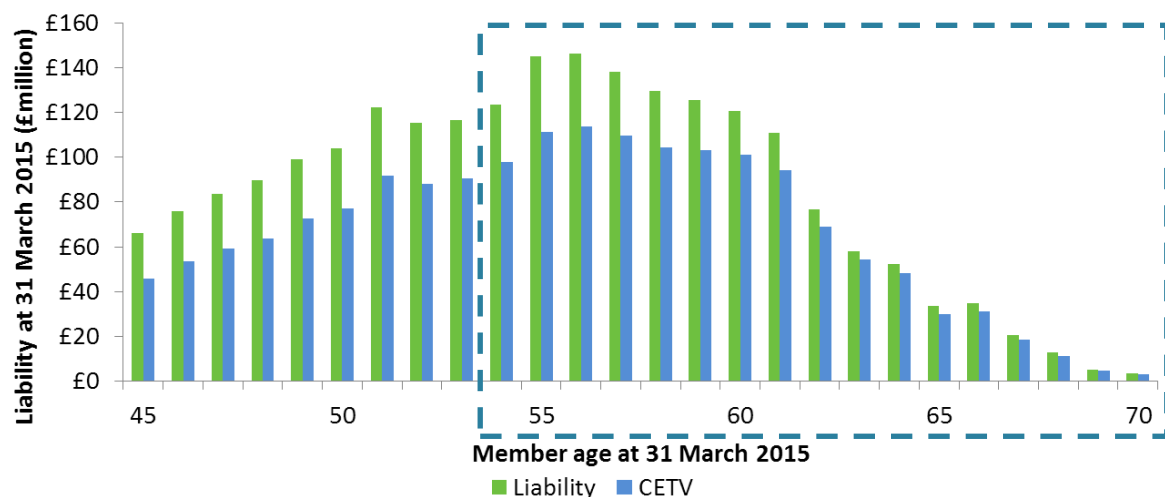
CETVs are calculated based on the guidance and factors provided by the Government Actuary's Department (GAD), dated 28 March 2014. The assumptions underlying the CETV calculation are fixed in nature, i.e. they do not vary in line with any changes to market conditions.

The discount rate adopted at the Fund's 2013 valuation was set equal to the yield on Fixed Interest Government bonds at the valuation date, plus an allowance of 1.6% (the Asset Outperformance Assumption) which represents our prudent estimate of future asset outperformance. Relative to the assumptions underlying the calculation of CETVs, the 2013 valuation assumptions are currently more *prudent*, i.e. the assessed value of the past service liabilities on the 2013 valuation assumptions is generally greater than the valuation of the same benefits for CETV purposes.

In order to assess the potential impact of allowing LGPS members to take their benefits as up-front cash via a transfer to a DC arrangement, I have estimated the value of the past service liabilities of non-pensioner members on the current CETV assumptions. For further details about the assumptions please see the *Data and assumptions* section below.

Chart 2 below shows the split of the estimated non-pensioner past service liability at 31 March 2015 by age and the approximate corresponding CETV.

Chart 2 – Estimated non-pensioner past service liability as at 31 March 2015 and the corresponding CETV



Notes on Chart 2;

- Notes from Chart 1 apply
- The active liability and estimated CETV amounts allow for the expected accrual of benefits from 1 April 2013 to 31 March 2015.
- CETV amounts have been estimated based on the factors and guidance published by GAD for this purpose dated 28 March 2014, the 2013 valuation data and actual pension increase orders to 1 April 2015.
- A Critical Retirement Age (CRA) of 63 has been assumed in the calculation of CETVs.

From Chart 2 it can be observed that the CETV amount is lower than the value of the past service liability at all ages. Furthermore, the difference between the liability and the corresponding CETV amount is greater at younger ages.

The total CETV value in respect of members who will be 55 or over during the 2015/16 financial year (the bars enclosed by the blue dotted line) is approximately £1,111m. Excluding members aged 65 and over as at 31 March 2015 (on the assumption that their benefits will already be in payment), the total CETV value is approximately £1,006m.

The maximum exposure to the Fund in respect of possible CETVs over the 2015/16 year is therefore c£1,111m (or c£1,006m on the assumption that all members over age 65 are in receipt of their pension as at 6 April 2015). Given the uncertainty around the likelihood that members will exercise this option (particularly as different groups could be more likely to do so than others), careful consideration will be required as to how these payments will be financed.

The following section considers the split of the exposure between active and deferred members.

Active / deferred split of CETV exposure

The previous section sets out the maximum CETV exposure in respect of active members and deferred pensioners combined (based on membership data as at 31 March 2013). It could be argued that deferred pensioners are more likely to take advantage of the freedoms, and more likely to do it soon after 6 April 2015, given that they do not need to withdraw from active service (however temporary).

Charts 3 and 4 show the comparison of estimated past service liability at 1 April 2015 and CETV amounts by age, for active members and deferred members separately.

Chart 3 – Estimated active past service liability as at 31 March 2015 and the corresponding CETV

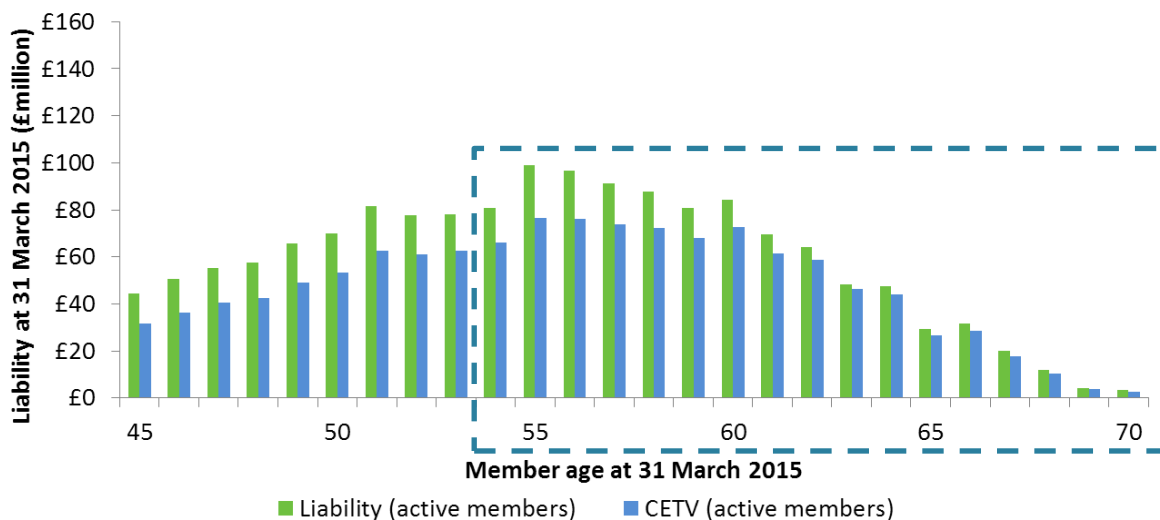
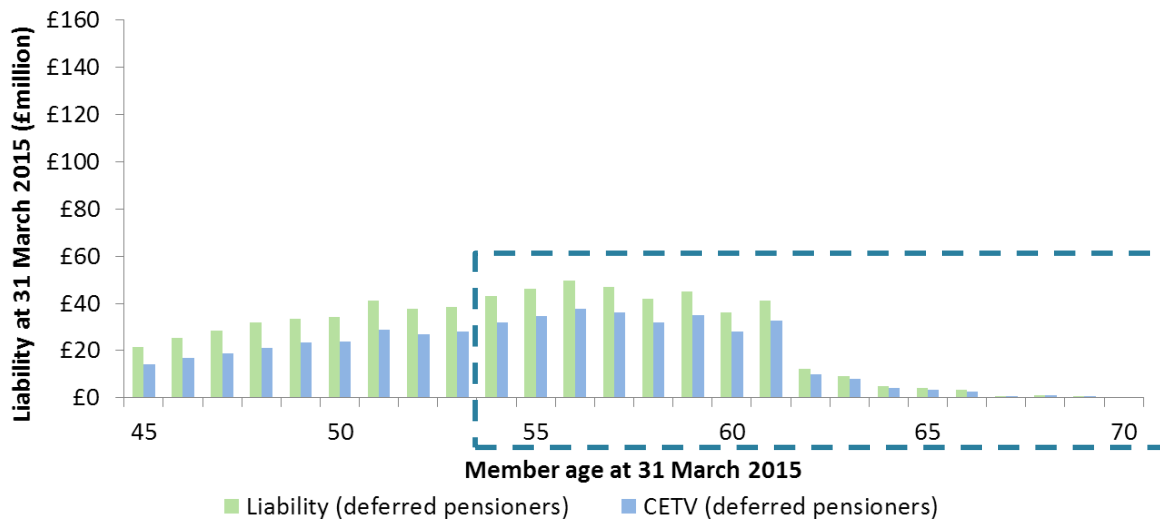


Chart 4 – Estimated deferred past service liability as at 31 March 2015 and the corresponding CETV



Notes on Charts 3 and 4;

a. Notes from Chart 2 apply

These charts show that the maximum CETV exposure is split approximately 70%/30% between active members and deferred pensioners. In addition, the difference between the past service liabilities and CETV amounts is slightly smaller for deferred pensioners. This reflects the assumption that deferred pensions are increased at a lower rate (CPI) than active members’ salaries (salary growth).

The maximum CETV exposure over 2015/16 of £1,111m (or £1,006m in respect of members less than 65 at 1 April 2015) can be broken down between active and deferred members as follows;

	Maximum CETV exposure	
	Members over age 54 at 1 April 2015	Members over age 54 and less than age 65 as at 1 April 2015
Active	£811m	£716m
Deferred	£300m	£290m
Total	£1,111m	£1,006m

Funding impact

The funding level as at 31 December 2014 was estimated to be 73%, as noted in my funding update (Navigator) report as at 31 December 2014. Taking into account the potential CETV exposure calculated above, the table below shows the potential funding impact of members choosing to take a CETV, under the following scenarios;

1. 75% of deferred members over age 54 (at 1 April 2015) take a CETV over the 2015/16 year;
 - a. Active take-up rate of 50% (over age 54 at 1 April 2015)
 - b. Active take-up rate of 10% (over age 54 at 1 April 2015)
2. 25% of deferred members over age 54 (at 1 April 2015) take a CETV over the 2015/16 year;
 - a. Active take-up rate of 50% (over age 54 at 1 April 2015)
 - b. Active take-up rate of 10% (over age 54 at 1 April 2015)

All figures in £m	1a 50% actives 75% deferreds	1b 10% actives 75% deferreds	2a 50% actives 25% deferreds	2b 10% actives 25% deferreds
Funding position pre-transfer;				
- Liabilities	4,095	4,095	4,095	4,095
- Assets	3,006	3,006	3,006	3,006
- Deficit	1,089	1,089	1,089	1,089
- Funding Level	73%	73%	73%	73%
Assumed CETV payments;				
- actives	406	81	406	81
- deferreds	225	225	75	75
- total	631	306	481	156
Past service liability transferred;				
- actives	478	96	478	96
- deferreds	291	291	97	97
- total	769	387	575	193
Funding position post-transfer;				
- Liabilities	3,326	3,708	3,520	3,902
- Assets	2,375	2,700	2,526	2,850
- Deficit	951	1,008	994	1,052
- Funding Level	71%	73%	72%	73%

The funding assumptions are (currently) more prudent than the CETV basis which means that, in every scenario, the fall in liabilities is greater than the fall in assets. However, the difference is relatively small so the *percentage* fall in assets is greater. This means that the past service deficit falls but so too does the funding level.

It is assumed in the above figures that CETVs are paid in respect of an equal cross section of the fund's active and deferred membership. If CETVs were concentrated amongst older members, where the difference between CETV and liability amounts is smaller, the deterioration in funding level would be slightly greater and the reduction in the deficit would be smaller than that shown. Similarly, it is possible that individual CETVs paid in respect of individual members (in particular, younger members) may lead to both an even greater reduction in deficit and an improvement in the funding level.

Sensitivity to a rise in the discount rate

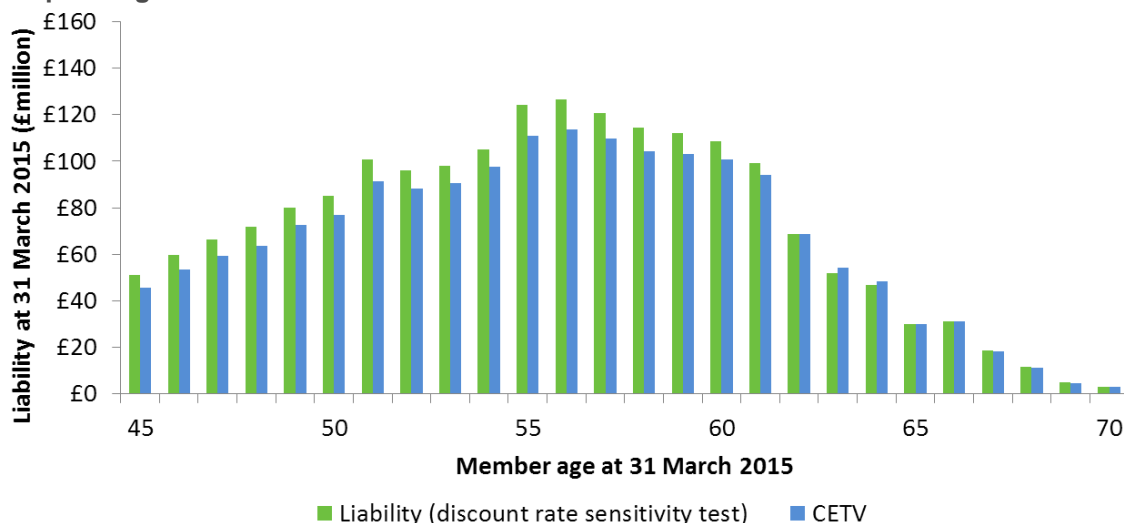
The assumptions underlying the factors used to determine CETVs are fixed in nature, i.e. they do not vary in line with changes in market conditions. The funding assumptions are set relative to market conditions at the calculation date meaning that the assessed past service liabilities can vary from time to time in line with changes to market conditions (in particular the yields on government bonds).

Based on recent market conditions, the ongoing funding assumptions underlying the valuation of the past service liability are collectively more prudent than the CETV assumptions, meaning that we expect the funding deficit to fall in absolute terms as a result of transfers-out on a CETV basis (as shown in the previous section).

Future changes to market conditions may lead to the assessed CETV values being higher than the value of the past service liabilities on the funding assumptions. In particular, this may happen in the event of a substantial increase in Government bond yields, with no corresponding increase in implied inflation (i.e. an increase in the real discount rate).

To investigate the sensitivity of the results to changes in market conditions, we have estimated the past service liabilities as at 31 March 2015, based on a 1% p.a. higher real discount rate. All other assumptions are the same as before. This is shown in Chart 5 below.

Chart 5 – Estimated non-pensioner past service liability as at 31 March 2015 (discount rate + 1% p.a.) and the corresponding CETV



Notes on Chart 5;

- Notes from Chart 2 apply.
- Liabilities have been calculated using 31 December 2014 financial assumptions with the real discount rate increased by 1% p.a.

We can clearly observe from this chart that a higher real discount rate (1% p.a. higher than before) significantly reduces the difference between past service liabilities and CETVs. We can also see that CETVs slightly exceed the value of the past service liabilities at higher ages (over assumed retirement age).

Consequently we would expect deficits to fall as a result of members taking a CETV from the Fund.

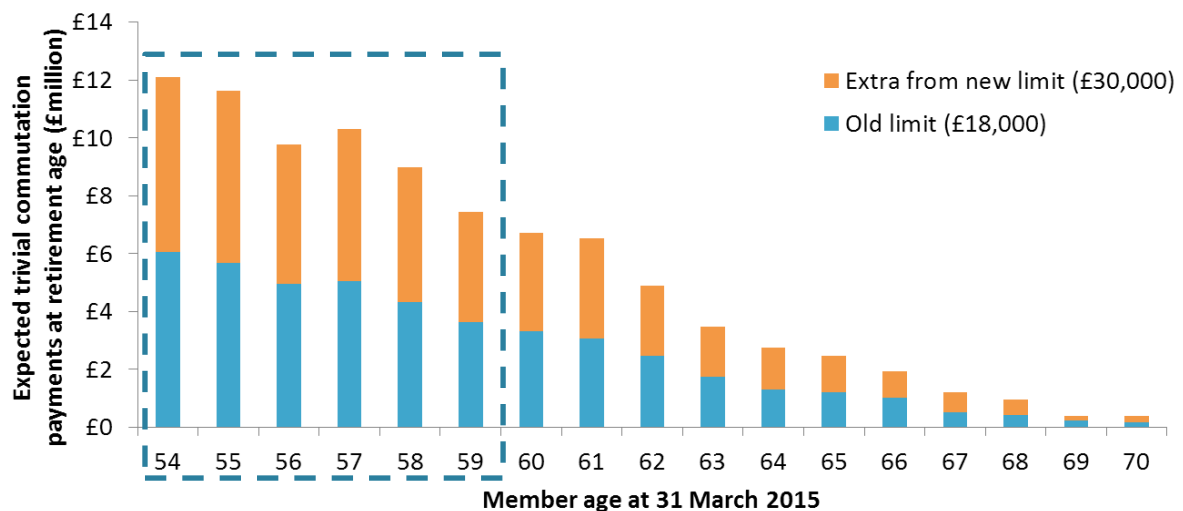
Members eligible for trivial commutation

All non-pensioner members

From April 2015, we understand that LGPS members will be able to commute all of their pension benefits if they have reached age 55 and the total value of their benefits (across all registered schemes) is less than £30,000. The rise in the trivial commutation limit (it is currently £18,000) may lead to a higher incidence of trivial commutation pay-outs in the future. Furthermore, the lowering of the age from which members may choose to take a trivial commutation (it is currently age 60) may bring forward the resulting payments.

Chart 6 below shows the maximum trivial commutation payments at retirement, based on the old limits (£18,000 – blue bars) and the additional maximum entitlement arising as a result of the new limits (£30,000 – orange bars).

Chart 6 – maximum trivial commutation payments at retirement date (age 60)



Notes on Chart 6;

- Pension benefits as at 31 March 2013 have been increased in line with actual pension increase orders to 1 April 2015.
- It is assumed that members have no pension entitlement in other registered schemes. In reality, members with entitlements in more than one scheme may have a total pension amount which exceeds the trivial commutation limit and may therefore not be eligible.
- Trivial commutation amounts have been estimated based on the factors and guidance published by GAD for this purpose dated 28 March 2014. Revised factors reflecting the ability to take a trivial lump sum from age 55 have not yet been issued by GAD.
- This chart does not allow for any retirements that have occurred since the 2013 valuation. The trivial commutation exposure at later ages 60 is therefore likely to be overstated.
- In determining the maximum exposure to the Fund, it is assumed that all members with an assessed pension pot value in the Fund of less than £30,000 take up this option.

It can be seen from Chart 6 that the upcoming changes to the trivial commutation rules may lead to a significant increase in the amount paid out by the Fund in the short term.

The estimated trivial commutation entitlement emerging in respect of members reaching the limit in 2015-16 is around £93.0m (the sum of all bars above). This can be broken down as follows;

- Prior to the freedom and choice reform, only members over age 60 were eligible to take a trivial lump sum if the value of their benefits was less than £18,000. **Under the old rules**, the total trivial commutation entitlement in 2015/16 was around £19.7m (i.e. the blue bars for those aged 59 and over).
- The **increase in the trivial commutation limit** (from £18,000 to £30,000) **in isolation**, leads to an increase in the maximum trivial commutation entitlement in 2015/16 of around £20.5m (i.e. the orange bars for those aged 59 and over).

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- The change in the **age at which members are eligible** for trivial commutation (from 60 to 55), leads to an increase in the maximum trivial commutation entitlement in 2015/16 of around £52.8m (i.e. blue and orange bars in the blue dotted box).

The impact of the rise of the trivial commutation limits on the Fund's projected benefit outgo is clearly significant. Under the old limits, there may have been 3,405 members to be entitled to trivial commutation over 2015/16. Under the new rules, we estimate 9,854 members may qualify for trivial commutation in the 2015/16 year (assuming that the value of any other pension entitlement in other schemes doesn't take the member over the £30,000 threshold).

As with the CETVs in the previous section, the likelihood to take up the trivial commutation option may be very different between active and deferred members. In particular, deferred pensioners may be more likely to take advantage of the lowering of the qualifying age given that they do not need to withdraw from active service (however temporary).

The table below shows the split of the estimated trivial commutation entitlement between actives and deferreds.

	Estimated trivial commutation entitlement in 2015/16			Total	Eligible members (new rules)
	Old rules	Increase in limit to £30k	Reduction in eligible age		
Active	£7.5m	£9.6m	£22.7m	£39.8m	3,738
Deferred	£12.2m	£10.9m	£30.1m	£53.2m	6,116
Total	£19.7m	£20.5m	£52.8m	£93.0m	9,854

Next steps

Potential areas to consider as next steps include:

- **Investment strategy:** consideration of impact due to increased transfers and trivial commutation on cash flow management
- **Including scenarios in 2016 valuation modelling:** depending on the uptake of transfers and trivial commutation there could be an impact on the long term stabilisation modelling. The scenarios modelled ahead of the 2016 valuation can include allowance for increased transfer and trivial commutation activity. Unless there is a very significant take up of the options contained in this paper we would not expect a material short term impact on employer contribution rates.
- **Informing the committee of potential impact**
- **Freedom and Choice communications**
 - Altering members to changes
 - Updating retirement packs and benefits statements
 - Employer engagement
- **Transfer quote activity:** Planning for increased transfer quote requests and the impact on administration
- **Safeguard policy:** drafting a safeguard monitoring policy in relation to Reduction of Cash Equivalents Regulations 2015

Reliance and Limitations

This paper has been prepared solely for the use of the Fund. This document should not be released or otherwise disclosed to any third party without our prior consent, in which case it should be released in its entirety. Hymans Robertson LLP accepts no liability to any other party unless we have expressly accepted such liability.

The estimated CETVs provided in this paper are no substitute for actual CETV amounts that should be determined as and when required in line with GAD guidance.

This paper does not form advice to any of the members of the Fund in relation to transferring benefits. Members thinking of transferring benefits or taking a trivial commutation lump sum should seek further advice from a qualified professional, for example an Independent Financial Advisor.

The following Technical Actuarial Standards¹ are applicable in relation to this report:

- Pensions TAS
- TAS M - Modelling
- TAS R – Reporting; and
- TAS D – Data.

This report complies with each of the above standards.

¹ Technical Actuarial Standards (TASs) are issued by the Financial Reporting Council (FRC) and set standards for certain items of actuarial work, including the information and advice contained in this report.

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This report and the 2013 valuation final results report dated 31 March 2014 comprise the aggregate report for this advice, in accordance with TAS R.

Prepared by:-



Barry McKay FFA

01 May 2015

For and on behalf of Hymans Robertson LLP

Appendix 1

Data and assumptions

Data

The member data used in this analysis was that supplied for the purposes of the 2013 formal valuation. This is summarised in the table below.

	Number	Actual pay/ pension (£000)
Total employee membership	29,772	489,043
Total deferred membership	30,189	36,797

The deferred pension shown includes revaluation up to and including that granted by the 2013 Pension Increase Order.

Please note that the data used may not be an accurate reflection of the current non-pensioner membership. In particular, I have not adjusted the data to allow for new entrants, new deferrals, deaths and retirements since the 2013 valuation. The only way to capture the actual experience of the Fund since the 2013 valuation would be to consider this exercise based on updated data at a recent date.

Assumptions

The demographic assumptions used to calculate the liabilities on the 2013 valuation basis are described in detail in the 2013 valuation final report, dated 31 March 2014.

The financial assumptions for the past service liabilities calculated in this report were based on market conditions as at 31 December 2014, as summarised below.

	31 March 2013	31 December 2014
	% per annum	% per annum
Gilt yields	3.0%	2.4%
Asset outperformance assumption	1.6%	1.6%
Discount rate / investment return	4.6%	4.0%
Salary increase	3.8%	3.7%
Pension increase (CPI)	2.5%	2.4%

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The CETV and trivial commutation amounts have been determined in line with the following guidance issued by the GAD.

- Individual Incoming & Outgoing Transfers (dated 28 March 2014)
- Trivial commutation (dated 28 March 2014)

It should be noted that we are making no estimate about the likelihood of members choosing to take up the option of transferring to a DC scheme or trivially commuting all of their LGPS benefits as there is currently no evidence on which to base such an estimate. I am happy to consider this further if required.

SURREY COUNTY COUNCIL

SURREY PENSION FUND BOARD

DATE: 22 MAY 2015

LEAD OFFICER: SHEILA LITTLE, DIRECTOR OF FINANCE

SUBJECT: EMPLOYER BODY ADMISSION/TERMINATION GUIDANCE



SUMMARY OF ISSUE:

The report explains the need for the creation of comprehensive and focused admission and termination guidance for scheme employers, including the option for the Fund to offer a bespoke solution to allow scheme employers to quantify the financial value of pension risk.

RECOMMENDATIONS:

It is recommended that the Pension Fund Board consider the benefits to the Fund of establishing new guidance for scheme employers, which reflects a more structured and focused approach to risk assessment.

REASON FOR RECOMMENDATIONS:

The Pension Fund Board must be aware of the need and requirement for more refined methods of assessing and monitoring risks to the Pension Fund and the part that revised admission and termination terms for scheme employers can play in helping to mitigate these risks. The establishment of new guidance for scheme employers complies with the new code of practice from the Pensions Regulator. The guidance will also include an innovative approach to new scheme employer pension admissions by offering awarding authorities and other scheme employers the option to measure the value of pension risk. This provides an opportunity for the Surrey Fund to lead the way in scheme employer management.

DETAILS:

Background

- 1 The scheme employer make-up of the LGPS has changed significantly in recent years. Much of this has been due to the increase in outsourcing of the delivery of council services and the high instance of academy conversions and free school start-ups. As a result of this the Fund is now an aggregation of many more scheme employers with distinct financial and funding characteristics. The Surrey Fund includes employers as diverse as local authorities, charities, education bodies, academies and private companies.
- 2 The proliferation of scheme employers has coincided with additional complexity in the scheme regulations and funding characteristics.

- 3 Pension provision has a material impact on the balance sheets of scheme employers. As a result, they are now more engaged with pensions and are looking for more bespoke funding and investment strategies as they seek to demonstrate value to their stakeholders.
- 4 Recent changes in LGPS governance, brought about by the Public Service Pensions Act 2013, means that the LGPS is now regulated by the Pensions Regulator. Within the LGPS a statutory scheme advisory board and local pension boards have been established to assist administering authorities in complying with their regulatory duties. As part of these new governance arrangements, there will be additional scrutiny on risk and deficit management.
- 5 The increase in numbers of scheme employers and their engagement with pension funds, added to the additional regulatory scrutiny now faced by funds, makes the need for a comprehensive risk assessment of these employers essential.
- 6 There are a number of key elements to the proposed new guidance for scheme employers. These include:
- a review of policy documentation for admission bodies;
 - assessing and monitoring the strength of covenant for employers;
 - developing consistent funding and investment strategies.
- 7 In addition to these key elements, the Fund is uniquely placed to offer awarding authorities and other scheme employers advice and guidance regarding the financial value attributable to pension risk and the options available to them to address this through risk sharing. It is proposed that the Fund should explore offering scheme employers bespoke guidance and advice in this area. This would represent a unique proposition. Details of the scope of this proposition are outlined in the risk sharing framework section of this report.

A review of policy documentation for admission bodies

- 8 The purpose of admission guidance is to ensure that scheme employers are aware of their responsibilities to the Fund and that the financial risks to the Fund and to scheme employers are identified, mitigated and managed accordingly.
- 9 Policy documentation included in the admission guidance should be drafted on the basis of the following key principles:
- to ensure the long-term solvency of the Fund as a whole and the solvency of each of the notional sub-funds allocated to the individual employers;
 - to help scheme employers recognise, understand and manage their pension liabilities as they accrue within the wider consideration of their business operations;
 - to use reasonable measures to reduce the risk to other employers in the Fund and ultimately the council tax payer from an employer ceasing participation or defaulting on its pension obligations;
 - to address the different characteristics of the disparate range of employers or groups of employers;
 - to maintain long term affordable and stable employer contributions.

- 10 Admission guidance should include policy documentation which provides scheme employers with a clear framework to enable them to understand and comply with their responsibilities to the Fund. It should allow them to identify the extent of the existing and potential liabilities and the methods by which the Fund may work with scheme employers to mitigate the risks that these liabilities impose. This framework should include:
- allocating assets on entry;
 - requirements for bond/indemnity guarantee that is reviewed regularly;
 - potentially levying a higher contribution rate; e.g. due to a change in circumstances or covenant strength of a scheme employer;
 - having clear termination clauses;
 - a range of unambiguous and non-negotiable admission agreements;
 - clarification on the terms and repayment of lump-sum events;
 - close monitoring of scheme employer deficits when approaching a termination event and adjusting contribution if necessary;
 - a clear basis for cessation calculations.
- 11 It will be necessary to draft or review a full suite of policy documents, including, but, not restricted to admission agreements and admission, cessation and bulk transfer policies.

Assessing and monitoring the strength of covenant of employers

- 12 As the number of scheme employers in the Fund increases, so does the number of scheme employers raising queries about their willingness to continue their participation in the LGPS and their ability to pay certified contributions.
- 13 The strength of the employer covenant represents a measurement of scheme employers “ability and willingness” to pay contributions.
- 14 The new guidance to scheme employers will include details of how the Fund proposes to systematically assess the ability and willingness (or strength of covenant) of scheme employers to pay contributions. This will include the following:
- ability: to pay regular contribution towards new or accrued benefits, to meet the costs of lump-sum payments and to make a final settlement when ceasing participation in the Fund;
 - willingness: legislative or contractual obligation, or attitude to pension funding.
- 15 Assessing the employer covenant allows the Fund to identify and quantify the financial risk to the Fund posed by an individual or group of employers. If financial risk is identified, the Fund can take mitigating action. This could include putting in place specific Funding strategies and appropriate levels of security to protect the Fund in the event of default.
- 16 The assessment will include various activities, including, but not restricted to:
- regular reviews of employer funding levels, termination risk, actuarial assumptions compared to actual salary growth;
 - assessment and review of covenant by a number of metrics to establish a risk score (e.g. deficit, time horizon, gearing ratio, cash flow); this could also be by reference to credit rating agency checks;
 - regular reviews of bonds or guarantees

- checks against scheme employer compliance with the regulations and the Administration Strategy (e.g. are reporting standards being met, or is the scheme employer notifying the Fund of material changes).

Developing consistent Funding and investment strategies

- 17 The Fund already provides different Funding strategies for employers with tax raising powers, allowing a stabilisation of contribution rates. As part of a consistent approach to risk assessment, including policy and covenant reviews, the Fund could look to match funding targets to the overriding risk assessment of scheme employers.
- 18 Such matching would allow the Fund to set a higher funding target for those employers with a poor covenant and higher risk of default. The higher funding target is set through an increased likelihood of achieving a fully funded position. A simple example of this is as follows:
- Low risk employer = 66% likelihood
 - Medium risk employer = 75% likelihood
 - High risk employer = 85% likelihood
- 19 The matching of funding targets to risk assessed covenant strength could inform a selection of bespoke investment strategies. The different investment strategies would feed in to valuation assumptions and be linked to the calculation of contribution rates.

A pension risk sharing framework

- 20 When admitting new contractors to the Fund, the standard assumption is that the new scheme employer will start on a “fully funded” basis, with assets at the outset notionally set equally to the value of transferring past service liabilities. In effect, the new scheme employer would have no deficit at outset.
- 21 The opening contribution rates are set to provide the cost of future service benefits and then reviewed at every formal valuation date to allow for a readjustment of contributions to match assumptions and market conditions; and producing the commensurate surplus or deficit.
- 22 When the contractor reaches the end of the contract, a cessation valuation is carried out and any deficit is levied on the departing scheme employer.
- 23 As already noted, there has been an increase in sophistication of scheme employers and this has led to a re-examination of the pension risk attributable to the “fully funded” approach.
- 24 There are a number of risk sharing options that can allow the awarding authority to exchange the retention of some or all of the pension risk for a reduced contract price.
- 25 As risk sharing arrangements become more common, it is important that awarding authorities and new scheme employers understand the risks they are taking on. Failure to do can lead to covenant strength issues and the risk of awarding authorities having to fund deficits.

- 26 The Fund believes that it is important and demonstrates good governance for clear information regarding the specific costs attributable to risk sharing arrangements to be available to awarding authorities and new scheme employers.
- 27 It is proposed that the Fund offer, where appropriate, an assessment which provides high level financial information to allow better decision making and to assist in delivering best value in public procurement, through the consideration of the impact of pension risk sharing arrangements. This could include:
- the adequacy of any fixed, capped or collared contribution rate;
 - the likelihood of the new scheme employer being fully funded at the end of the contract;
 - the impact on the contract price of any risk sharing arrangement;
 - the measure of potential deficit at the end of the contract which the contractor would be obliged to meet.
- 28 There is currently no standard offering of this type of risk sharing assessment solution. The development of a new approach provides the opportunity for the Surrey Fund to establish itself as the market leader in employer management.

CONSULTATION:

- 29 The Chairman of the Surrey Pension Fund Board has been consulted on the report.

RISK MANAGEMENT AND IMPLICATIONS:

- 30 Risk related issues are contained within the report, most notably the assessment of the strength of scheme employer covenant.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

- 31 The costs of developing the guidance will be investigated and reported in future Board reports.

DIRECTOR OF FINANCE COMMENTARY

- 32 The Director of Finance will ensure that all material, financial and business issues and possibility of risks will be considered when a final report is presented to the Board.

LEGAL IMPLICATIONS – MONITORING OFFICER

- 33 Legal implications or legislative requirements associated with this initiative will be addressed in future Board reports.

EQUALITIES AND DIVERSITY

- 34 There are no equalities or diversity implications associated with this report.

OTHER IMPLICATIONS

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

WHAT HAPPENS NEXT

36 The following next steps are planned:

- A further report presented at a future Board meeting.

Contact Officer:

Phil Triggs, Strategic Finance Manager (Pension Fund and Treasury)

Consulted:

Surrey Pension Fund Board Chairman

Annexes:

None

Sources/background papers:

None

SURREY COUNTY COUNCIL

SURREY PENSION FUND BOARD

DATE: 22 MAY 2015

LEAD OFFICER: SHEILA LITTLE, DIRECTOR OF FINANCE

SUBJECT: MANAGER ISSUES AND INVESTMENT PERFORMANCE



SUMMARY OF ISSUE:

This report is a summary of all manager issues that need to be brought to the attention of the Surrey Pension Fund Board, as well as manager investment performance.

RECOMMENDATIONS:

It is recommended that the Surrey Pension Fund Board:

1. Note the report.
2. Discuss and make a decision as to the allocation of the £34.5m cash position.
3. Give consideration to multi asset credit as a future strategy for the Fund.
4. Approve the Surrey Pension Fund Board training policy shown as Annex 4.

REASON FOR RECOMMENDATIONS:

In order to achieve best possible performance alongside optimal risk.

DETAILS:

1) Manager Issues during the Quarter

Manager	Issue	Status/Action Required
L&G	Possible Rebalancing	The asset allocation is within the Fund's policy control limits. The asset allocations at 31 March 2015 and 07 May 2015 are shown in Annex 1.
Mirabaud, LGIM and Majedie	UK Equities Portfolio	At its meeting on 19 September 2014, the Board agreed to terminate Mirabaud's contract with immediate effect and temporarily move the 4% allocation from Mirabaud to a UK Equities passive portfolio with Legal & General. Officers immediately contacted Mirabaud to let them know of the Board's decision and make arrangements with both managers for the transfer of the funds. An in specie transfer with a net valuation of £98,437,899 from Mirabaud as at 8 October 2014 valuation date was placed into LGIM's N – UK Equity Index Passive Fund on 9 October 2014. At the Board meeting on 14 November 2014, members agreed to transfer the allocation in its entirety to Majedie Asset Management. This was completed on 9 February 2015. A transition outcome report is included as a separate item in this agenda.
CBRE	Contract/benchmark change	The Surrey Pension Fund Board resolved at the 19 September 2014 meeting to amend the wording in the CBRE contract to allow investment in global property. At the Board meeting on 13 February 2015, it was resolved that part of the CBRE portfolio be diversified by setting a target of 25% to be invested in CBRE's Global Alpha Fund, with the other 75% remaining in UK property and the CBRE benchmark amended to reflect this allocation. Further discussions have taken place with CBRE and these will be reported to the Board in the Fund Manager meetings part of the agenda.
Franklin Templeton, UBS, CBRE, Marathon	Client meeting	Update of minutes of external fund manager meetings held on 11 May 2015 shown in Annex 2.

2) Freedom of Information Requests

The table below summarises the Freedom of Information request responses provided by the Fund during the last quarter.

Date of Response	Organisation	Request	Response
05/02/2015	Journalist - The Times	Information pertaining to the investment managers employed by the fund and the investment fees paid.	A list of existing investment management firms that manage Surrey Pension Fund assets combined with management fee detail taken from the previous year's financial accounts and a link to the Surrey County Council committee webpage to access the latest board reports.
18/03/2015	Pitchbook	Private Equity Investment Data	Valuations and returns provided for each fund partnership as at the most recent valuation date.

3) **Future Surrey Pension Fund Board Meetings/Pension Fund AGM**

The schedule of meetings for 2015 and 2016 is as follows:

- 18 September 2015: Board meeting hosted at County Hall.
- 13 November 2015: Board meeting hosted at County Hall.
- 20 November 2015: AGM hosted at County Hall
- 12 February 2016: Board meeting hosted at County Hall.
- 13 May 2016: Board meeting hosted at County Hall.
- 9 September 2016: Board meeting hosted at County Hall.
- 11 November 2016: Board meeting hosted at County Hall.
- 18 November 2016: AGM hosted at County Hall

4) **Stock Lending**

In the quarter to 31 March 2015, stock lending earned a net income for the Fund of £60k with an average value on loan equal to £129.0m

5) **Private Equity**

A separate report is included in the agenda.

6) **Internally Managed Cash**

The internally managed cash balance of the Pension Fund was £28.4m as at 31 March 2015. As at 12 May 2015, the cash balance was £34.5m. Members are invited to discuss the position with a view to making a decision reference its use and distribution.

7) **Liability Driven Investment Framework**

The Board meeting of 19 September 2014 recommended the setting up of a framework for a liability driven investment (LDI) strategy with the establishment of a leveraged gilt portfolio to be run by Legal & General Investment Management. This will be funded by the existing passive and index-linked gilts held with Legal & General, amounting to £90m.

At its meeting on 13 February 2015, the Board agreed to set the real yield trigger for future leverage to 0.27% and incorporate this into the mandate documentation with Legal & General (LGIM).

On 14 April 2015, LGIM confirmed that the Liability Driven Investment policy is now set up on LGIM systems, has received the planned transfer and is being run with a Managed Fund Policy.

Officers have received the Policy Document. LGIM proceeded with the novation on the dealing date of 17th April 2015.

Now that the implementation for the leveraged gilt mandate has been completed, it will be useful for the Board to regularly monitor movements in real yields and, specifically, the trigger that has been agreed. Mercer has produced a simple one page document for this, shown as Annex 3. This will be shown produced at every future Board meeting.

There will be element of ongoing training with this annex, with a regular reminder of the relationship between changes in yields (including the volatility in how these can move up and down) and the impact this has on the value placed on the liabilities.

8) Multi Asset Credit

Included within the agenda is a training session on multi-asset credit from an investment strategy perspective: the case for multi asset credit, expected benefits, potential risks and how to implement. Papers on this training session will be sent out prior to the meeting. The asset class is also the subject of a separate report within the agenda. The training will be provided from 9:30am to 11:00am before the meeting commences at 11:00am.

It is recommended that members give consideration to the asset class as a strategy for the Fund.

9) Governance Strategies and Policies

A report is included in the Board agenda reference the Governance Compliance Statement, which was last considered at the Board meeting of 31 May 2013. There are two strands to this document which can be combined. The Fund currently has a governance policy and a governance compliance statement. It makes sense to make the policy part of the overall compliance statement. Work has been done on this linked to a study published by the Pensions Regulator Code of Practice. A separate agenda item covers this.

10) Marathon Asset Management: Emerging Markets

At the Board meeting of 13 February 2015, the Board was invited to consider the Marathon Emerging Markets Fund. This is offered by Marathon, specifically for clients that cannot access the emerging markets directly, or are not in a position to cope with the level of bureaucracy imposed by particular countries, being far easier to invest via this pooled fund than to open and manage the various accounts on behalf of the Surrey Fund itself.

However, due diligence carried out since the meeting has revealed that the current size of the Fund is not considered sufficient when stood alongside the amount that the Surrey Fund would be investing. Board members are advised to delay a decision until the pooled fund is of sufficient scale for the Surrey Fund to consider.

11) Members' Training

A Surrey Pension Fund Board training policy is shown as Annex 4 for member consideration and approval.

The results of member training assessments were tabled at the 13 February 2015 meeting. The six main areas of desired future training for 2015/16 as highlighted by the results are as follows:

1. Stock lending
2. Role of the global custodian
3. Currency/foreign exchange management
4. Infrastructure
5. LGPS Regulatory background
6. Admissions/Termination Policy

The Strategic Finance Manager (Pension Fund and Treasury) will arrange as early as possible.

Following changes to the membership of the Board, the Chairman will arrange one to one meetings with individual Board members to discuss their training needs.

12) Fund Manager Meetings of 11 May 2015

Notes of the fund manager meetings of 11 May 2015 are shown in Annex 2.

Report of the Strategic Finance Manager

Financial and Performance Report

1. Funding Level

Past Service Position	31 March 2015 £m
Past Service Liabilities	4,245
Market Value of Assets	3,158
Deficit	(1,087)
Funding Level	74.4%

The funding level at the latest formal valuation at 31 March 2013 was 72.3%. As at 31 March 2015 the funding level stood at 74.4%, an increase on the latest formal valuation and an increase versus the last quarter of 73.1%.

The following tables show the movement in the Fund deficit.

Valuation Period to date Reconciliation	£m
Deficit at 31 March 2013	-980
Interest on deficit	-101
Excess return on assets	292
Change in actuarial assumptions	-381
Contributions less benefits accruing	83
Deficit at 31 March 2015	-1,087

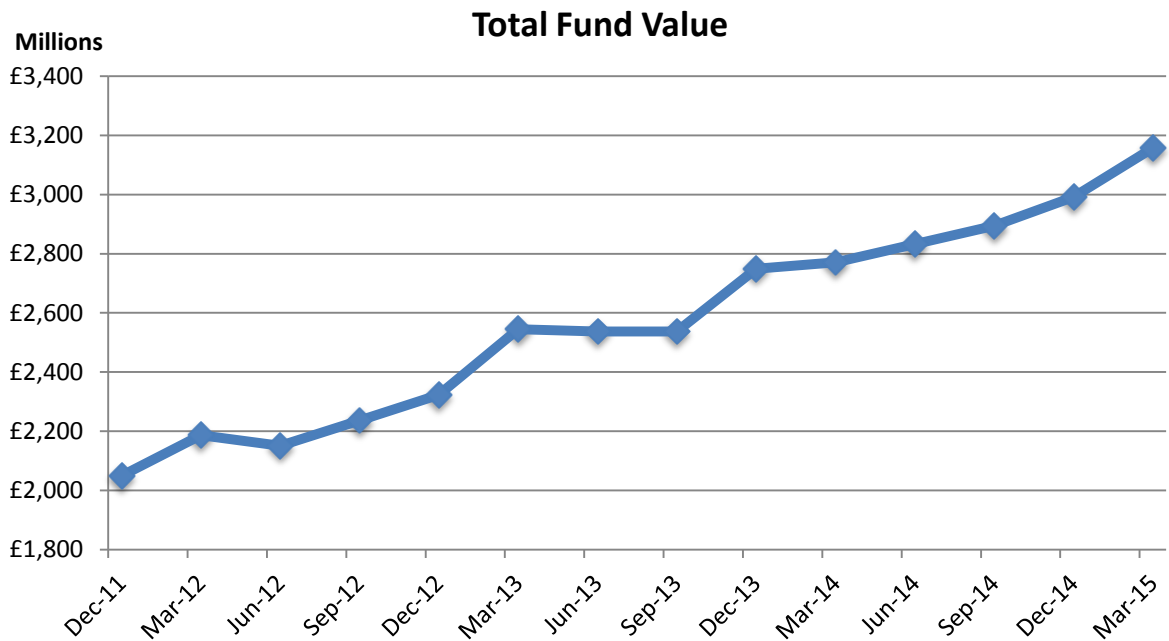
Quarterly Reconciliation	£m
Deficit at 31 December 2014	-1,103
Interest on deficit	-13
Excess return on assets	126
Change in actuarial assumptions	-110
Contributions less benefits accruing	13
Deficit at 31 March 2015	-1,087

2. Market Value

The value of the Fund was £3,157.5m at 31 March 2015 compared with £2,991.7m at 31 December 2014. Investment performance for the period was +5.2%.

The increase is attributed as follows:

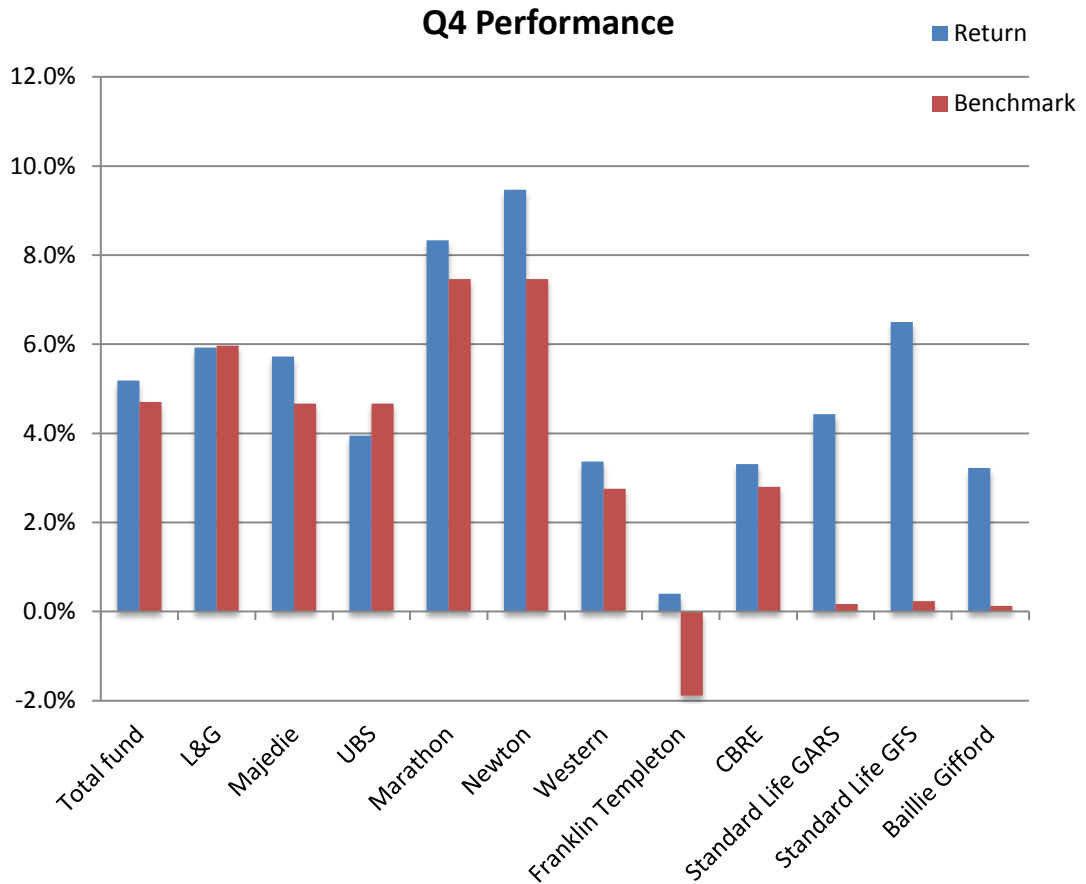
	£m
Market Value at 31/12/2014	2,991.7
Contributions less benefits and net transfer values	18.3
Investment income received	13.1
Investment expenses paid	-3.0
Market movements	137.4
Market Value at 31/03/2015	3,157.5
Market Value at 07/05/2015	3,155.0



3. Fund Performance

Summary of Quarterly Results (gross of investment fees)

Overall, the total fund returned +5.2% in Q4 2014/15, in comparison with the Fund’s customised benchmark of +4.7%.



Both Baillie Gifford and Standard Life diversified growth funds are absolute return funds with a benchmark based upon short term cash holdings.

Equity markets had another strong quarter with both global equity managers Newton and Marathon surpassing the overseas benchmark return of +7.5%, with Newton reporting close to double digit quarterly returns of +9.5%. UK equity returns were in relative terms slightly muted with benchmark performance of +4.7%, Majedie outperformed the UK benchmark by +1.0% with UBS reporting underperformance of -0.8%.

The Standard Life GFS diversified growth fund reported a sizable quarterly return of +6.5%

The table below shows manager performance for 2014/15 Q4 (gross of investment manager fees) against manager specific benchmarks using Northern Trust data.

Manager	Performance %	Benchmark %	Relative %
Total fund	5.2	4.7	0.5
L&G	5.9	6.0	-0.1
Majedie	5.7	4.7	1.0
UBS	3.9	4.7	-0.8
Marathon	8.3	7.5	0.8
Newton	9.5	7.5	2.0
Western	3.4	2.8	0.6
Franklin Templeton	0.4	-1.9	2.3
CBRE	3.3	2.8	0.5
Standard Life GARS	4.4	0.2	4.2
Standard Life GFS	6.5	0.2	6.3
Baillie Gifford	3.2	0.1	3.1

Both Baillie Gifford and Standard Life are absolute return funds with a benchmark based upon short term cash holdings.

Franklin Templeton Benchmark

The Surrey Pension Fund is invested in a sterling-hedged share class of the Templeton Total Return Fund. This fund is managed as a US dollar portfolio on an unconstrained basis so, over time, we will assess performance in absolute terms. However, from a practical perspective, the best indication of the opportunity set available to the manager is the Barclays Multiverse Index in US dollars. This is the benchmark used in the table above.

In the past, Franklin Templeton have shown performance of the sterling-hedged share class, the US dollar share class and the unhedged sterling share class, using a range of benchmarks. This has been confusing on occasions, particularly as it included share classes that the Surrey Pension Fund is not invested in.

In future, the main performance page in their quarterly reports will show performance of the sterling hedged share class only (both gross and net of fees) relative to the US dollar index only. This is the most appropriate comparator. Additional performance information will be contained in an Appendix which will include comparative data for the US dollar share class, the unhedged sterling share class, the UK All Stocks Gilt index and the sterling/US dollar exchange rate. These are produced below in the table below.

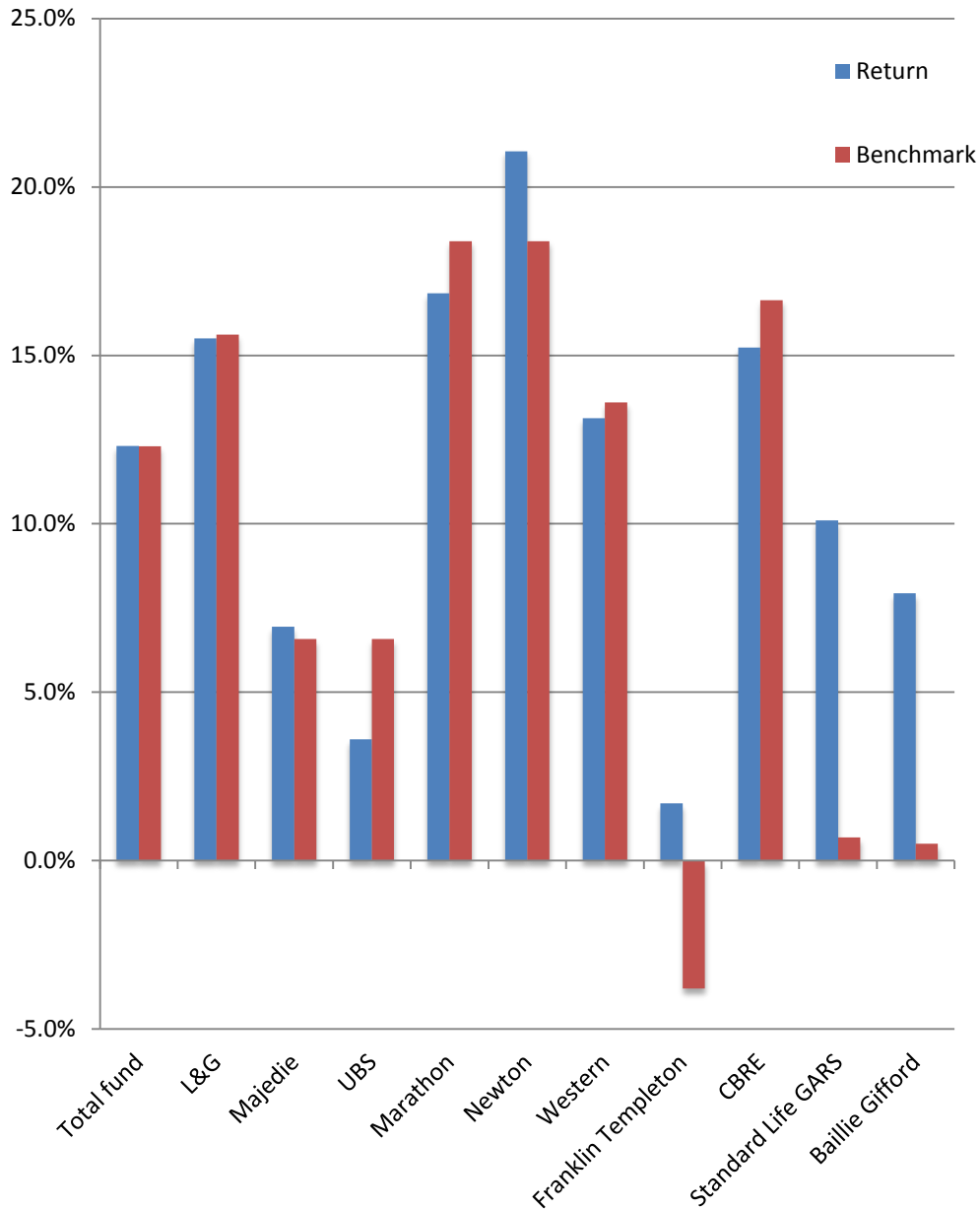
Franklin Templeton Performance

	Quarterly %	12 Months %	2 Years %
Sterling Hedged Performance	0.4	1.7	1.9
Benchmark Index USD	-1.9	-3.8	-0.8
Sterling Unhedged Performance	5.3	13.8	3.3
Benchmark Index GBP	3.1	8.1	0.3
UK Gilts Index	2.2	13.9	5.4
Currency GBP vs USD	5.1	12.4	1.2

Summary of Full Year Results (gross of investment fees)

During the course of the previous 12 months to 31 March 2015, the Fund returned +12.3% overall against the customised benchmark of +12.3%.

Rolling Full Year Performance



Overseas equity provided the largest absolute investment return over the preceding 12 month period with Newton reporting a substantial +21.1% return surpassing the 18.4% benchmark.

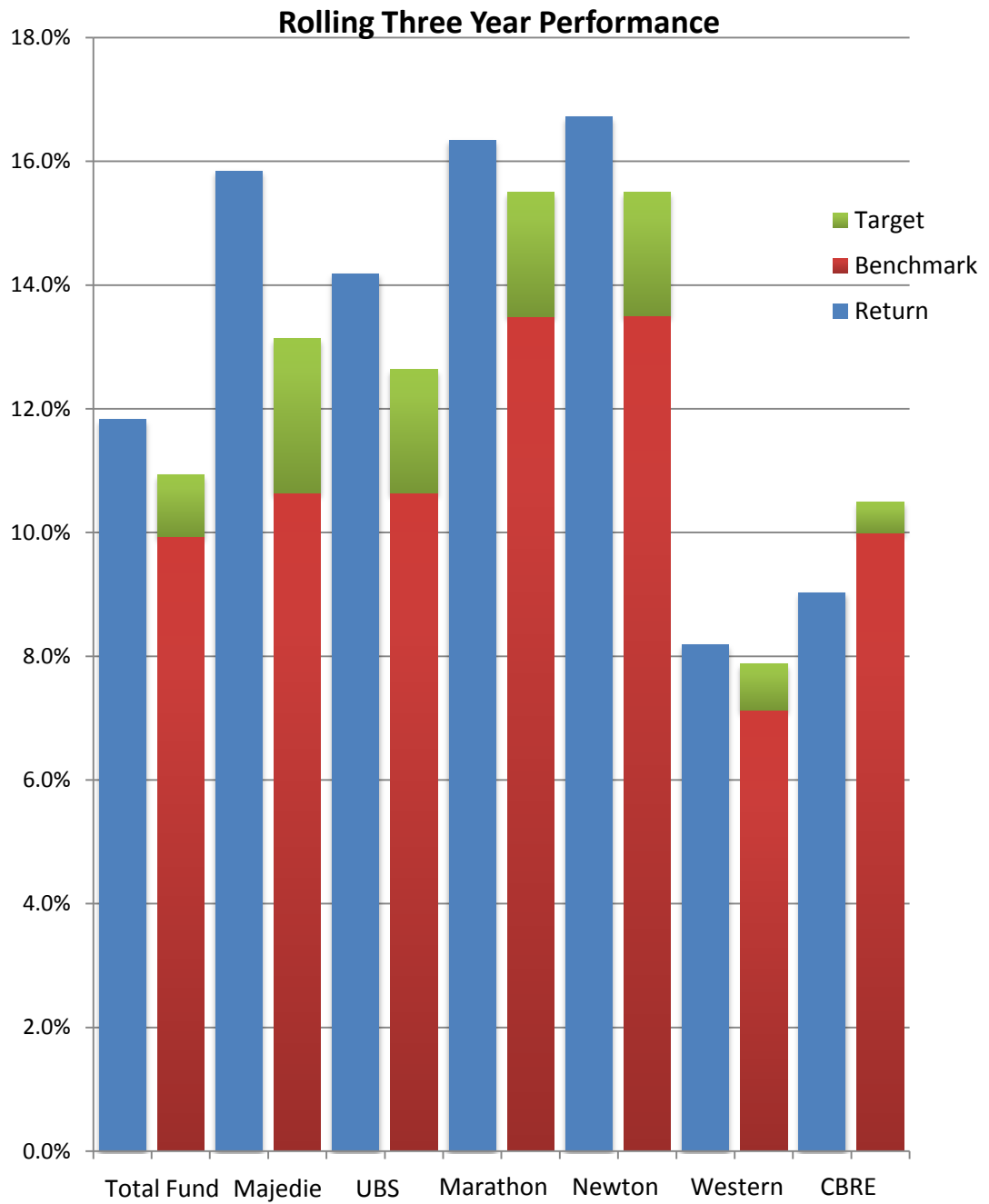
Property also had a strong full year with the fund provided substantial absolute returns for the fund over the preceding 12 months with CBRE reporting +15.2% but below the benchmark of +16.6%. The performance attributable to currency hedging as part of the total fund return for the previous year is -0.4%.

The table below shows manager performance for the year to 31 March 2015 against manager specific benchmarks using custodian data.

Manager	Performance %	Benchmark %	Relative %
Total fund	12.3	12.3	0.0
L&G	15.5	15.6	-0.1
Majedie	6.9	6.6	0.3
UBS	3.6	6.6	-3.0
Marathon	16.8	18.4	-1.6
Newton	21.1	18.4	2.7
Western	13.1	13.6	-0.5
Franklin Templeton	1.7	-3.8	5.5
CBRE	15.2	16.6	-1.4
Standard Life GARS	10.1	0.7	9.4
Baillie Gifford	7.9	0.5	7.4

Both Baillie Gifford and Standard Life are absolute return funds with a benchmark based upon short term cash holdings.

Summary of Rolling Three Year Performance (gross of investment fees)

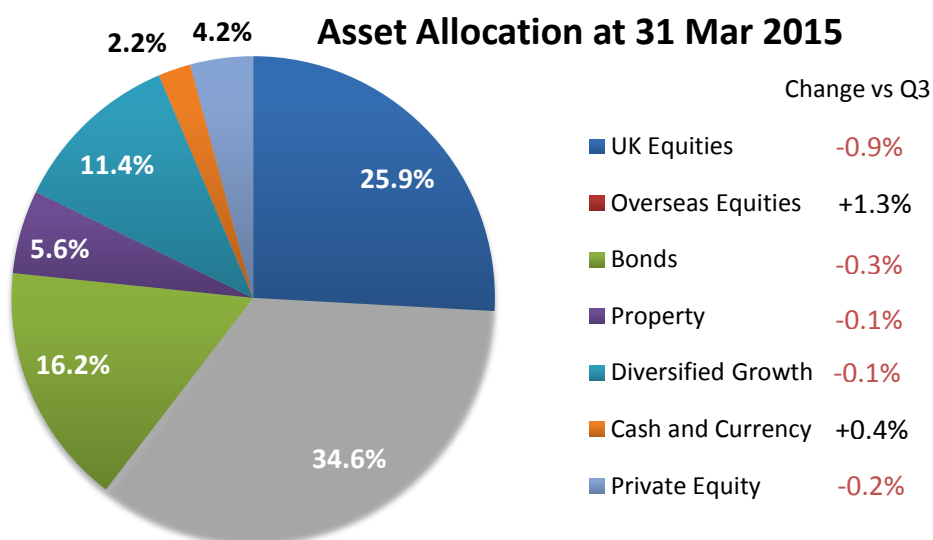


The below table shows the annualised performance by manager for the previous three years.

Manager	Performance %	Benchmark %	Target %	Relative %
Total fund	11.8	9.9	10.9	0.9
L&G	11.6	11.7	11.7	-0.1
Majedie	15.8	10.6	13.1	2.7
UBS	14.2	10.6	12.6	1.6
Marathon	16.3	13.5	15.5	0.8
Newton	16.7	13.5	15.5	1.2
Western	8.2	7.1	7.9	0.3
CBRE	9.0	10.0	10.5	-1.5

4. Asset Allocation

The graph and table below summarise the asset allocation of the fund as at the 31 March 2015.

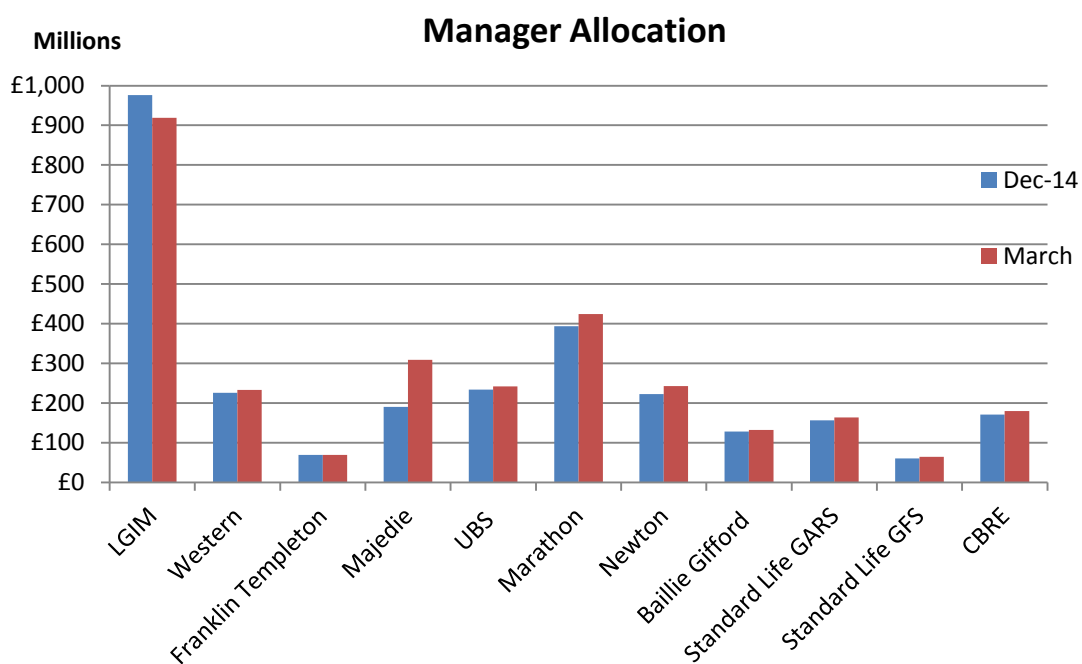


The table below compares the actual asset allocation as at 31 March 2015 against target asset weightings.

	TOTAL FUND	Actual	Target	Last Quarter	
	£m	%	%	£m	%
Fixed Interest					
UK Government	66.8	2.1	2.6	67.4	2.3
UK Non-Government	133.5	4.2	7.1	130.7	4.4
Overseas	80.8	2.6	0.0	72.5	2.4
Total Return	69.5	2.2	2.4	69.3	2.3
Index Linked	161.3	5.1	5.5	155.5	5.2
Equities					
UK	816.7	25.9	27.5	800.0	26.7
Overseas	1,091.4	34.6	32.3	995.3	33.3
Property Unit Trusts	176.1	5.6	6.2	170.6	5.7
Diversified growth	360.1	11.4	11.4	345.0	11.5
Cash	76.9	2.4	0.0	55.9	1.9
Currency hedge	-8.2	-0.3	0.0	-2.7	-0.1
Private Equity	132.6	4.2	5.0	132.3	4.4
TOTAL	3,157.5	100.0	100.0	2,991.7	100.0

5. Manager Allocation

The graph below shows the current manager allocation.



6. Fees

The following table shows a breakdown of fees paid during Q4 2014/15

Manager	Market Value 31/03/2015 £m	Manager Fees Q4 £000	Annualised Average Fee
L&G	918.6	175	0.08%
Western	232.8	120	0.21%
Franklin Templeton*	69.5	111	0.64%
Majedie	308.6	222	0.29%
UBS	242.1	136	0.23%
Marathon	424.5	385	0.36%
Newton	242.9	142	0.23%
Baillie Gifford*	132.4	202	0.61%
Standard Life GARS*	163.5	258	0.63%
Standard Life GFS*	64.2	152	0.95%
CBRE	179.3	189	0.42%
Manager Fees Total		2,099	0.28%
Tax withheld		392	
Other investment expenses		527	
Total Investment Expenses		3,018	

*Estimated, to exclude transaction fees

CONSULTATION:

- 7 The Chairman of the Surrey Pension Fund Board has been consulted on this report.

RISK MANAGEMENT AND IMPLICATIONS:

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

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

- 9 Financial and value for money implications are discussed within the report.

DIRECTOR OF FINANCE COMMENTARY

- 10 The Director of Finance is satisfied that all material, financial and business issues and possibility of risks have been considered and addressed.

LEGAL IMPLICATIONS – MONITORING OFFICER

- 11 There are no legal implications or legislative requirements.

EQUALITIES AND DIVERSITY

- 12 The approval of the various options will not require an equality analysis, as the initiative is not a major policy, project or function being created or changed.

OTHER IMPLICATIONS

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

WHAT HAPPENS NEXT

- 14 The following next steps are planned:
- Implementation of the various recommendation approvals.

Contact Officer:

Phil Triggs, Strategic Finance Manager (Pension Fund and Treasury)

Consulted:

Surrey Pension Fund Board Chairman

Annexes:

1. Asset Allocation Policy and Actual as at 31 March 2015 and 07 May 2015
2. Minutes from Quarterly Fund Manager Meetings held 11 May 2015
3. Monitoring statement re movements in real yields reference the LDI Strategy

Sources/background papers:

None

Asset Allocation Update

The table shows the actual managed asset allocation as at 31 March 2015 against the target allocation. The allocation for 07 May 2015 is shown overleaf.

	Category	Allocation Policy %	Allocation at 31/03/2015	Variance %
Equities		63.0	64.7	+1.7
UK				
<i>Legal and General</i>	<i>Passive</i>	10.0	9.2	-0.8
<i>Majedie</i>	<i>Concentrated Active</i>	11.0	10.4	-0.6
<i>UBS</i>	<i>Core Active</i>	8.0	8.1	+0.1
Overseas				
<i>Legal and General</i>	<i>Passive</i>	14.0	14.5	+0.5
<i>Marathon</i>	<i>Concentrated Active</i>	12.0	14.3	+2.3
<i>Newton</i>	<i>Core Active</i>	8.0	8.2	+0.2
Property		6.5	6.0	-0.5
<i>CBRE</i>	<i>Core Active</i>	6.5	6.0	-0.5
Alternatives		12.0	12.1	+0.1
<i>Standard Life</i>	<i>Diversified growth</i>	8.0	7.7	-0.3
<i>Baillie Gifford</i>	<i>Diversified growth</i>	4.0	4.4	+0.4
Bonds		18.5	17.2	-1.3
Fixed interest gilts				
<i>Western</i>	<i>Core Active</i>	2.75	2.3	-0.5
Index linked gilts				
<i>Legal and General</i>	<i>Passive</i>	5.8	5.4	-0.4
<i>Western</i>	<i>Core Active</i>	0.0	0.0	+0.0
Corporate bonds				
<i>Legal and General</i>	<i>Passive</i>	1.9	1.7	-0.2
<i>Western</i>	<i>Core Active</i>	5.5	5.5	-0.0
Total Return				
<i>Franklin Templeton</i>	<i>Unconstrained</i>	2.55	2.3	-0.3
Total		100.0	100.0	

Asset Allocation Update

The table shows the actual managed asset allocation as at 07 May 2015 against the policy.

	Category	Allocation Policy %	Allocation at 07/05/2015	Variance %
Equities		63.0	65.0	+2.0
UK				
<i>Legal and General</i>	<i>Passive</i>	10.0	9.5	-0.5
<i>Majedie</i>	<i>Concentrated Active</i>	11.0	10.5	-0.5
<i>UBS</i>	<i>Core Active</i>	8.0	8.3	+0.3
Overseas				
<i>Legal and General</i>	<i>Passive</i>	14.0	14.5	+0.5
<i>Marathon</i>	<i>Concentrated Active</i>	12.0	14.1	+2.1
<i>Newton</i>	<i>Core Active</i>	8.0	8.1	+0.1
Property		6.5	6.1	-0.4
<i>CBRE</i>	<i>Core Active</i>	6.5	6.1	-0.4
Alternatives		12.0	12.0	0.0
<i>Standard Life</i>	<i>Diversified growth</i>	8.0	7.6	-0.4
<i>Baillie Gifford</i>	<i>Diversified growth</i>	4.0	4.4	+0.4
Bonds		18.5	16.9	-1.6
Fixed interest gilts				
<i>Western</i>	<i>Core Active</i>	2.75	3.0	+0.3
Index linked gilts				
<i>Legal and General</i>	<i>Passive</i>	5.8	5.3	-0.5
<i>Western</i>	<i>Core Active</i>	0.0	0.2	+0.2
Corporate bonds				
<i>Legal and General</i>	<i>Passive</i>	1.9	1.7	-0.2
<i>Western</i>	<i>Core Active</i>	5.5	4.4	-1.1
Total Return				
<i>Franklin Templeton</i>	<i>Unconstrained</i>	2.55	2.3	-0.3
Total		100.0	100.0	

Notes from Meetings with Fund Managers: 11 May 2015

Hosted by Franklin Templeton

Manager	Attending
Franklin Templeton	Chris Orr Stuart Lingard
Marathon	Graeme Neuff Neil Ostrer
CBRE	Max Johnson D.Dhananjai
UBS	Steve Magill Richard West

Franklin Templeton

1. Met with Chris Orr and Stuart Lingard from Franklin Templeton (FT).
2. FT reported that the portfolio was directionally very similar in the last quarter of 14/15 in comparison with the preceding period, with changes in the portfolio constitution quite limited. However, the duration of the portfolio was further reduced to almost zero, leaving FT with very low exposure to interest rates.
3. The low portfolio duration was in response to perceived risk within the fixed income market arising from overvalued US Treasury bonds. The removal of the Federal Reserve Bank as the guaranteed buyer of US Treasuries, combined with the prospect of tightening of monetary policy through interest rate rises expected during 2015, was anticipated to lead to a selloff in US Treasuries.
4. FT claimed that, whilst inflation was dampened in the US, partly as a result of oil price weakness, the improving US economy, allied with recovering consumer spending and the prospect of wage rises in the future, has led the Fed Chairman, Janet Yellen, to hint that a decision on increasing interest rates may ignore short term factors to focus upon medium term expectations. As such, FT are positioned with a negative exposure to US Treasuries through interest rate swaps.
5. The performance during the previous quarter was driven largely by movements in foreign exchange markets. FT were and remain significantly overweight in US dollars and overweight peripheral Europe versus the Euro and Yen. Emerging market currencies were well below historical averages on an aggregate level, indicating there may be some value in emerging currency.
6. FT argued that China would avoid a hard landing or collapse in growth rates due to the presence of significant drivers for medium term growth. Urbanisation in China still has a long way to go, with increased infrastructure requirements associated with this. Also, recent wage growth in China should also allow for domestic demand to partially offset export issues.
7. FT hold a position in Portuguese government debt and are comfortable with the risk posed by Greece's potential exit from the Euro. The financial impact upon the rest of the Eurozone was deemed to be limited with sufficient firewalls in place.

Marathon

1. Met with Graeme Neuff and Neil Ostrer from Marathon.
2. There was a slight change to the allocation within of the investment team with an increase in the total allocated to the global sleeve of the portfolio from 27% to 31%.
3. The performance of the Marathon portfolio was significantly influenced by the large movements in the foreign exchange markets in key investment areas. Continued central bank action in Japan and in the Eurozone led to substantial declines in the currency values. In this climate, Marathon are contemplating implementing a currency hedge to limit the impact of a further divergence in monetary policy and economy cycle between the major economies.
4. Up until now Marathon have decided not to pursue a currency hedge, despite the period of recent volatility and divergence between major currencies being well above average. However, when combined with the additional cost of hedging, it has not been deemed appropriate.
5. Over the past year, returns in emerging markets acted as a detractor from the overall portfolio with selected stocks faring poorly in comparison to the benchmark. The portfolio was underweight China with very strong returns in the Chinese index over the last twelve months. The portfolio was overweight Korean financials which underperformed as well as investing in the African Bank which collapsed
6. Marathon was overweight in European equities. The margin between European earnings and US earnings was at record highs and European companies should be well placed to benefit from a more competitive exchange rate. The inability to form rapid policy within the European Union may lead to QE going on longer than necessary which should boost European equity. One company Marathon expected to benefit from the weaker Euro was Airbus, with the vast majority of costs in Euros and significant portion of revenues in USD.
7. Marathon was overweight Japanese equity to take advantage from the expected wide reaching fiscal, monetary and cultural reforms including changes in corporate behaviour to focus more on shareholder value.

CBRE

1. Met with Max Johnson and D.Dhananjai from CBRE.
2. The election result was considered broadly positive by CBRE from a capital market viewpoint. The certainty provided by majority government was expected to increase capital inflows in UK property, providing another boost to returns from yield reductions. The forecast return for UK prime over the next 12 months was in the low double digits with some property funds estimating returns in the region of 15%.
3. The global property market was estimated to increase returns over the next two years with moderate growth forecasts in both the EU and USA. QE increased capital flows into the EU should compress yields but returns are expected to benefit from the declining vacancy rates.
4. The leverage within the UK portfolio remains low at 17% and reduced from 18% the previous year. The performance is planned to come from improvement in management of property assets rather than financial engineering.
5. CBRE were in the processes of committing and drawing down the final elements of the £25m allocated to the property portfolio, commitment to student accommodation, and an industrial property fund were expected in the next few weeks. The gradual drawing down of funds has resulted in a slight cash drag on the portfolio.
6. The shift to global property investment was discussed with the impact of currency movements and arrangements for hedging being a key consideration. CBRE did not offer to hedge the currency themselves but through a third party provider. The performance target for the global allocation is an unhedged 9-11% and the target allocation was provisionally proposed as 25% with a +/-10% margin. The method by which this 25% could be funded is either through additional capital, or through sale of UK assets and investment of income over a period of time.

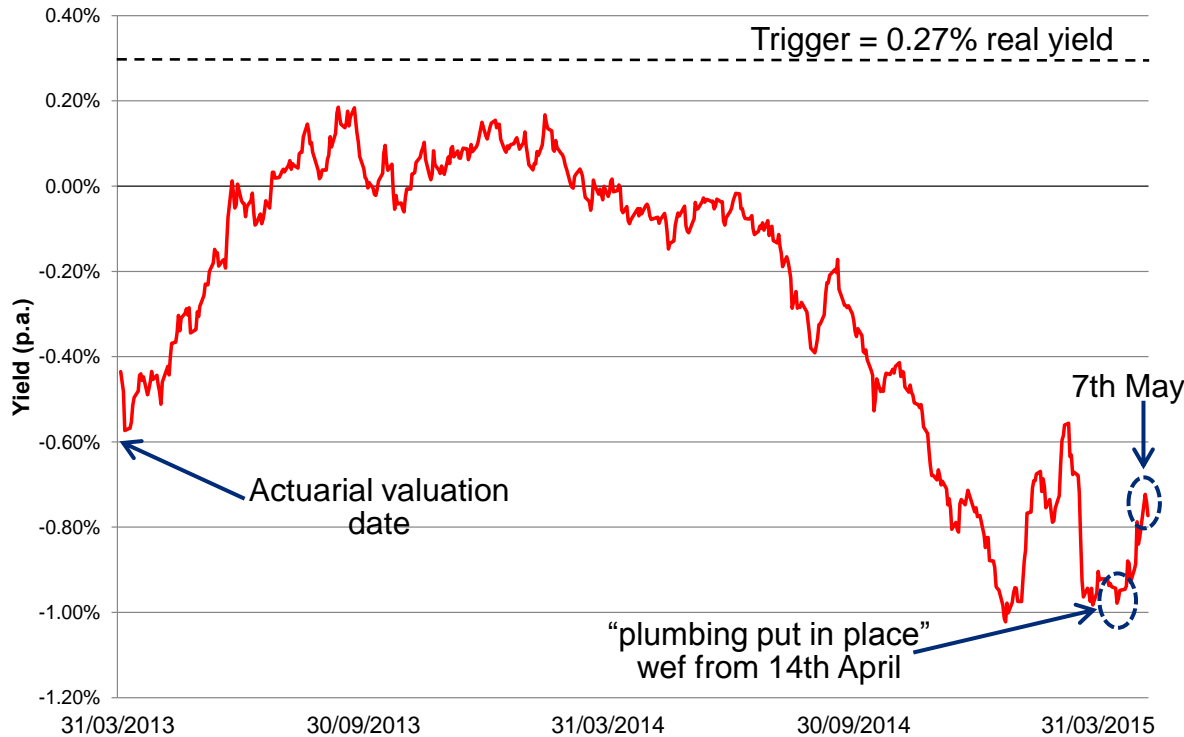
UBS

1. Met with Steve Magill and Richard West from UBS.
2. Whilst UBS performance over the past three, five and seven years since the value team took over the portfolio management has surpassed that of the benchmark, performance over the last year has been weaker. There has been underperformance versus the benchmark in three out of the previous four quarters.
3. UBS argued that the recent dip was not a result of fundamental portfolio weaknesses but partly arising from profit taking in positions that had recently undergone substantial outperformance, e.g., cyclical holdings in Dixons. Another area of underperformance to the benchmark was the exclusion of pharmaceutical takeover targets Shore and AstraZeneca, as well as expensive consumer staple stocks acting as bond proxies that had benefited from recent reduction in gilt yields.
4. The largest transactions over the previous twelve months involved the sale of Standard Chartered as UBS believed the assets held by Standard Chartered to be inherently risky. The proceeds of the sale were used to purchase HSBC, which offered a more secure exposure, with a low valuation, returns below that of long term averages, and with any prospect of interest rate rises providing a fillip to the share price.
5. As well as HSBC, UBS were overweight in the banking sector with valuations much lower than historical averages with scope for further upside.
6. The second largest active stock position within the portfolio was 3i Group, the listed private equity investment company. The position in 3i began in 2008 and has been added to in recent years following cost cutting exercises and a turnaround in investment strategy. UBS stressed that the underlying investments that 3i made were vitally important to assessing the fair value of the stock. One such underlying investment the European discount chain, Action. This has the potential to be hugely successful for 3i.
7. The sector positioning was driven by bottom up stock selection as opposed to macro viewpoints. UBS were overweight sectors which are more economically sensitive, including oil and gas and industrials. This positioning was a view on the cheapness of stocks in these sectors and an additional margin of safety rather than a particular positive outlook on the economy.

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Surrey Pension Fund – update on yield trigger

Change in reference yield since 31 March 2013

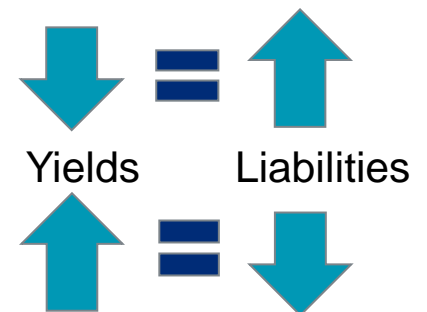


Comments

Chart opposite shows the progression in the yield available on the 2035 ILG over 2015. Current yield is -0.72% p.a.

The Board has set the trigger at 0.27% p.a.

- Trigger is “hit” when yield from 2035 ILG reaches this level
- £90m in physical gilts will then be switched to leveraged gilts
- Resulting hedge ratio expected to be around 13%



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THE SURREY PENSION FUND BOARD

ATTENDANCE AND KNOWLEDGE AND UNDERSTANDING POLICY



1. Attendance

- 1.1 Surrey Pension Fund Board members will be required to attend four Board meetings per year.
- 1.2 Surrey Pension Fund Board members should also commit sufficient time in order to prepare for meetings and obtain and keep under review their knowledge and understanding.

2. Knowledge and understanding requirements

2.1 General requirements

- 2.1.1 Surrey Pension Fund Board members should also have knowledge and understanding of:
 - The rules of the Local Government Pension Scheme (LGPS) (the LGPS Regulations);
 - Any document recording policy about the administration of the Surrey Pension Fund which is for the time being adopted in relation to the Surrey Pension Fund;
 - The law relating to pensions;
 - Such other matters as may be prescribed.
- 2.1.2 Members of the Surrey Pension Fund Board should be aware that their individual legal responsibility begins from the date they take up their role on the Board.
- 2.1.3 It is for individual Surrey Pension Fund Board members to ensure they have the appropriate degree of knowledge and understanding to enable them to properly exercise their functions as a member of the Surrey Pension Fund Board.
- 2.1.4 Surrey Pension Fund Board members are required to be able to demonstrate their knowledge and understanding and to refresh and keep their knowledge up to date. Surrey Pension Fund Board members are therefore required to maintain a written record of relevant training and development.
- 2.1.5 Surrey Pension Fund Board members will undertake a personal training needs analysis and regularly review their skills, competencies and knowledge to identify gaps or weaknesses.
- 2.1.6 Surrey Pension Fund Board members will comply with this Attendance and knowledge and understanding policy.

2.2 Key areas of knowledge and understanding of the law relating to pensions

2.2.1 Examples of knowledge and understanding of the law relating to pensions:

- Background and understanding of the legislative framework of the LGPS;
- General pension legislation applicable to the LGPS;
- Role and responsibilities of the Surrey Pension Fund Board;
- Role and responsibilities of the Local Pension Board;
- Role and responsibilities of the Administering Authority;
- Funding and investment;
- Role and responsibilities of Scheme Employers;
- Tax and contracting out;
- Role of advisors and key persons;
- Key bodies connected to the LGPS.

3. Induction training

3.1 Surrey Pension Fund Board members are expected to complete induction training within the first three months of their appointment. This consists of an online training course provided in a Trustee Toolkit by the Pensions Regulator (TPR).

3.2 TPR Trustee toolkit

3.2.1 The TPR Trustee toolkit provides a guide to learning development and assessment of learning needs and includes a series of online learning modules and downloadable resources developed to help Surrey Pension Fund Board members meet minimum level of knowledge and understanding.

3.2.2 The toolkit includes ten **Essential learning for trustee** compulsory modules and seven **Public Sector Toolkit** compulsory online learning modules that must be completed successfully to pass the induction training.

3.2.3 The ten Essential learning for trustee compulsory modules test Surrey Pension Fund Board member knowledge in the following key areas:

- Introducing pension schemes;
- The trustee's role;
- Running a scheme;
- Pensions law;
- An introduction to investment;
- How a defined benefit scheme works;
- Funding your defined benefit scheme;
- Defined benefit recovery plans, contributions and funding principles;
- How a defined contribution scheme works;
- Investment in a defined contribution scheme.

3.2.4 The seven **Public Sector Toolkit** compulsory modules test Surrey Pension Fund Board member knowledge in the following key areas:

- Conflicts of interest;
- Managing risk and internal controls;

- Maintaining accurate member data;
- Maintaining member contributions;
- Providing information to members and others;
- Resolving internal disputes;
- Reporting breaches of the law.

4. Ongoing training and development to meet knowledge and understanding requirements

4.1 Surrey Pension Fund Board members will undertake the **CIPFA Knowledge and Skills Framework**.

4.2 CIPFA Knowledge and Skills Framework

4.2.1 In an attempt to determine the right skill set for quasi trustees involved in decision making, CIPFA has developed, with the assistance of expert practitioners, a technical knowledge and skills framework.

4.2.2 The framework is intended to have two primary uses:

- As a tool for organisations to determine whether they have the right skill mix to meet their scheme financial management needs;
- As an assessment tool for individuals to measure their progress and plan their development.

4.2.3 The framework has been designed so that organisations and individuals can tailor it to their own particular circumstances. Surrey Pension Fund Board members may already have some of the required skills, and the more experienced Surrey Pension Fund Board members will already possess many of them.

4.2.4 In total there are six areas of knowledge and skills identified as the core technical requirements for those working in public sector pensions. They are:

- Pensions legislative and governance context;
- Pensions accounting and auditing standards;
- Financial services procurement and relationship management;
- Investment performance and risk management;
- Financial markets and products knowledge;
- Actuarial methods, standards and practices.

4.2.5 Individual members can be set up within the online framework and will be able to use the toolkit as they see fit. It is anticipated that members will, over a period of time, work towards a full understanding of the relevant issues. There is no current intention of imposing a timescale in which certain targets must be met by individual members. It is not expected that all members of the Surrey Pension Fund Board will, at all times, have an expert knowledge of all areas, but the Surrey Pension Fund Board as a whole needs a breadth of skills and knowledge to ensure that all relevant issues are scrutinised when making recommendations. Board member progress in improving their skill set will be reviewed on an annual basis.

4.2.6 It is suggested that, initially, Surrey Pension Fund Board members use the online toolkit to assess their own training needs. Officers can then work with members, both individually and collectively, to identify how best to meet any skills/knowledge gaps.

4.2.7 It is suggested that there are four main ways in which knowledge and skill levels can be increased:

- Use of the web-based packages and CIPFA repository when developed;
- Manager or actuary led training sessions or specific training as part of the Board meeting agenda;
- An induction training package for new Board members that covers the areas outlined in the CIPFA Framework;
- Courses and seminars organised by managers, actuaries, NAPF and other experts, details of which can be circulated to Surrey Pension Fund Board members as they arise.

4.3 The Strategic Finance Manager - Pension Fund and Treasury will use the TPR Trustee Toolkit assessments that the Surrey Pension Fund Board members complete as a basis for agreeing an appropriate training programme.

SURREY COUNTY COUNCIL

SURREY PENSION FUND BOARD

DATE: 22 MAY 2015

LEAD OFFICER: SHEILA LITTLE, DIRECTOR OF FINANCE

SUBJECT: PENSION FUND BUSINESS PLAN 2014/15: OUTTURN REPORT



SUMMARY OF ISSUE:

The 2001 Myners Report (later confirmed by the CIPFA/Myners Principles) recommended that local authority pension funds approve an annual business plan in respect of the objectives required for the ensuing year. Business planning is regarded as an important tool, assisting in the identification of how service delivery can be maximised within resource constraints. This report sets out the outturn of the annual business plan for 2014/15.

RECOMMENDATIONS:

It is recommended that the Pension Fund Board:

- 1 note the achievements and progress made with regard to the Business Plan objectives shown in Annex 1 in respect of the 2014/15 financial year.

REASON FOR RECOMMENDATIONS:

A business plan is required by best practice in order to set relevant targets and monitor progress. Monitoring the outturn against the objectives set is an essential part of the planning and monitoring and outturn processes.

DETAILS:

Background

- 1 At the Board meeting of 14 February 2014, the Pension Fund Board approved a business plan for 2014/15, identifying the key issues affecting the Pension Fund over the medium term and a timetable of activities needed to help achieve the strategic objectives. The business plan listed the investment process and pension administration tasks to be carried out during 2014/15, and the target date when these should be achieved.
- 2 The 2014/15 business plan is shown as Annex 1.

Outturn 2014/15

- 4 This report sets out the outturn results of the pension fund business plan implementation, setting out each individual action required (in line with the original approved business plan shown as Annex 1) and the commentary of the outcome results of the year's work of the Pension Fund investment and administration staff.

Outturn: Administration

- 5 Action 1: Director of Finance and Surrey Pension Fund Board to receive key performance indicators (KPI) report on a quarterly basis.

Outcome: **Achieved.** All KPI reports were sent to the Director of Finance and Surrey Pension Fund Board committee clerk within the stated time limit of eight days before the Surrey Pension Fund Board quarterly meeting. There were no instances of failures to meet these targets.

- 6 Action 2: Surrey Pension Fund Board to receive the Pension Fund Annual Report by 30 September 2014.

Outcome: **Achieved.** The Pension Fund Annual Report was posted onto the Fund's website in mid September 2014.

- 7 Action 3: Ensure that any complaints against action or inaction by pension staff are dealt with in a timely manner.

Outcome: **Achieved.** There were no complaints against pensions staff. There have been two pension appeals, since the change to the scheme of delegation to reflect the new pension fund structure, as approved by Council on 14 October 2014. The first was a claim for a discount in overdue contributions. In this case, favour was found for the scheme employer. The second was a claim for an upgrade of a tier 2 ill health pension to a tier 1 ill health pension. This was resolved in favour of the scheme member.

- 8 Action 4: Review the content of the pension fund website to ensure it is relevant and kept up-to-date.

Outcome: **Achieved.** The pension fund website is updated on an ongoing basis. This has included refreshing links to the national LGPS website, highlighting the annual pension increase to pensioner members, and introducing a new section devoted to the recruitment to and the functions of the new statutory Local Pension Board.

- 9 Action 5: Implement new LGPS 2014 Scheme which takes effect on 1 April 2014

Outcome: **Achieved.**

The Pension Service hosted three employer workshops in February 2014, to provide training to scheme employers on their new reporting responsibilities within the LGPS 2014 scheme. These workshops were attended by 80 scheme employer representatives. Further evidence that the new scheme has been successfully implemented is that we are on target to issue the first set of statements under the new career average revalued earnings (CARE) scheme by 31 August 2015.

Outturn: Communication

- 10 Action 1: Production of a newsletter to pensioners in April each year.

Outcome: **Achieved.** An update regarding the annual pension increase was provided in March 2015 and confirmed in writing as part of a newsletter sent

to all pensioners of the Surrey Pension Fund. This newsletter also included an invitation to apply for a post of member representative on the new local pension board.

- 11 Action 2: Timely production of benefit statements.

Outcome: **Partially Achieved.** Benefit statements were issued on time to deferred members in May 2014 and to Councillor members in September 2014. The benefit statements for active members were issued in December 2014, slightly later than planned, but consistent with previous years, primarily due to increased workloads following the introduction of the new LGPS 2014 CARE scheme. The 2015 active member statements are on target to be issued in August 2015, much earlier than in previous years.

- 12 Action 3: Ensure communication material complies with current legislation and effectively communicates the benefits of the scheme. Ensure communication material is amended to comply with the requirements of the new LGPS 2014

Outcome: **Achieved.** Standard booklets, information sheets and pro forma documentation are regularly updated to comply with the additional changes to the detail of the new LGPS 2014 scheme. Scheme employers and members have also been issued with a bulletin, which has provided details of regulatory and wider legislative changes. This has included information regarding the recent Freedom and Choice pension options and the new statutory Local Pension Board.

- 13 Action 4: Communication on a timely basis of material scheme changes to the Pension Fund Board, employer bodies and members.

Outcome: **Achieved.** The Board considered a consultation from the Department of Communities and Local Government (DCLG) on LGPS Reform: Collaboration, Cost Savings and Efficiencies, issued on 1 May 2014, and presented at the 15 May 2014 Board meeting, with a response provided in July 2014. A consultation and discussion paper from the DCLG on draft changes to the LGPS Governance Regulations of June 2014, brought about by the Public Service Pensions Act 2013, was presented to the Board at the 19 September 2014 meeting. A further consultation on this topic was issued by DCLG on 10 October 2014, to which an official response was provided by the Board. New LGPS Governance Regulations were issued on 28 January 2015 and presented to the Board at the meeting of 13 February 2015. These Regulations resulted in the establishment of a new statutory Local Pension Board at a full Council meeting on 17 March 2015, an update of which will be presented to the Board within this meeting's agenda (22 May 2015). All Board reports are available for scrutiny by employer bodies and members via the Council's 'my council' portal. Newsletters and information have been made available on the pension fund website.

- 14 Action 5: Prepare the Pension Fund Annual Meeting (November) and receive feedback from employers.

Outcome: **Achieved.** The Fund held a successful annual meeting on 21 November 2014, attended by the actuary who was available for one-to-one sessions with employer representatives following the formal meeting. Feedback from delegates who attended the meeting was very favourable.

Outturn: Actuarial/Funding

- 15 Action 1: Conclude 2013 actuarial valuation.

Outcome: **Achieved.** The actuarial valuation was delivered on time with highly valued assistance and cooperation from the Fund's actuaries, Barry McKay and Julie West from Hymans. The Funding Strategy Statement was sent to all employers for consultation and approved at the 15 May 2014 Board meeting. Every member organisation has received a confirmed schedule of employer contribution rates and deficit contributions in respect of the next three years (2014/15 to 2016/17).

- 16 Action 2: Receive feedback from employers (scheduled and admitted bodies).

Outcome: **Achieved.** The Fund's actuary presented to the Fund's annual meeting held on 21 November 2014. One-to-one sessions with individual employer representatives after the meeting resulted in the resolution of many queries and problems. Feedback received was positive.

- 17 Action 3: Provide employers with IAS19/FRS17 funding statements when requested.

Outcome: **Achieved.** Individual FRS17/IAS19 reports (2013/14 accounts closure) were commissioned and provided to all employer bodies as required in line with individual deadlines.

- 18 Action 4: Monitor and reconcile contributions schedule for the County Council and scheme employers.

Outcome: **Achieved.** Contributing authorities to the Fund were closely monitored as to the accuracy and completeness of their monthly contribution receipts. Late or inaccurate payments were always followed up immediately. There are no difficulties or outstanding issues with member bodies.

- 19 Action 5: Member training covering funding issues.

Outcome: **Achieved.** Regular quarterly training for the Board was carried out and various external conferences and seminars have been attended by Board members and officers.

Outturn: Surrey Pension Fund Board Members

- 20 Action 1: Review decision-making process to ensure decisions are made effectively.

Outcome: **Pending.** Summary results of the questionnaires designed for the assessment of the Board's training requirements were presented to the Board on 13 February 2015. Training proposals will be presented to the Board at the 22 May 2015 meeting, following changes to the membership of the Board. Board members are invited to discuss the 2014/15 financial year with a view to reviewing its decision-making process and the effectiveness of the way in which its decisions were made.

- 21 Action 2: Review Surrey Pension Fund Board member training requirements and implement training plan as appropriate

Outcome: **Pending.** The Board approved a Knowledge and Skills framework at its meeting on 31 May 2013. Regular quarterly training for the Board is provided and various external conferences and seminars are attended by Board members. Members will be invited to discuss this item within the forum of the meeting on 22 May 2015.

- 22 Action 3: Agree annual plan for Surrey Pension Fund Board member training.

Outcome: **Achieved.** The Board approved its Knowledge and Skills Framework at the meeting of 31 May 2013. Training was provided at every Board meeting in the financial year.

- 23 Action 4: Ensure that meeting papers are issued at least seven days prior to meeting.

Outcome: **Achieved.** Board agendas and reports were sent out on a timely basis within the 7-day target. One or two reports in the year were delivered to members in the run-up to the Board meeting if necessary information had not been received by officers before the 7-day target.

- 24 Action 5: Ensure that governance remains in line with revised Myners/CIPFA principles to ensure 100% compliance.

Outcome: **Achieved.** All governance documents are now existent. The latest draft of the Statement of Investment Principles incorporating the Fund's stated compliance with Myners/CIPFA principles will also be considered at the 22 May 2015 Board meeting.

Outturn: Financial and Risk Management

- 25 Action 1: Monitor pension fund expenses for next financial year with the target of unit cost in lowest quartile.

Outcome: **Achieved.** This is monitored on a regular basis and also reported to the Board as a key performance indicator.

- 26 Action 2: Produce Annual Statement of Accounts.

Outcome: **Achieved.** This was produced on time (2013/14 accounts, financial statements and annual report) according to the Council's closedown timetable deadlines with no external audit qualifications.

- 27 Action 3: Produce Annual Pension Fund Report.

Outcome: **Achieved.** The Pension Fund Annual Report was posted onto the Fund's website in September 2014. It was used as the basis for the Local Government Chronicle (LGC) Large Pension Fund of the Year Award 2014, with the Fund being shortlisted.

- 28 Action 4: Carry out risk assessment of the management of the fund for 2014/15.

Outcome: **Achieved.** An evaluation of the Fund's risk assessments with risk control procedures was presented at every Board meeting in the financial year and will be a regular agenda item at future meetings.

- 29 Action 5: To implement a system of disaster recovery/business continuity in the event of major disaster.

Outcome: **Pending.** This is currently being assessed in the 2015/16 year.

Outturn: Investment

- 30 Action 1: Ongoing consideration of the CIPFA/Myners principles.

Outcome: **Ongoing.** In terms of governance standards, work has commenced on new Local Pension Board membership with the first meeting set for the second half of 2015/16.

- 31 Action 2: Review of investment manager arrangements.

Outcome: **Achieved.** A liability driven investment framework was implemented with final approval given at the 13 February 2015 meeting. Work is continuing on the strategy review, further diversification possibilities (including multi-asset credit and infrastructure) and future de-risking as the funding level approaches 100%.

- 32 Action 3: Review asset allocation with consultant and independent advisor.

Outcome: **Achieved.** Asset allocation has been consistently reviewed with necessary training provided to Board members at every Board meeting and in one-to-one sessions.

- 33 Action 4: Discuss/meet with all investment managers and report to Pension Fund Board.

Outcome: **Achieved.** Meetings have been held with all investment managers in every quarter during 2014/15 and included in Board agendas with the independent advisor's verbal commentary at meetings.

- 34 Action 5: Review the Statement of Investment Principles (SIP)

Outcome: **Achieved.** Revised versions of the SIP were approved at every Board meeting in 2014/15. An updated version is presented to the Board at the 22 May 2015 Board meeting.

- 35 Action 6: Surrey Pension Fund Board to receive quarterly monitoring reports.

Outcome: **Achieved.** Investment performance review reports are considered by the Board every quarter.

- 36 Action 7: Respond to national initiatives on pension fund merger/collaboration and report to the Surrey Pension Fund Board as necessary.

Outcome: **Achieved.** All national initiatives with a consultation process were considered by the Board with a response sent within stated deadlines.

CONSULTATION:

- 37 The Chairman of the Surrey Pension Fund Board has been consulted on the outturn report and has offered full support in respect of the achievements, and with regard to specific areas where progress is still ongoing.

RISK MANAGEMENT AND IMPLICATIONS:

- 38 Risk related issues are specifically discussed within the report where relevant.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

- 39 Financial and value for money issues are specifically discussed within the report where relevant.

DIRECTOR OF FINANCE COMMENTARY

- 40 The Director of Finance is satisfied that all material, financial and business issues and possibility of risks have been considered and addressed within the outturn report, and that the document will provide the Board and officers with a useful update as to the achievement of the business plan's objectives, and a useful tool for the monitoring of progress.

LEGAL IMPLICATIONS – MONITORING OFFICER

- 41 There are no legal implications or legislative requirements associated with this report.

EQUALITIES AND DIVERSITY

- 42 The outturn report will not require an equality analysis, as the initiative is not a major policy, project or function being created or changed.

OTHER IMPLICATIONS

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

WHAT HAPPENS NEXT:

- 44 The following next steps are planned:
- Continuation of the current year's work programme in line with the 2015/16 business plan.
 - Progress monitoring will take place and, if necessary, matters will be discussed at future Board meetings.
 - Outturn report of the 2015/16 financial year to be presented at the first meeting of the Surrey Pension Fund Board in 2016/17.

Contact Officer:

Phil Triggs, Strategic Finance Manager (Pension Fund and Treasury)

Consulted:

Surrey Pension Fund Board Chairman

Annexes:

Annex 1: Business Plan 2014/15

Sources/background papers:

None

**Surrey Pension Fund
Business Plan and Actions for 2014/15**

Administration			
Objective(s)			
<ul style="list-style-type: none"> - to ensure scheme is run in accordance with the rules; in accordance with agreed service standards; and compliance with Regulations - to deal with and rectify any errors and complaints in a timely way 			
Action	Description	Timescale	Primary Responsibility
1	Chief Finance Officer and Pension Fund Board to receive key performance indicators report on a quarterly basis	Ongoing with reports due at each Board meeting	Phil Triggs/Paul Baker
2	Pension Fund Board to receive the Pension Fund Annual Report	By 30 September 2014	Phil Triggs
3	Ensure that any complaints against action or inaction by pension staff are dealt with in a timely manner	Ongoing	Paul Baker
4	Review the content of the pension fund website to ensure it is relevant and kept up to date.	Ongoing	Paul Baker/Phil Triggs
5	Implement new LGPS 2014 Scheme which takes effect on 1 April 2014	Progress report to Pension Fund Board meeting of 23 May 2014	Paul Baker/Phil Triggs

Communication			
Objective(s) <ul style="list-style-type: none"> - to convey the security of the Scheme - to ensure members understand and appreciate the value of their benefits 			
Action	Description	Timescale	Primary Responsibility
1	Production of a newsletter to pensioners in April each year	April 2014	Paul Baker
2	Timely production of benefit statements	Active members by 30 Sep 2014 Preserved members by 30 June 2014 Councillors by 31 Aug 2014	Paul Baker
3	Ensure communication material complies with current legislation and effectively communicates the benefits of the scheme Ensure communication material is amended to comply with the requirements of the new LGPS 2014	Ongoing Include in progress report to Board meeting on 23 May 2014	Paul Baker
4	Communication on a timely basis of material scheme changes to Pension Fund Board, employer bodies and members	Ongoing	Phil Triggs/Paul Baker
5	Prepare Pension Fund Annual Meeting (Nov) and receive feedback from employers	21 November 2014	Phil Triggs/Paul Baker

Actuarial/Funding

Objective(s)

- to monitor the funding level of the Scheme including formal valuation every 3 years
- to monitor and reconcile contribution payments to the Scheme by the employers and scheme members
- to understand legislative changes which will impact on funding

Action	Description	Timescale	Primary Responsibility
1	Conclude 2013 actuarial valuation	31 March 2014	Phil Triggs/Paul Baker
2	Receive satisfaction survey feedback from employers (scheduled and admitted bodies)	30 April 2014	Phil Triggs
3	Provide employers with IAS19/FRS17 funding statements when requested	Scheduled bodies: Mar 2014 Colleges: July 2014 Academies: August 2014	Phil Triggs
4	Monitor and reconcile contributions schedule for the County Council and scheme employers	Ongoing	Phil Triggs
5	Member training covering funding issues	Ongoing	Phil Triggs

Surrey Pension Fund Board Members			
Objective(s)			
<ul style="list-style-type: none"> - to train and develop all members to enable them to perform duties effectively - to meet quarterly and to include investment advisor and independent advisors as required - to run meetings efficiently and to ensure decisions are made clearly and effectively 			
Action	Description	Timescale	Primary Responsibility
1	Review decision making process to ensure decisions are made effectively	Ongoing with new Pension Fund Board	Board Members
2	Review Pension Fund Board member training requirements and implement training plan as appropriate	Ongoing	Phil Triggs
3	Agree annual plan for Pension Fund Board member training	23 May 2014	Phil Triggs
4	Ensure that meeting papers are issued at least seven days prior to meeting	Ongoing	Phil Triggs
5	Ensure that governance remains in line with revised Myners/CIPFA principles to ensure 100% compliance	Ongoing 2014/15	Phil Triggs

Financial & Risk Management

Objective(s)

- To properly record financial transactions to and from the Scheme and produce annual report and accounts within six months of year end
- Manage advisers fees against budgets
- Assess the risk associated with the management of the Scheme

Action	Description	Timescale	Primary Responsibility
1	Monitor pension fund expenses for next financial year with the target of unit cost in lowest quartile	Ongoing 2014/15	Phil Triggs
2	Produce Annual Statement of Accounts	23 May 2014	Phil Triggs
3	Produce Pension Fund Annual Report	30 September 2014	Phil Triggs
4	Ensure ongoing risk assessments of the management of the fund for 2014/15	Ongoing and reported to every Board meeting	Phil Triggs
5	To implement a system of disaster recovery/business continuity in the event of major disaster	Ongoing 2014/15	Phil Triggs/Paul Baker

Investment			
Objective(s)			
<ul style="list-style-type: none"> - Periodically review investment strategy and benchmarks - Monitor performance against benchmarks - Meet with investment managers to discuss performance 			
Action	Description	Timescale	Primary Responsibility
1	Ongoing consideration of CIPFA/Myners principles	Ongoing 2014/15	Phil Triggs
2	Review of investment manager arrangements	March 2015	Phil Triggs
3	Review asset allocation with consultant and independent advisor	March 2015	Phil Triggs
4	Discuss/meet with all investment managers and report to Pension Fund Board	Quarterly 2014/15	Phil Triggs
5	Review SIP	March 2015	Phil Triggs
6	Pension Fund Board to receive quarterly monitoring reports	Quarterly 2014/15	Phil Triggs
7	Respond to national initiatives on pension fund merger/collaboration and report to the Pension Fund Board as necessary	Ongoing 2014/15	Phil Triggs

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SURREY COUNTY COUNCIL

SURREY PENSION FUND BOARD

DATE: 22 MAY 2015

LEAD OFFICER: SHEILA LITTLE, DIRECTOR OF FINANCE

SUBJECT: REVISED STATEMENT OF INVESTMENT PRINCIPLES



SUMMARY OF ISSUE:

With adjustments to asset allocation within the Pension Fund, it is necessary to approve a revised Statement of Investment Principles (SIP).

RECOMMENDATIONS:

It is recommended that the Surrey Pension Fund Board:

- 1 Approve the revised Statement of Investment Principles shown in Annex 1.
- 2 Approve the Core Belief Statement shown in Annex 2.

REASON FOR RECOMMENDATIONS:

The Surrey Pension Fund Board must approve all working documents produced for the Pension Fund.

DETAILS:

Background

- 1 In accordance with Regulation 12 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009, as an administering authority, the Council must prepare and maintain a written statement of the principles governing its decisions on the investment of the pension fund. It also has to review the policy from time to time and revise it if considered necessary following such a review, as is recommended here in the light of changes made to the Fund's portfolio.
- 2 Such changes consist of revisions to the CIPFA/Myners principles statements set out in the annex to the SIP.

Revised Statement

- 3 The revised Statement of Investment Principles (SIP) is shown as Annex 1.

Core Belief Statement

- 4 At its meeting on 14 November 2014, the Board approved a Core Belief Statement regarding the investment of the Pension Fund, subject to some slight changes, which were approved at the 13 February 2015 Board meeting.

- 5 The Core Belief Statement is shown as Annex 2.

Monitoring and Review

- 6 The SIP and Core Belief Statement are kept under constant review and will be submitted for approval to future Board meetings when any revision is required.

CONSULTATION:

- 7 The Chairman of the Surrey Pension Fund Board has been consulted on the revised draft and has offered full support for the proposals.

RISK MANAGEMENT AND IMPLICATIONS:

- 8 There are no risk related issues contained within the report's proposals.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

- 9 There are no financial and value for money implications.

DIRECTOR OF FINANCE COMMENTARY

- 10 The Director of Finance is satisfied that all material, financial and business issues and possibility of risks have been considered and addressed and that the proposed SIP offers a clear structure, reflecting the current investment strategies approved by the Surrey Pension Fund Board.

LEGAL IMPLICATIONS – MONITORING OFFICER

- 11 There are no legal implications or legislative requirements.

EQUALITIES AND DIVERSITY

- 12 The approval of the SIP will not require an equality analysis, as the initiative is not a major policy, project or function being created or changed.

OTHER IMPLICATIONS

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

WHAT HAPPENS NEXT

- 14 The following next steps are planned:
- Adoption of the revised SIP and Coe Belief Statement
 - Documents to be kept under review

Contact Officer:

Phil Triggs, Strategic Finance Manager (Pension Fund and Treasury)

Consulted:

Surrey Pension Fund Board Chairman

Annexes:

Annex 1: Revised Statement of Investment Principles

Annex 2: Core Belief Statement

Sources/background papers:

None

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Statement of Investment Principles 2015/16

Statement of Investment Principles

1. Overall Responsibility

The County Council is the designated statutory body responsible for administering the Surrey Pension Fund on behalf of the constituent Scheduled and Admitted Bodies. The Council is responsible for setting investment policy, appointing suitable persons to implement that policy and carrying out regular reviews and monitoring of investments. The content of this Statement reflects the County Council's compliance with the requirements of the Myners Review of Institutional Investment, which can be found at Annex 2.

The Local Government Pension Scheme (England and Wales) (Amendment) (No 2) Regulations 2005 came into effect on 14 December 2005. The Regulations provide the statutory framework within which LGPS administering authorities are required to publish a governance policy statement.

A copy of the Surrey Pension Fund's current governance policy statement can be found on the County Council's website. www.surreypensionfund.org

Responsibility and governance for the Pension Fund, including investment strategy, fund administration, liability management corporate governance is delegated to the Surrey Pension Fund Board, which is made up of:

- six nominated members of the County Council;
- two representatives from the Borough/District Councils nominated by the Surrey Local Government Association;
- one representative from the external employers;
- one representative of the members of the Fund.

The Pension Fund Board is advised by a representative of the Fund's professional investment advisor, an independent advisor, the Director of Finance and the Strategic Finance Manager (Pension Fund and Treasury). The Pension Fund Board meets on a quarterly basis.

Assisting, monitoring and scrutiny are delegated to the Local Pension Board, which is made up of:

- four employer representatives;
- four employee representatives;
- two independent representatives.

The Pension Fund Board is advised by the Director of Finance and the Senior Specialist Advisor.

The Local Pension Board meets on a half yearly basis.

2. Investment Objectives

The Pension Fund Board seeks to ensure that the Pension Fund has sufficient assets to be able to meet its long term obligations to pay pensions to the Fund's members, i.e., over the long term to be at or above a 100% funding level. It also has an objective to maintain employer contribution rates as reasonably stable and affordable as possible. In order to meet these objectives, a number of secondary objectives have been agreed:

- i) To have a clearly articulated strategy for achieving and maintaining a fully funded position over a suitable long term time horizon; the Board recognises that funding levels can be volatile from year to year depending as they do both on investment market levels and on estimates of liability values, so the long-term strategy needs to be capable of steering a steady course through changing market environments.
- ii) To have a strategic asset allocation that is both well diversified and expected to provide long term investment returns in excess of the anticipated rise in the Fund's liabilities.
- iii) To appoint managers that the Board believes can consistently achieve the performance objectives set and to give each appointed manager a clearly defined benchmark and performance objective against which they can be judged.
- iv) To ensure investment risk is monitored regularly both in absolute terms (the risk of losing money) and relative to the Fund's liabilities (the risk of funding shortfalls); the Board will have regard to best practice in managing risk.
- v) To have sufficient liquid resources available to meet the Fund's ongoing obligations.
- vi) To achieve an overall Fund return 1% per annum in excess of the overall benchmark over rolling three-year periods.

3. Investment Style and Management

The Board has delegated day-to-day management of various parts of the Fund to external fund managers each of which has been given an explicit benchmark and performance objective. The Board retains responsibility for ensuring the mix of managers and by implication the overall asset allocation is suitable for the long-term objectives defined above.

The Board has appointed two different types of manager: 'Index Relative' who seek to achieve a return relative to a market index within a specified asset type and 'Absolute Return' who seek to achieve a desired return outcome by moving between different asset types.

Index Relative managers

The managers in this category have been set differing performance targets and will take accordingly differing levels of risk relative to the benchmark index they are given.

Passive mandates seek to replicate the market index as closely as possible and are expected to take very little relative risk. Typically, such portfolios will have the largest number of individual holdings each of which will be close to the index weighting. The expected performance should be within 0.5% of the index return in any year.

Core active mandates seek to achieve a performance between 0.75% per annum and 2% per annum ahead of the relevant market index. Typically, core active mandates have diversified portfolios and take medium levels of relative risk. Most managers will only be appointed to manage a single asset class (for example, global equities, bonds or property).

Concentrated active mandates seek to outperform their relevant index by 3% per annum or more and take larger relative risks by owning a smaller number of individual holdings. The Pension Fund Board usually confines such mandates to specialist managers in regional equities.

Absolute Return managers

The managers in this category are all expected to achieve returns well ahead of cash or inflation in the long-term.

Diversified Growth managers use a very broad range of asset classes and actively vary allocations between asset types depending on investment market conditions. They will also use derivatives from time to time to limit the scope for large falls in value. The expected returns from such mandates will be close to the long term return from equity markets but with much less volatility.

Absolute return managers also seek to achieve good long term returns with dampened down volatility, but typically they are focused on a particular investment area. The desired outcome is similar to Diversified Growth mandates but with possibly greater variability across mandate types and usually with a much smaller amount invested in each capability.

Fees

The level of fees paid to managers varies greatly according to the complexity of the mandate and the geographic area involved. Fees are usually expressed as a proportion of assets under management. There may also be additional performance related fee charges.

Fees for passive mandates tend to be very low, particularly in developed markets where information is readily available. Fees are higher for mandates that require greater manager skill. Typically a concentrated active mandate will have a higher fee rate than a core active manager and a small absolute return mandate will have a higher fee rate than a larger diversified growth mandate.

Current Manager Structure

The table below shows the current asset allocation and manager structure of the Fund.

	Category	Allocation Policy %	Fund %	Control Range% +/-
Equities			63.0	+/-3.0
UK			29.0	
<i>Legal and General</i>	<i>Passive</i>	10.0		
<i>Majedie</i>	<i>Concentrated Active</i>	11.0		
<i>UBS</i>	<i>Core Active</i>	8.0		
Overseas			34.0	
<i>Legal and General</i>	<i>Passive</i>	14.0		
<i>Marathon</i>	<i>Concentrated Active</i>	12.0		
<i>Newton</i>	<i>Core Active</i>	8.0		
Property			6.5	+/-3.0
<i>CBRE</i>	<i>Core Active</i>	6.5		
Alternatives			12.0	+/-3.0
<i>Standard Life</i>	<i>Diversified growth</i>	8.0		
<i>Baillie Gifford</i>	<i>Diversified growth</i>	4.0		
Bonds			18.5	+/-3.0
Fixed interest gilts			2.75	
<i>Western</i>	<i>Core Active</i>	2.75		
Index linked gilts			5.8	
<i>Legal and General</i>	<i>Passive</i>	5.8		
Corporate bonds			7.4	
<i>Legal and General</i>	<i>Passive</i>	1.9		
<i>Western</i>	<i>Core Active</i>	5.5		
Total Return			2.55	
<i>Franklin Templeton</i>	<i>Unconstrained</i>	2.55		
Total			100.0	

The Fund also has a commitment to invest up to 5% of the fund in private equity. This allocation is achieved by investing both in fund of funds and direct funds, managed by a number of private equity specialists. The investments are funded through cash flow. The Pension Fund Board reviews the private equity strategy on an annual basis and makes commitments in order to achieve the target commitment level of 5% of the Fund.

Fees paid to managers vary due to the levels of risk taken and the geographic areas in which the manager is invested. Fees are generally expressed as a proportion of assets under management. Performance fees are in place for a number of the Fund's managers. The following table shows the Fund's private equity investments as at 31 March 2013.

Name	Currency	Inception	Commitment £/€/ \$m
UK Funds			
HG Capital MUST 3	£	2001	2.0
HG Capital MUST 4	£	2002	3.0
HG Capital 5	£	2006	10.0
HG Capital 6	£	2009	10.0
HG Capital 7	£	2013	15.0
ISIS II	£	1999-2002	12.0
ISIS III	£	2003	14.0
ISIS IV	£	2007	15.0
ISIS Growth Fund	£	2013	10.0
Darwin Property Fund	£	2013	20.0
Euro Fund of Funds			
Standard Life ESP II	€	2004	10.0
Standard Life ESP 2006	€	2006	15.0
Standard Life ESP 2008	€	2008	15.0
Standard Life ESF	€	2011	17.5
Standard Life SOF I	\$	2013	20.0
Standard Life SOF II	\$	2014	20.0
US Fund of Funds			
Blackrock Div PEP I	\$	2001	5.0
Blackrock Div PEP II	\$	2003	5.0
Blackrock Div EP III	\$	2005	17.5
GSAM PEP 2000	\$	2000	10.0
GSAM PEP 2004	\$	2004	10.0
GSAM PEP 2005	\$	2006	17.0
GSAM PEP X	\$	2008	18.0
GSAM PEP XI	\$	2011	18.0
GSAM Vintage Fund VI	\$	2013	20.0
US Funds			
Capital Dynamics US Solar Fund	\$	2011	25.0
Capital Dynamics Energy/Infra	\$	2013	25.0

4. Policy on Kinds of Investment

The Pension Fund Board, having regard to funding levels, cash needs and risk tolerance, determines the overall Fund asset mix. The following table shows the strategic asset allocation benchmark for both the managed Fund (i.e. excluding private equity) and the total fund:

	Target Allocation exc. Private Equity	Target Allocation inc. Private Equity
Bonds	%	
Gilts	2.75	2.6
Corporate Bonds	7.4	7.1
Index-Linked gilts	5.8	5.5
Unconstrained	2.55	2.4
Property	6.5	6.2
Total Bonds/Property	25.0	23.8
UK Equity	29.0	27.5
Overseas Equity	34.0	32.3
Global	30.0	28.5
Emerging markets	4.0	3.8
Total Equity	63.0	59.8
Diversified Growth	12.0	11.4
Private Equity	n/a	5.0
TOTAL	100.0	100.0

Acceptable asset classes are:

- UK Equities
- UK Fixed Interest
- UK Index Linked Gilts
- UK Property through pooled funds
- Overseas Equities, major classes being:
 - North America
 - Europe
 - Pacific Rim including Japan
 - Emerging Markets
- Global Bonds
- Overseas Index Linked Stocks
- Unquoted Equities via Pooled Funds
- Emerging Market Equities via Pooled Funds, unless specifically authorised
- Direct investment in private equity funds or fund of funds

The use of derivatives and other financial instruments is permitted within pre-agreed limits for specific purposes such as asset allocation switches and currency hedging. Underwriting is permitted provided that the underlying stock is suitable on investment grounds and complies with existing investment criteria.

Stock lending is permitted. The Pension Fund Board approved Northern Trust's appointment to operate the Pension Fund's lending programme in order to generate an additional income stream for the Pension Fund within approved risk parameters.

There are statutory limits on the proportion of the Fund that can be invested in certain types of investment as determined by the Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 2013.

5. Investment Performance Targets and Benchmarks

Manager	Portfolio	Benchmark Index	Performance Target
UBS	UK Equities	FTSE All Share	+2.0% p.a. (gross of fees) over rolling 3-year periods
Marathon	Global Equities	MSCI AC World	+2.0% p.a. (gross of fees) over rolling 3-year periods
Majedie	UK Equities – Long Only UK Equities – Directional Long/Short	FTSE All Share FTSE All Share	+2.5% p.a. (gross of fees) over rolling 3-year periods Absolute return focused, but aims to out-perform the FTSE All Share Index by an unspecified amount over the long term
Newton	Global Equities	MSCI AC World	+2.0% p.a. (gross of fees) over rolling 3-year periods
Western	Fixed Income	70.0%: Markit iBoxx £ Non-Gilts ex-BBB All Stocks 30.0%: FTSE A UK Gilts – All Stocks	+0.75% p.a. (gross of fees) over rolling 3-year periods
Franklin Templeton	Unconstrained Global Fixed Income	Barclays Multiverse Index	+4% to 7% p.a. (gross of fees) over rolling 3-year periods
LGIM	Multi-Asset Equities and Bonds N - UK Equity Index RX - World (ex UK) Dev Equity Index HN – World Emerging Markets Equity Index CN - AAA-AA-A Bonds - All Stocks Index	FTSE All Share FTSE AW – Dev'd World (ex UK) FTSW AW – All Emerging Markit iBoxx GBP Non Gilts ex BBB All stock	To track the performance of the respective indices within a lower level of tracking deviation (gross of fees) over rolling 3-year periods

	Index-Linked Gilts	Portfolio of single stock funds structured by reference to Fund liabilities	
CBRE	Property	IPD UK All Balanced Funds	+0.5% p.a. (gross of fees) over rolling 3-year periods
Baillie Gifford	Diversified Growth	UK Base Rate	+3.5% p.a. (net of fees) over rolling 3-year periods
Standard Life	Diversified Growth GARS Split 70:30 GARS:GFS	6 month LIBOR	+5.0% p.a. (gross of fees) over rolling 3-year periods
Standard Life	Diversified Growth GFS Split 70:30 GARS:GFS	6 month LIBOR	+7.5% p.a. (gross of fees) over rolling 3-year periods
Internal	Private Equity	MSCI World Index	+5% p.a. (net of fees) over the life of the contract
Internal	Cash	LIBID 7-day rate	LIBID 7 day rate

The overriding aim is to run the Pension Fund in accordance within the relevant legislation and subject to the following performance target: “to outperform the Surrey benchmark by 1% per annum over rolling 3-year periods, with a maximum underperformance of -2% in any one year.”

The overall Surrey benchmark is shown below in detail.

Type of funds	Level of Risk	Target Return Out-Performance p.a.
Passive (index-tracker)	Low	0 – 0.5%
Core Active	Medium	0.75% - 2.0%
Concentrated Active	High	2.0 - 2.5%
Diversified growth	Medium	3.5% - 5%
Unconstrained	Medium	4% - 7%
Total	Medium	1%

The performance target for the private equity Funds is to outperform returns on quoted UK Equities (FTSE All Share Index) by 2% per annum.

6 Risk Measurement and Management

There are a number of risks to which any investment is exposed. The Pension Fund Board recognises that, whilst increasing risk increases potential returns over a long period, it also increases the risk of a shortfall in returns relative to that required to cover the Fund’s liabilities as well as producing more short term volatility in the funding position.

In addition to targeting an appropriate overall level of investment risk, the Pension Fund Board seeks to spread risks across a range of different sources, believing that diversification limits the impact of any single risk. The Pension Fund Board aims to take on those risks for which a reward, in the form of excess returns, is expected over time.

The following risks are recognised and considered by the Pension Fund Board:

Mismatch risk: the primary risk upon which the Pension Fund Board focuses is the arising of a mismatch between the Fund's assets and its liabilities.

Sponsor Covenant risk: the financial capacity and willingness of the sponsoring employers to support the Fund is a key consideration of the Pension Fund Board and is reviewed on a regular basis.

Diversification risk: the Pension Fund Board recognises the risks that may arise from the lack of diversification of investments. Subject to managing the risk from a mismatch of assets and liabilities, the Pension Fund Board aims to ensure that the asset allocation policy results in an adequately diversified portfolio.

Concentration risk: the Pension Fund Board is also aware of concentration risk which arises, for example, when a high proportion of the Fund's assets are invested in securities, whether debt or equity, of the same or related issuers or in the same or similar industry sectors. The overall investment arrangements are intended to provide an appropriate spread of assets by type and spread of individual securities within each asset class.

Liquidity risk: the Pension Fund Board recognises that there is liquidity risk in holding assets that are not readily marketable and realisable. Given the long term investment horizon, the Pension Fund Board believes that a degree of liquidity risk is acceptable, given the potential return. The majority of the Fund's assets are realisable at short notice.

Manager risk: the Fund's assets are invested with a number of managers to provide appropriate diversification.

Regulatory and political risk: across all of the Fund's investments, there is the potential for adverse regulatory or political change. Regulatory risk arises from investing in a market environment where the regulatory regime may change. This may be compounded by political risk in those environments subject to unstable regimes. The Pension Fund Board will attempt to invest in a manner which seeks to minimise the impact of any such regulatory or political change should such a change occur.

Exchange rate risk: this risk arises from unhedged investment overseas. The Fund has a currency hedging policy in place: 50% of its exposure to the US dollar, Euro and Yen.

The documents governing the appointment of each investment manager include a number of guidelines which, among other things, are designed to ensure that only suitable investments are held by the Fund. The Investment Managers are prevented from investing in asset classes outside their mandate without the Pension Fund Board's prior consent.

Arrangements are in place to monitor the Fund's investments to help the Pension Fund Board check that nothing has occurred that would bring into question the continuing suitability of the current investments. To facilitate this, the Pension Fund Board meets with the Investment Managers from time to time, and receives regular reviews from the Investment Managers and its investment advisors.

The safe custody of the Fund's assets is delegated to professional custodians (either directly or via the use of pooled vehicles).

Should there be a material change in the Fund's circumstances, the Pension Fund Board will review whether and to what extent the investment arrangements should be altered; in particular whether the current risk exposure remains appropriate.

7 Policy on Balance Between Different Kinds of Investment

The Council has set target asset allocation ranges for each kind of investment within the overall benchmark. Fund Managers are required to report quarterly their current country, sector or asset allocation positions, whichever is relevant, against their strategy, and to seek approval for variations to their strategies.

8 Policy on Realisation of Investments

Fund Managers are required to maintain portfolios that consist of assets that are readily realisable. Any investment within an in-house or pooled fund, which is not readily tradable, requires specific approval.

9 Monitoring and Review

The target funding level is set triennially, consequent upon the actuarial review. The statutory requirement is to move towards 100% funding over a period of time, agreed with the Fund Actuary as the average expected future working lifetime of the scheme membership (20 years).

Investment strategy will be reviewed annually, with a major review taking place no later than every five years. The SIP will also be reviewed annually. A review of investment management arrangements is carried out at least every three years.

Investment management performance is reviewed annually upon receipt of the third party performance information. The individual manager's current activity and transactions are presented quarterly in discussion with the Pension Fund Board.

An Annual Meeting is held in November each year and is open to all Fund employees.

10 Stewardship and Responsible Investment

The Council wishes to have an active influence on issues of environmental, social or governance (ESG) concern with companies in which the Pension Fund is a shareholder. It will seek to codify its approach with Fund Managers and will use the services of specialist agencies as necessary to identify issues of concern. The Council requires the Fund Managers to take into account the implications of substantial “extra-financial” considerations, e.g., ESG or reputational issues that could bring a particular investment decision into the public arena.

Whilst the Fund has no specific policy on investing or divesting in stock with regard to ESG issues, in comparing potential investment decisions, and where differences in predicted returns are deemed immaterial, external fund managers could deploy ESG considerations in deciding upon selection.

The Pension Fund also holds expectations of its fund managers to hold companies to account on the highest standards of behaviour and reputational risk management which may damage long term performance, and for those issues to be part of their stock selection criteria.

The Fund wishes to be an active shareholder and exercise its voting rights to promote and support good corporate governance principles. Share voting is undertaken in-house, after consultation with fund managers, and consultation with the Pension Fund Board on potentially contentious issues. A quarterly report will be posted to the Fund website.

The Fund is a member of the Local Authority Pension Fund Forum (LAPFF), a membership group of LGPS funds that campaigns on corporate governance issues, thus demonstrating a commitment to sustainable investment and the promotion of high standards of corporate governance and responsibility.

11 Custody

Managers are required to hold cash and stocks in an account managed by Northern Trust, the Fund’s independent global custodian, or by agreement otherwise as appropriate. The Pension Fund aims to hold only a minimum working cash balance. A separate bank account is in place to hold any excess funds held by the administering authority for the purpose of day-to-day cash management of the pension fund.

12 Administration

Funds officers prepare a quarterly report to the Pension Fund Board, preparing the audited annual report and financial statements in line with statutory deadlines, and maintain an up to date record of cash balances at Surrey to ensure surplus cash is invested promptly and resources are available to meet the benefit outflow as it arises.

Myners Investment Principles – Compliance Statement

Principle 1: Effective Decision-making

Administering authorities should ensure that:

- decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation; and
- those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.

✓ Full compliance

The Pension Fund Board and Local Pension Board are supported in their decision making/assisting roles by the Director of Finance and the Pension Fund and Treasury Manager.

Members of the both Boards participate in regular training delivered through a formal programme. Training is provided at every quarterly meeting.

Principle 2: Clear Objectives

An overall investment objective should be set out for the fund that takes account of the scheme's liabilities, the potential impact on local taxpayers, the strength of the covenant for non-local authority employers, and the attitude to risk of both the administering authority and scheme employers, and these should be clearly communicated to advisors and investment managers.

✓ Full compliance

The Fund's overall objectives are defined in the Funding Strategy Statement and are directly linked to the triennial actuarial valuation. The investment objectives are clearly stated in the Statement of Investment Principles.

The content of the Funding Strategy Statement reflects discussions held with individual scheme employers during the actuarial valuation process. Employers understand that contribution rates are set, having given consideration to the key tenets of affordability, sustainability and stability but also with the understanding that any decisions made must be prudent. To this end, the strength of the employer covenant is considered when setting contribution rates.

Principle 3: Risk and liabilities

In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities. These include the implications for the local taxpayers, the strength of the covenant for participating employers, the risk of their default and longevity risk.

✓ **Full compliance**

The Fund's actuary reviews the funding position of each employer every three years and this valuation includes an assessment of the gap between the employer's share of the Fund assets and the liabilities specific to each employer. The strength of the employer covenant is considered when setting contribution rates.

The Fund's investment strategy is reviewed following each triennial valuation to ensure that the investment strategy will achieve the expected returns assumed during the valuation process.

As a member of Club Vita, a bespoke set of assumptions are specifically tailored to fit the membership profile of the Surrey Fund. The assumptions selected are intended to make an appropriate allowance for future improvements in longevity, based on the actual experience of the Fund.

Principle 4: Performance assessment

Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisors.

Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision-making body and report on this to scheme members.

✓ **Full compliance**

Each manager's performance is measured quarterly against benchmark targets, which are specified in the contract between the Fund and the manager. The Fund's global custodian produces performance data for each manager and for the Fund as a whole. The target outperformance for the Fund as a whole is specified within the Statement of Investment Principles. The Fund performance is also assessed with reference to the local authority peer group.

Performance data is reported to Pension Fund Board on a quarterly basis. Fund managers present to the officers or the Pension Fund Board on at least an annual basis and officers hold four additional meetings with managers per quarter to discuss the portfolio composition, strategy and performance.

Consideration has been given to quantitative measures to assess the performance of the Pension Fund Board, although options other than measuring meeting attendance and the success of the Board's implemented strategies are limited.

Principle 5: Responsible ownership

Administering authorities should:

- Adopt, or ensure their investment managers adopt, the Stewardship Code.
- Include a statement of their policy on responsible ownership in the statement of investment principles.
- Report periodically to scheme members on the discharge of such responsibilities.

✓ **Full compliance**

All new investment mandates will be expected to include a statement of a manager's adoption of the Stewardship Code.

The Council wishes to have an active influence on issues of environmental or ethical concern with companies in which the Pension Fund is a shareholder. It will seek to codify its approach with Fund Managers and will use the services of specialist agencies as necessary to identify issues of concern. The Council requires the Fund Managers to take into account the implications of substantial "extra-financial" considerations, e.g., environmental, social or reputational issues that could bring a particular investment decision into the public arena.

The Fund wishes to be an active shareholder and exercise its voting rights to promote and support good corporate governance principles. In addition, the Fund is a member of the Local Authority Pension Fund Forum (LAPFF), thus demonstrating a commitment to sustainable investment and the promotion of high standards of corporate governance and responsibility.

All of the Fund's managers are signed up to the Stewardship Code, which provides a framework for investors to consider environmental, social and corporate governance issues when making investment decisions.

Principle 6: Transparency and reporting

Administering authorities should:

- Act in a transparent manner, communicating with stakeholders on issues relating to their management of investments, its governance and risks, including performance against stated objectives
- Provide regular communication to scheme members in the form they consider most appropriate

✓ **Full compliance**

The Fund's annual report includes all of the Fund's policies including the governance policy statement, governance policy compliance statement, communications policy statement, responsible investment and stewardship policy, funding strategy statement and statement of investment principles. The annual report can be found on the council's website together with standalone versions of each of these documents.

Quarterly reports to the Pension Fund Board and half yearly reports to the Local Pension Board on the management of the Fund's investments are publicly available on the council's committee administration website.

Pensions newsletters are sent to all Fund members.

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Core Belief Statement

This is the Core Belief Statement of the Surrey Pension Fund, which is administered by Surrey County Council (“the Administering Authority”).

The objective of the Statement is to set out the Fund’s key investment beliefs. These beliefs will form the foundation of discussions, and assist decisions, regarding the structure of the Fund, strategic asset allocation and the selection of investment managers.

1 Investment Governance

- 1.1 The Fund has access to the necessary skills, expertise and resources to manage the whole Fund, as well as internally managing a small proportion of the Fund’s assets, such as private equity and cash.
- 1.2 Investment consultants, independent advisors and officers are a source of expertise and research to inform and assist Pension Fund Board decisions.
- 1.3 The Fund is continuously improving its governance structure through bespoke training in order to implement tactical views more promptly, but acknowledges that achieving optimum market timing is very difficult.
- 1.4 There can be a first mover advantage in asset allocation and category selection, but it is difficult to identify and exploit such opportunities, and may require the Fund to be willing to take on unconventional risk, thus requiring Board members to have a full understanding of the risk.

2 Long Term Approach

- 2.1 The strength of the employers’ covenant and the present cash flow positive nature of the Fund allow a long term deficit recovery period and enable the Fund to take a longer term view of investment strategy than most investors.
- 2.2 The most important aspect of risk is not the volatility of returns, but the risk of absolute loss, and of not meeting the objective of facilitating low, stable contribution rates for employers.
- 2.3 Illiquidity and volatility are shorter term risks which offer potential sources of additional compensation to the long term investor. Moreover, it is important to avoid being a forced seller in short term market setbacks.
- 2.4 Participation in economic growth is a major source of long term equity return.
- 2.5 Over the long term, equities are expected to outperform other liquid assets, particularly government bonds and cash.
- 2.6 Well governed companies that manage their business in a responsible manner will produce higher returns over the long term.

3 Appropriate Investments

- 3.1 Allocations to asset classes other than equities and government bonds (e.g., corporate bonds, private equity and property) offer the Fund other forms of risk premia (e.g., additional solvency risk/illiquidity risk).
- 3.2 Diversification across asset classes and asset types that have low correlation with each other will tend to reduce the volatility of the overall Fund return.
- 3.3 In general, allocations to bonds are made to achieve additional diversification. When the Fund approaches full funding level, it may also use bond based strategies to mitigate liability risks and thus dampen the volatility of the Fund's actuarial funding level.

4 Management Strategies

- 4.1 A well-balanced portfolio has an appropriate mix of passive and active investments.
- 4.2 Passive, index-tracker style management provides low cost exposure to equities and bonds, and is especially attractive in efficient markets.
- 4.3 Active managers can add value over the long term, particularly in less efficient markets, and the Fund believes that, by following a rigorous approach, it is possible to identify managers who are likely to add value.
- 4.4 The long term case for value investing is compelling, but it may result in prolonged periods of over and underperformance in comparison to a style neutral approach.
- 4.5 Active management can be expensive but can provide additional performance. Fees should be aligned to the interests of the Fund rather than performance of the market.
- 4.6 Active management performance should be monitored over multi-year rolling cycles and assessed to confirm that the original investment process on appointment is being delivered and that continued appointment is appropriate.
- 4.7 Employing a range of management styles can reduce the volatility of overall Fund returns but can also reduce long term outperformance.

SURREY COUNTY COUNCIL

SURREY PENSION FUND BOARD

DATE: 22 MAY 2015

LEAD OFFICER: SHEILA LITTLE, DIRECTOR OF FINANCE

SUBJECT: GOVERNANCE COMPLIANCE STATEMENT



SUMMARY OF ISSUE:

Local authority pension funds are required to publish and keep under review a Governance Compliance Statement. The Governance Compliance Statement of the Surrey Pension Fund is comprised from the Compliance to Statutory Guidance Statement and a Governance Policy Statement. The Public Services Pensions Act 2013 (The Act) introduces a new framework for the governance and administration of public service pension schemes. The Act has a material impact on existing governance arrangements in the Local Government Pension Scheme (LGPS), which are enforced by changes to the LGPS regulations.

As a result of the Act, The Pensions Regulator has introduced codes of practice covering specific areas relating to public sector pension schemes. The changes to the LGPS regulations and introduction of the Pensions Regulator code of practice 14 and changes in the Scheme of Delegation approved by County Council on 14 October 2014 require revisions to the existing Surrey Pension Fund Governance Compliance Statement.

RECOMMENDATIONS:

It is recommended that:

- 1 The Surrey Pension Fund Board approve the amendments to the Governance Policy Statement attached as Annex 1 to this report.
- 2 The Surrey Pension Fund Board approve the Compliance Statement to tPR Code of Practice 14 attached as Annex 2 to this report.

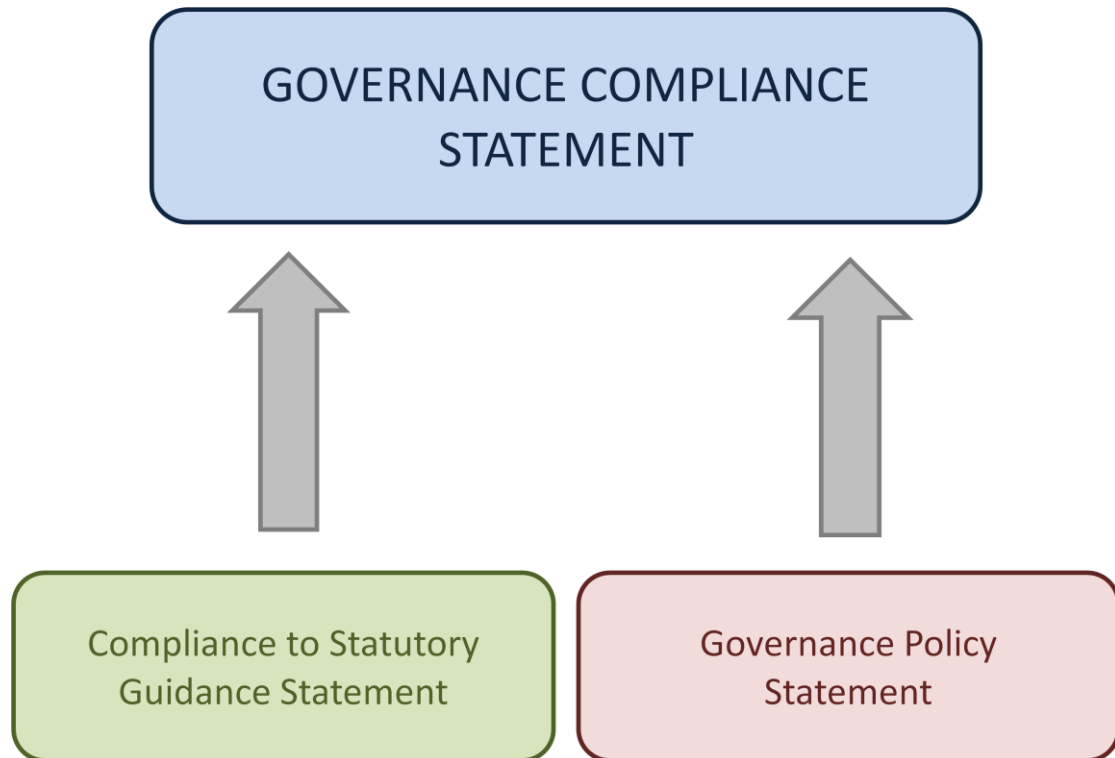
REASON FOR RECOMMENDATIONS:

To comply with legislation and best practice.

DETAILS:

Surrey Pension Fund Governance Compliance Statement

- 1 In order to further strengthen its governance structure the Surrey Pension Fund Governance Compliance Statement is made up from two documents:
 - The Compliance to Statutory Guidance Statement;
 - The Governance Policy Statement.



Regulatory Requirements of the Governance Compliance Statement

- 2 The relevant regulation requiring this statement is Regulation 55 of the Local Government Pension Scheme Regulations 2013 (as amended).
- 3 The Governance Compliance Statement must include the following information:
 - The delegation arrangements (from the administering authority to a Committee and/or officers);
 - The frequency of any meetings, terms of reference, structure and operational procedures of the delegation;
 - Whether the Board/Committee includes representatives of employing authorities (including non LGPS employers) and members and, if so, whether those representatives have voting rights.
- 4 The Statement must state the extent to which a delegation (or the absence of a delegation) complies with guidance given by the Secretary of State and, if it does not comply, an explanation of the reasons for not complying. Such a disclosure is known as 'comply or explain'.
- 5 The Statement must include details of the terms, structure and operational procedures relating to the Local Pension Board.
- 6 In summary, the Governance Compliance Statement covers various governance issues:
 - Structure;
 - Representation;

- Selection and role of members of the Surrey Pension Fund Board and the Local Pension Board;
- Voting;
- Training;
- Facilities;
- Expenses;
- Meetings (frequency and quorum);
- Access to information and papers;
- Scope and publicity.

7 Regulations require that, before revising this Statement, each administering authority must consult such persons it considers appropriate. It is envisaged that a consultation process with employer bodies will take place via the Pension Fund's website after the 22 May 2015 Board meeting at which this policy statement is considered.

8 Members will notice reference to a Local Pension Board, which is included as a separate item for consideration at the Pension Fund Board meeting of 22 May 2015.

Revisions to the Compliance to Statutory Guidance Statement

9 It is expected that, in line with amendments to the LGPS Regulations, there will be amendments to the Statutory Guidance provided by the Department of Communities and Local Government (DCLG). When these amendments are confirmed, proposals for the revision of the Compliance to Statutory Guidance Statement will be brought to the Pension Fund Board.

Revisions to the Governance Policy Statement

10 The Governance Policy Statement includes the following information:

- The overall governance framework of the Pension Fund Board;
- Delegation of functions and allocation of responsibilities;
- Terms of reference and decision making;
- Operational procedures.

11 Changes to the Pension Function Scheme of Delegation, as approved by County Council on 14 October 2014, deleted the post of Pensions Manager and created the new posts of Pension Services Manager and Senior Specialist Advisor. Accordingly, there was a need for the existing delegation to be revised. There is a consequent need for this revised delegation to be reflected in the Terms of Reference and decision making section of the Governance Policy Statement.

12 Amendments to the LGPS Regulations 2013 (55) require the Surrey Pension Fund to amend its terms of reference and to add details of the terms, structure and operational procedures of the Local Pension Board as part of its Governance Compliance Statement. It is proposed to revise the Governance Policy Statement to reflect these requirements and to add a new section relating to the Local Pension Board.

- 13 The revised Governance Policy Statement is attached as Annex 1 to this report.

The Compliance Statement to the Pensions Regulator Code of Practice 14

- 14 The Public Services Pensions Act 2013 introduces the framework for the governance and administration of public service pension schemes and provides an extended regulatory oversight by the Pensions Regulator.
- 15 The Pensions Regulator is required to issue one or more codes of practice, covering specific matters relating to public service pension schemes. The codes of practice set out the legal requirements for public sector pension schemes in respect of those specific matters.
- 16 The Code of Practice number 14 (the Code) was issued on 1 April 2015. It sets out practical guidance and standards of conduct and practice expected of those who exercise functions with regard to the governance and administration of public sector pension schemes.
- 17 The Code consists of four parts:
- Governing the scheme
 - Managing risks;
 - Administration;
 - Resolving issues.
- 18 Each of the four parts includes examples of what the administering authority must do.
- 19 A compliance statement to the Code is attached as Annex 2 to this report.

CONSULTATION:

- 20 The Chairman of the Surrey Pension Fund Board has been consulted on the proposed change and has offered full support for the proposals.

RISK MANAGEMENT AND IMPLICATIONS:

- 21 There are no risk related issues contained within the report's proposals.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

- 22 There are no financial or value for money implications.

CHIEF FINANCE OFFICER COMMENTARY

- 23 The Director of Finance is satisfied that all material, financial and business issues and possibility of risks have been considered and addressed, and that the Governance Compliance Statement provides a sound framework, setting out Surrey's position with regard to every strand of good governance practice.

LEGAL IMPLICATIONS – MONITORING OFFICER

- 24 The Governance Compliance Statement was originally prepared by the Council in accordance with regulation 73A of the Local Government Pension Scheme Regulations 1997. Regulation 55 of the Local Government Pension Scheme Regulations 2013 requires an administering authority to keep this statement under review and make any revisions as appropriate. This has to happen where there are changes in the delegation arrangements and with the establishment of the Local Pension Board.

EQUALITIES AND DIVERSITY

- 25 The approval of a compliance statement will not require an equality analysis, as the initiative is not a major policy, project or function being created or changed.

OTHER IMPLICATIONS

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

WHAT HAPPENS NEXT

- 27 The following next steps are planned:
- The statement will be monitored and reviewed.

Contact Officer:

Phil Triggs, Strategic Finance Manager (Pension Fund and Treasury)

Consulted:

Surrey Pension Fund Board Chairman

Annexes:

Annex 1: Governance Policy Statement

Annex 2: Compliance Statement to the Pension Regulators Code of Practice 14

Sources/background papers:

The Pension Regulator Code of practice number14: Governance and Administration of Public Sector Pension Schemes

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The Local Government Pension Scheme Regulations 2013 Governance Policy Statement

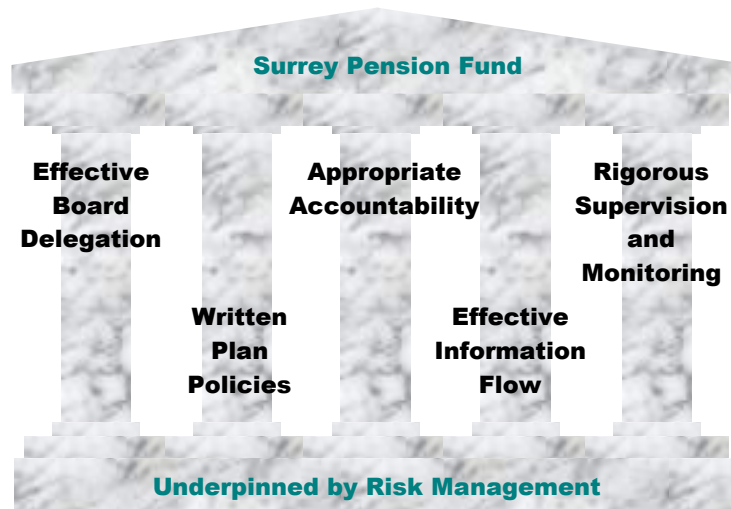
This Statement is prepared for the purposes of the above Regulations. It sets out the policy of the Administering Authority in relation to its governance responsibilities for the Local Government Pension Scheme (LGPS).

Contents

1. Overall governance framework
2. Delegation of functions and allocation of responsibility for:
 - Administration
 - Funding
 - Investment
 - Communication
 - Risk management
3. Terms of reference and decision making:
 - Structure of committees and representation
 - Voting rights
4. Operational procedures:
 - Frequency of meetings
 - Competencies, knowledge and understanding
 - Reporting and monitoring
 - i) Audit and Governance Committee
 - ii) Local Pension Board
5. The Local Pension Board:
 - Terms, structure and operational procedures
6. Review of the policy statement

1. Overall Governance Framework

The Administering Authority with its advisors has identified the following key areas (the “five principles”) to support its overall governance framework.



The governance framework focuses on:

- The effectiveness of the Pension Fund Board and officers to which delegated function has been passed, including areas such as decision making processes, knowledge and competencies.
- The establishment of policies and their implementation.
- Clarity of areas of responsibility between officers and Pension Fund Board members.
- The ability of the Pension Fund Board and officers to communicate clearly and regularly with all stakeholders.
- The ability of the Pension Fund Board and officers to ask for the appropriate information and advice and to interpret that information in their supervision and monitoring of the Scheme in all areas.
- The management of risks and internal controls to underpin the framework.

Overall responsibility for the governance of the Local Government Pension Scheme and for the approval of this document resides with the Pension Fund Board.

2. Delegation of Functions

The following functions are delegated by the Administering Authority:

Scheme Administration

Governance Principles: Effective board delegation; appropriate accountability; rigorous supervision and monitoring

Including, but not exclusively or limited to, record keeping, calculation of and payment of benefits, reconciliation and investment of contributions, preparation of annual accounts, provision of membership data for actuarial valuation purposes.

The Administering Authority has responsibility for “Scheme Administrator” functions as required by HM Revenues and Customs (HMRC) under the Finance Act 2004.

Delegated to:

Pension Fund Board (monitoring)

Director of Finance (Pension Fund administration implementation)

Funding

Governance Principles: Effective board delegation; appropriate accountability; written plan policies

Including, but not exclusively or limited to, setting of the appropriate funding target for the Local Government Pension Scheme. The Director of Finance shall be responsible for maintaining the Funding Strategy Statement (FSS). The Pension Fund Board shall be responsible for approving the FSS.

Delegated to:

Pension Fund Board (policy approval)

Director of Finance (maintaining FSS and policy implementation)

Investment

Governance Principles: Effective board delegation; appropriate accountability; written plan policies

Including, but not exclusively or limited to, setting of an appropriate investment strategy or strategies, selection of investment managers, setting of performance benchmarks and regular monitoring of performance. The Pension Fund Board shall be responsible for maintaining the Statement of Investment Principles.

Delegated to:

Pension Fund Board (strategy approval, manager selection, benchmarks, monitoring)

Director of Finance (Pension Fund investment implementation)

Communications

Governance Principle: Effective information flow; written plan policies

Including setting of a communication strategy, issuing of benefit statements, annual newsletters, annual report. The Pension Fund Board shall be responsible for maintaining the Communications Policy.

Delegated to:

Pension Fund Board (policy approval)

Director of Finance (Pension Fund policy implementation)

Risk Management

Effective board delegation; appropriate accountability; written plan policies

Including the identification, evaluation and monitoring of risks inherent within the Local Government Pension Scheme. The Pension Fund Board shall be responsible for approving the Risk Register. The Director of Finance shall be responsible for maintaining the risk register.

Delegated to:

Pension Fund Board (pension fund risk register approval)

Director of Finance (maintaining the pension fund risk register)

3 Terms of Reference and Decision Making

Terms of Reference:

Governance Principle: Effective board delegation; written plan policies

The Pension Fund Board's Terms of Reference as approved by Full Council on 19 March 2013 are shown in **Appendix A** to this document.

Officers' delegated powers as approved by Full Council on 14 October 2014 are shown in **Appendix B** to this document.

Administration, Funding, Investment, Communications and Risk Management

In line with the Council's Constitution, the Pension Fund Board shall oversee Pension Fund administration, funding, investment, communication, risk management and the overall governance process surrounding the Fund.

Structure of the Pension Fund Board and representation:

Governance Principle: Effective board delegation

The Pension Fund Board shall be made up of:

Two Conservative members;

One Liberal Democrat member;

One Independent member;

Two Districts and Boroughs Members

One Employer Representative;

One Employee Representative.

Decision Making:

Governance Principle: Effective board delegation; rigorous supervision and monitoring

The Pension Fund Board shall have full decision-making powers.

Each member of the Pension Fund Board shall have full voting rights.

4. Operational Procedures

Frequency of Meetings:

Governance Principle: Effective board delegation; effective information flow

The Pension Fund Board shall convene no less frequently than four times per year. The Pension Fund Board shall receive full reports upon all necessary matters as decided by the Director of Finance, and any matters requested by members of the Pension Fund Board. Provision exists for the calling of special meetings if circumstances demand.

Competencies, Knowledge and Understanding:

Governance Principle: Effective board delegation; appropriate accountability

Officers and Members of the Pension Fund Board shall undertake training to ensure that they have the appropriate knowledge, understanding and competency to carry out the delegated function. It is recommended that such knowledge, understanding and competency are evaluated on an annual basis to identify any training or educational needs of the Officers and the Pension Fund Board.

Reporting and Monitoring:

Governance Principle: Rigorous supervision and monitoring; effective information flow

i) Audit and Governance Committee

The Pension Fund Board shall report to the Audit and Governance Committee, with such information as shall be agreed and documented, on a no less than annual basis, the minimum provision being the Pension Fund's statement of accounts and annual report.

ii) Local Pension Board

The Local Pension Board is established by the administering authority to assist in securing compliance with the LGPS Regulations, any other legislation relating to the governance and administration of the scheme, and any requirements imposed by the Pensions Regulator.

The Pension Fund Board shall:

- Provide the Local Pension Board with adequate resources to fulfil its role.
- Consider and respond to reports from the Local Pension Board within a reasonable period of time.

5 The Local Pension Board

The role of the Local Pension Board, as defined by Regulation 106 of the Local Government Pension Scheme Regulations 2013, is to assist the Administering Authority:

- to secure compliance with:
 - i) the scheme regulations;
 - ii) any other legislation relating to the governance and administration of the LGPS Scheme and any connected scheme;
 - (iii) any requirements imposed by the Pensions Regulator in relation to the LGPS Scheme.
- to ensure the effective and efficient governance and administration of the LGPS Scheme.

Terms, Structure and Operational Procedures

The Local Pension Board's Terms of Reference as approved by Full Council on 17 March 2015 are shown in **Appendix C** to this document.

5 Review of Policy Statement

Responsibility for this document resides with the Director of Finance and will be reviewed by no less frequently than annually. This document will be reviewed if there are any material changes in the administering authority's governance policy or if there are any changes in relevant legislation or regulation.

Pension Fund Board: Terms of Reference

- a) To undertake statutory functions on behalf of the Local Government Pension Scheme and ensure compliance with legislation and best practice.
- b) To determine policy for the investment, funding and administration of the pension fund.
- c) To consider issues arising and make decisions to secure efficient and effective performance and service delivery.
- d) To appoint and monitor all relevant external service providers:
 - fund managers;
 - custodian;
 - corporate advisors;
 - independent advisors;
 - actuaries;
 - governance advisors;
 - all other professional services associated with the pension fund.
- e) To monitor performance across all aspects of the service.
- f) To ensure that arrangements are in place for consultation with stakeholders as necessary
- g) To consider and approve the annual statement of pension fund accounts.
- h) To consider and approve the Surrey Pension Fund actuarial valuation and employer contributions.
- i) To consider and respond to reports of the Local Pension Board.

F10	Director of Finance/ Strategic Finance Manager (Pension Fund and Treasury)	Borrowing, lending and investment of County Council Pension Fund moneys, in line with strategies agreed by the Pension Fund Board. Delegated authority to the Chief Finance Officer to take any urgent action as required between Board meetings but such action only to be taken in consultation with and by agreement with the Chairman and/or Vice Chairman of the Pension Fund Board and any relevant Consultant and/or Independent Advisor.
F15	Strategic Finance Manager (Pension Fund and Treasury)	To exercise discretion in relation to the Local Government Pension Scheme except (1) where a policy on the matter has been agreed by the Pension Board and included in the Discretionary Pension Policy Statement published by the Council, (2) decisions relating to “admitted body status” and (3) decisions relating to individual cases as provided for in the separate delegation to the Pensions Services Manager. This delegation is subject to any limitations imposed and confirmed in writing from time to time by the Director of Finance.
F16	Director of Finance, Director of Legal and Democratic Services, Director of People and Development and the Strategic Manager Pensions and Treasury	Hear stage one or stage two appeals relating to disputes involving the Local Government Pension Scheme, Compensation Benefits and Injury Allowances provided that an officer hearing an appeal will not have been involved at an earlier stage in the process.
SS1	Pension Services Manager	To exercise discretion in relation to the Local Government Pension Scheme on the following matters in individual cases: - allocation of death grants - determining co-habitation - determining whether a child meets criteria for a child’s pension - allocation of pension for persons incapable of managing their own affairs

		<ul style="list-style-type: none">- commutation, transfer in and forfeiture decisions- extension of time limits for decisions to be made by scheme members- minimum contribution levels for additional payments- determining reviews and effective dates of ill-health benefits- write offs up to £250 <p>This delegation is subject to any limitations imposed and confirmed in writing from time to time by the Director of Finance.</p>
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Local Pension Board

Terms of Reference

1. Introduction

- 1.1 This document sets out the terms of reference of the Local Pension Board of Surrey County Council (the 'Administering Authority') as Scheme Manager, as defined under Section 4 of the Public Service Act 2013.
- 1.2 The Local Pension Board is established in accordance with Section 5 of that Act and under Regulation 106 of the Local Government Pension Scheme (LGPS) Regulations 2013 (as amended).

2. Role of the Local Pension Board

- 2.1 The role of the local Pension Board, as defined by Regulation 106 of the Local Government Pension Scheme Regulations 2013 is to assist the County Council as Administering Authority:
- (a) to secure compliance with:
 - (i) the scheme regulations;
 - (ii) any other legislation relating to the governance and administration of the LGPS Scheme and any connected scheme;
 - (iii) any requirements imposed by the Pensions Regulator in relation to the LGPS Scheme.
 - (b) to ensure the effective and efficient governance and administration of the LGPS Scheme.
- 2.2 The Local Pension Board will ensure it effectively and efficiently complies with the Code of Practice on the governance and administration of public service pension schemes issued by the Pension Regulator.
- 2.3 The Local Pension Board will also help ensure that the Surrey Pension Fund is managed and administered effectively and efficiently and complies with the Code of Practice on the governance and administration of public service pension schemes issued by the Pension Regulator.
- 2.4 The Local Pension Board has power to do anything that is calculated to facilitate or is conducive or incidental to the discharge of any of its functions.
- 2.5 The Local Pension Board should always act within its terms of reference.

3. Establishment of the Local Pension Board

- 3.1 The Local Pension Board is established on 1 April 2015, subsequent to approval by Surrey County Council on 17 March 2015.

4. Appointment of members of the Local Pension Board and voting rights of Local Pension Board members

4.1 The composition of the members of the Local Pension Board is as follows:

The Pension Board shall consist of ten members and be constituted as follows:

- i) Four employer representatives;
- ii) Four scheme member (employee) representatives;
- iii) Two independent members.

4.2 The Local Pension Board shall be constituted as follows:

- Employer representatives
 - 2 x Surrey County Councillors
 - 2 x other employer representatives to come from nominations from other employers in the fund (e.g. District, Borough and Parish Councils, Academies, Police and other scheduled or admitted body employers in the Surrey Pension Fund).
- Member representatives
 - 1 x GMB nominated representative
 - 1 x Unison nominated representative
 - 2 x other member representatives
- Other members
 - 2 x members from an external source (to be recommended by the appointment panel).

4.3 Scheme member and employer representatives shall be appointed in equal number and shall together form the majority of the Local Pension Board membership.

4.4 No officer or elected member of the Administering Authority who is responsible for the discharge of any function of the Administering Authority under the Regulations may serve as a member of the Local Pension Board.

4.5 Each Local Pension Board member so appointed shall serve for the life of the current Surrey County Council, a defined, fixed period which can be extended for further periods subject to re-nomination.

4.6 Each Local Pension Board member should endeavour to attend all Board meetings during the year. Substitutes will be permitted to attend on behalf of absent Local Pension Board members.

4.7 Each employer representative on the Local Pension Board should be able to demonstrate their capacity to represent scheme employers of the Surrey Pension Fund.

4.8 Each member representative on the Local Pension Board should be able to demonstrate their capacity to represent scheme members of the Surrey Pension Fund.

4.9 Each Local Pension Board member should participate in training when required.

4.10 Members of the Local Pension Board shall be appointed by the Scheme Manager in accordance with the Appointment and Termination Process.

4.11 The Appointment Panel shall be made up of the following:

- the Chairman of the Pension Fund Board
- the Director of Finance (or her nominee)

- the Strategic Finance Manager (Pension Fund and Treasury)
- the Director of Legal and Democratic Services (or her nominee)

4.12 Each employer representative and member representative of the Local Pension Board will have an individual vote on any matter needing a decision. Independent Members of the Local Pension Board do not have voting rights. It is expected that the Local Pension Board will, as far as possible, reach a consensus.

5. Appointment and duties of the Chair and Vice Chair of the Local Pension Board

5.1 A Chairman and Vice Chairman of the Local Pension Board to be appointed by the Scheme Manager in accordance with the Appointment Process.

5.2 It will be the role of the Chairman of the Local Pension Board to ensure that all members of the Local Pension Board show due respect for process, that all views are fully heard and considered, and to determine when consensus has been met.

5.3 The full responsibilities of the Chairman of the Local Pension Board are contained in the **Chairman of the Local Pension Board role description**.

5.4 The Vice Chairman shall undertake the duties of the Chairman in the event of the Chairman's absence.

6. Notifications of appointments to the Local Pension Board

6.1 When appointments to the Local Pension Board have been made, the Scheme Manager shall publish the name of the Local Pension Board members, the process followed in the appointment together with the way in which the appointment supports the effective delivery of the purpose of the Local Pension Board.

7. Termination of membership of the Local Pension Board

7.1 Any termination of membership of the Local Pension Board will be in accordance with the **Appointment and Termination Process**.

7.2 Membership of the Local Pension Board may be terminated due to:

- a member representative appointed on the basis of their membership of the scheme no longer being a scheme member of the Fund;
- an employer representative no longer holding the office or employment or being a member of the body on which their appointment relied;
- a Local Pension Board member no longer being able to demonstrate to the Scheme Manager their capacity to attend and prepare for meetings or to participate in required training or otherwise to carry out the requirements of the role appropriately;
- a Local Pension Board member having a conflict of interest which cannot be managed in accordance with the Local Pension Boards **Code of Conduct and Conflict of Interest Policy**;
- a Local Pension Board member becomes responsible for the discharge of any function of the Administering Authority under the Regulations;
- the Scheme Manager may at its discretion terminate the membership of a Local Pension Board member if it believes that it appropriate and is consistent with the role of the Local Pension Board to do so.

8. Conflict of Interests

- 8.1 The Scheme Manager will approve a **Code of Conduct and Conflict of Interest Policy** which will be adopted by the Local Pension Board and by which members of the Local Pension Board will need to abide. Members of the Local Pension Board will provide any information the Scheme Manager reasonably requires from time to time to ensure that members do not have a conflict of interest.

9. Knowledge and Skills

- 9.1 In accordance with section 248A of the Pensions Act 2004 (“the 2004 Act”), every individual who is a member of a Local Pension Board must be conversant with:
- i) the regulations governing the LGPS; and
 - ii) any document or policy about the administration of the Fund.
- 9.2 Local Pension Board members should also have a knowledge and understanding of:
- i) the law relating to pensions; and
 - ii) such other matters as may be prescribed
- 9.3 The Local Pension Board shall adhere to the Scheme Manager’s **Attendance and Knowledge and Understanding Policy** to address the knowledge and skills requirements that apply to Local Pension Board members under the 2004 Act.
- 9.4 It is for individual Local Pension Board members to ensure they have the appropriate degree of knowledge and understanding to enable them to properly exercise their functions as a member of the Local Pension Board.
- 9.5 In line with this requirement, Pension Board members are required to be able to demonstrate their knowledge and understanding and to refresh and keep their knowledge up to date. Local Pension Board members are therefore required to maintain a written record of relevant training and development.
- 9.6 Local Pension Board members will undertake a personal training needs analysis and regularly review their skills, competencies and knowledge to identify gaps or weaknesses. Local Pension Board members will comply with the Scheme Manager’s **Attendance and Knowledge and Understanding Policy**.

10. Local Pension Board Meetings: Notice and Public Access to Pension Board Meetings and Information

- 10.1 There will be a sufficient number of meetings to enable the Local Pension Board to discharge its functions effectively, as decided by the Chairman of the Local Pension Board with the consent of the Local Pension Board members, and no fewer than two Pension Board meetings a year.
- 10.2 The Scheme Manager shall give notice to all Local Pension Board members of every meeting of the Local Pension Board, which will be held in public (apart from confidential matters). All members will be normally be sent an agenda and papers at least five working days before the meeting unless an urgent meeting is required.
- 10.3 Any meeting of the Local Pension Board will include provision for confidential matters or matters that would involve the likely disclosure of exempt information as specified in Part 1 of Schedule 12A of the Local Government Act 1972 to be dealt with privately in Part 2 and any documents in connection with such matters will be dealt with confidentially.

- 10.4 The Scheme Manager shall ensure that a formal record of Local Pension Board proceedings is maintained. Following the approval of the minutes by the Chairman of the Local Pension Board, they shall be circulated to all members.
- 10.5 All agendas, reports and minutes will be available on the website except for any confidential or exempt matters.
- 10.6 In accordance with the Public Service Pensions Act 2013, the Administering Authority shall publish information about the Local Pension Board to include:
- i) the names of the Local Pension Board members and their contact details;
 - ii) the representatives of employers and members of the Local Pension Board;
 - iii) the role of the Local Pension Board;
 - iv) the Terms of Reference.

11. Quorum

- 11.1 The Local Pension Board shall have a quorum of no fewer than four members which should always include the Chairman, at least one employer representative and at least one member representative.

12. Local Pension Board Costs and Budget

- 12.1 The Local Pension Board is to be provided with adequate resources to fulfil its role. In doing so, the budget for the Local Pension Board will be met from the Surrey Pension Fund.
- 12.2 The Local Pension Board will seek approval from the Director of Finance for any expenditure it wishes to make.

13. Core Functions of the Local Pension Board

- 13.1 The first core function of the Local Pension Board is to assist the Scheme Manager in securing compliance with the Regulations, any other legislation relating to the Scheme and requirements imposed by the Pensions Regulator in relation to the Scheme.
- 13.2 The second core function of the Local Pension Board is to ensure the effective and efficient governance and administration of the Scheme.
- 13.3 In support of its core functions the Local Pension Board may request information from the Pension Fund Board with regard to any aspect of the Scheme Manager function. Any such request should be reasonably complied with.
- 13.4 The Local Pension Board may make recommendations to the Pension Fund Board. This recommendations should be given due consideration and a response made to the Local Pension Board within a reasonable period of time.

14. Reporting Arrangements

- 14.1 The Local Pension Board should report to the Surrey Pension Fund Board in the first instance.

- 14.2 On receipt of a report from the Local Pension Board, the Surrey Pension Fund Board should consider and respond to the Local Pension Board within a reasonable period of time.
- 14.3 Where the Local Pension Board is satisfied that there has been a breach of regulation which is reported to the Surrey Pension Fund Board and is not been rectified within a reasonable period of time the Local Pension Board has a duty to escalate this perceived breach
- 14.4 The appropriate internal route for escalation is the Strategic Finance Manager, Pension Fund and Treasury.
- 14.5 The Local Pension Board may report concerns to the LGPS Scheme Advisory Board subsequent to the internal route for escalation.
- 14.6 Local Pension Board members are subject to the requirement to report breaches of law to the Pension Regulator under the Act and the Code,

15. Local Pension Board Review Process

- 15.1 The Local Pension Board will undertake each year a formal review process to assess how well it and the members are performing with a view to seeking continuous improvement in the Local Pension Board's performance.

16. Advisors to the Board

- 16.1 The Board may be supported in its role and responsibilities through the appointment of advisors and shall, subject to any applicable regulation and legislation from time to time in force, consult with such advisors to the Board and on such terms as it shall see fit to help better perform its duties including:
- i) any Governance Advisor
 - ii) the Fund's Actuary;
 - iii) the Fund's Administrator;
 - iv) the Fund's Legal Advisor;
 - v) the Fund's Investment Manager(s);
 - vi) the Fund's Investment Advisor(s);
 - vii) the Fund's Employer Covenant Advisor;
 - viii) the Scheme Manager;
 - ix) other advisors as approved by the Scheme Manager.

17. Code of Conduct

- 17.1 The Scheme Manager will approve a **Code of Conduct and Conflict of Interests Policy** which will be adopted by the Local Pension Board and which members of the Local Pension Board will need to abide by.

18. Data Protection and Freedom of Information

- 18.1 The Local Pension Board and its members will need to comply with the Scheme Manager's Data Protection and Freedom of Information Policy.

19. Accountability

19.1 The Local Pension Board will be collectively and individually accountable to the Scheme Manager and to the Pensions Regulator.

20. Acceptance and Review of Terms of Reference

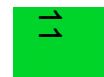
20.1 These Terms of Reference will be reviewed on each amendment to those parts of the Regulations covering Local Pension Boards.

THE SURREY PENSION FUND COMPLIANCE WITH THE PENSION REGULATOR “CODE OF PRACTICE NO.14: GOVERNANCE AND ADMINISTRATION OF PUBLIC SECTOR PENSION SCHEMES” (ISSUED 1 APRIL 2015)

1. Governing your scheme

- (a) Knowledge and understanding required by pension board members
- (b) Conflicts of interest and representation
- (c) Publishing information about schemes

(a) Knowledge and understanding required by the Local Pension Board				
tPR Code of practice 14 reference no:	Scheme manager requirement	Should/ Must	Overriding legislation	Scheme manager compliance and responsible officer
37	Take account of tPR practical guidance	Should	Not applicable	Action: Include as part of training Responsible officer: The Senior Specialist Advisor
38	Establish and maintain policies and arrangements for acquiring and retaining knowledge and understanding and understanding to support their pension board members. Schemes should designate a person to take responsibility for ensuring that a framework is developed and implemented.	Should	Not applicable	Through the <i>Local Pension Board Attendance and knowledge and understanding policy</i> . Responsible officer: The Senior Specialist Advisor
46	Prepare and keep an updated list of the documents with which it is considered pension board members need to be conversant. This will enable them to	Should	Not applicable	Action: Provide clear visibility and availability of information regarding:





	<p>effectively carry out their role. Also, ensure that both the list and the documents are available in accessible formats.</p>			<ul style="list-style-type: none">• Conflicts of interest and the register of interests• Record keeping• Internal Dispute Resolution Procedure (IDRP)• Reporting breaches• Maintaining contributions to the scheme• The appointment of Local Pension Board (LPB) members• Risk assessments/ management and risk register policies for the scheme• Scheme booklets, announcements and key member and employer communications, which describe policies and procedures• The roles, responsibilities and duties of the scheme manager, pension board and individual pension board members• Terms of reference, structure and operational policies of the pension fund board and/or any sub-committee• Statements of policy
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				<p>about the exercise of discretionary functions</p> <ul style="list-style-type: none"> • Statements of policy about communications with members and scheme employers • The pension administration strategy • Admission policies • Statement of investment principles and funding strategy statement • Employer contribution rates • Statements of assurance • Third party contracts and Service level agreements (SLAs) • Stewardship reports • Annual reports and accounts • Audit reports • Governance compliance statements <p>Responsible officer: The Senior Specialist Advisor</p>
48	Assist individual pension board members to determine the degree of knowledge and understanding that is sufficient for them to effectively carry out their role, responsibilities and duties as a pension board member	Should	Not applicable	<p>Through the <i>Attendance and knowledge and understanding policy</i>.</p> <p>Responsible officer: The Senior Specialist Advisor</p>



(b) Conflicts of interest and representation				
tPR Code of practice 14 reference no:	Scheme manager requirement	Should/ Must	Overriding legislation	Scheme manager compliance and responsible officer
73	Provide clear guidance on the roles responsibilities and duties of the pension boards and board members in scheme documentation. This should cover, for example, whether they have responsibility for administering or monitoring administration of the scheme; developing, delivering or overseeing compliance with requirements for governance and/or administration policies; and taking or scrutinising decisions relating to governance and/or administration.	Should	The Public Service Pension Act 2013	Through the <i>Local Pension Board Terms of Reference</i> . Responsible officer: The Senior Specialist Advisor
76	An agreed and documented conflicts policy and procedure, which includes identifying, monitoring and managing potential conflicts of interest. They should keep this under regular review. Policies and procedures should include examples of scenarios giving rise to conflicts of interest, how a conflict might arise specifically in relation to a pension board member and the process that pension board members and scheme managers should follow to address a situation where board members are subject to a potential of actual conflict of interest.	Should	Not applicable	Through the <i>Local Pension Board Code of Conduct and Conflict of Interests Policy</i> . Responsible officer: The Senior Specialist Advisor

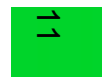
77	<p>Consider potential conflicts of interest in three stages:</p> <ul style="list-style-type: none"> • Identifying • Monitoring, and • managing 	Should	Not applicable	<p>Through the <i>Local Pension Board Code of Conduct and Conflict of Interests Policy</i>.</p> <p>Responsible officer: The Senior Specialist Advisor</p>
78	<p>Cultivate a culture of openness and transparency. Recognise the need for continual consideration of potential conflicts. Disclosure of interests which have the potential to become conflicts of interest should not be ignored. Pension board members should have a clear understanding of their role and the circumstances in which they may find themselves in a position of conflict of interest. They should know how to manage potential conflicts.</p>	Should	Not applicable	<p>Through the <i>Local Pension Board Code of Conduct and Conflict of Interests Policy</i>.</p> <p>Responsible officer: The Senior Specialist Advisor</p>
80	<p>Ensure that pension board members are appointed under procedures that require them to disclose any interests, including other responsibilities, which could become conflicts of interest and which may adversely affect their suitability for the role before they are appointed.</p>	Should	Not applicable	<p>Through the <i>Local Pension Board Code of Conduct and Conflict of Interests Policy and the Local Pension Board Conflict of Interests Declaration</i>.</p> <p>Responsible officer: The Strategic Finance Manager – Pension Fund and Treasury</p>
82	<p>Take time to consider what important matters or decisions are likely to be considered during, for example, the year ahead and identify and consider any potential or actual conflicts of interest that may arise in the future. Pension board members should be notified as soon as possible and mitigations should be put in</p>	Should	Not applicable	<p>Through the <i>Local Pension Board Code of Conduct and Conflict of Interests Policy and the Local Pension Board Conflict of Interests Declaration</i>.</p> <p>Responsible officer: The Strategic Finance Manager –</p>



	place to prevent these conflicts from materialising.			Pension Fund and Treasury
83	As part of the risk assessment, identify, evaluate and manage dual interests which have the potential to become conflicts of interest and pose a risk to the scheme and possibly members, if they are not mitigated. Evaluate the nature of any dual interests and assess the likely consequences were a conflict of interest to materialise.	Should	Not applicable	Through the <i>Local Pension Board Code of Conduct and Conflict of Interests Policy and the Local Pension Board Conflict of Interests Declaration</i> . Responsible officer: The Strategic Finance Manager – Pension Fund and Treasury
84	Manage a register of interests and capture decisions about how to manage potential conflicts of interest in risk registers, which are circulated to the pension board for ongoing review and published.	Should	Not applicable	Through the <i>Local Pension Board Code of Conduct and Conflict of Interests Policy and the Local Pension Board Conflict of Interests Declaration</i> . Responsible officer: The Strategic Finance Manager – Pension Fund and Treasury
86	Establish and operate procedures which ensure that pension boards are not compromised by potentially conflicted members. Consider and determine the roles and responsibilities of pension boards and board members carefully to ensure that conflicts of interest do not arise, nor are perceived to have arisen.	Should	Not applicable	Through the <i>Local Pension Board Code of Conduct and Conflict of Interests Policy</i> . Responsible officer: The Strategic Finance Manager – Pension Fund and Treasury
87	Be open and transparent about the way potential conflicts of interest are managed.	Should	Not applicable	Through the <i>Local Pension Board Code of Conduct and Conflict of Interests Policy</i> . Responsible officer: The Strategic Finance Manager – Pension Fund and Treasury

88	Consider obtaining professional legal advice when seeking to prevent a potential conflict of interest becoming detrimental to the conduct or decisions of the pension board.	Should	Not applicable	Through the <i>Local Pension Board Code of Conduct and Conflict of Interests Policy</i> . Responsible officer: The Strategic Finance Manager – Pension Fund and Treasury
91	Arrangements designed with regards to the principles of proportionality, fairness and transparency, and with the aim of ensuring that a pension board has the right balance of skills, experience and representation (for example, of membership categories of employers participating in the scheme).	Should	Not applicable	Through the <i>Local Pension Board Code of Conduct and Conflict of Interests Policy</i> . Responsible officer: The Senior Specialist Advisor

(c) Publishing information about schemes				
tPR Code of practice 14 reference no:	Scheme manager requirement	Should/ Must	Overriding legislation	Scheme manager compliance and responsible officer
92 & 93	Publish information about the pension board for the scheme(s) and keep the information up to date. Including who the members of the pension board are, representation on the board of members of the scheme and the matters falling within the pension board's responsibility.	Must	The Public Service Pension Act 2013	Action: Publish on the Surrey Fund website (when appointment has been confirmed) (update the Communications Policy Statement). Responsible officer: The Senior Specialist Advisor
96	Publish useful related information about the pension board such as: <ul style="list-style-type: none"> The employment and job title (where relevant) and any other relevant position held by each 	Should	Not applicable	Action: Publish on the Surrey Fund website (when appointment has been confirmed) (update the Communications Policy





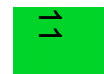
	board member; <ul style="list-style-type: none"> • The pension board appointment process; • Who each pension board member represents; • The full terms of reference for the pension board, including details of how it will operate, and • Any specific roles and responsibilities of individual pension board members. 			Statement). Responsible officer: The Senior Specialist Advisor
97	Consider publishing information about pension board business, for example, board papers, agendas and minutes of meetings (redacted to the extent that they contain confidential information and/or data covered by the Data Protection Act 1998). Consider any requests for additional information to be published, in order to encourage scheme member engagement and promote a culture of transparency.	Should	Not applicable	Action: Publish on the Surrey Fund website (when appointment has been confirmed) (update the Communications Policy Statement). Responsible officer: The Senior Specialist Advisor
98	Ensure that information published about the pension board is kept up to date.	Must	The Public Service Pension Act 2013	Action: To include in the Pension Fund Business Plan. Responsible officer: The Senior Specialist Advisor
98	Have policies and processes to monitor all published data on an ongoing basis to ensure it is accurate and complete.	Should	The Public Service Pension Act 2013	Action: To include in the Pension Fund Business Plan. Responsible officer: The Strategic Finance Manager – Pension Fund and Treasury

99	Comply with any other legal requirements relating to the publication of information about governance and administration.	Must	The Public Service Pension Act 2013	<p>Action: To include in the Pension Fund Business Plan.</p> <p>Responsible officer: The Strategic Finance Manager – Pension Fund and Treasury</p>
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2. Managing risks

(a) Internal controls

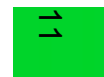
(a) Internal controls				
tPR Code of practice 14 reference no:	Scheme manager requirement	Should/ Must	Overriding legislation	Scheme manager compliance and responsible officer
101	Establish and operate internal controls that are adequate for the purpose of securing that the scheme is administered and managed in accordance with the scheme rules and in accordance with the requirements of the law.	Must	Not applicable	<p>Through the Pension Fund Risk Management Process delivered through the <i>Pension Fund Risk Register</i>.</p> <p>Responsible officer: The Strategic Finance Manager – Pension Fund and Treasury</p>
105	Address significant risks which are likely to have a material impact on the scheme.	Must	The Pensions Act 2004	<p>Through the Pension Fund Risk Management Process delivered through the <i>Pension Fund Risk Register</i>.</p> <p>Responsible officer: The Strategic Finance Manager – Pension Fund and Treasury</p>
105	Employ a risk-based approach and ensure that sufficient time and attention is spent in	Should	The Pensions Act 2004	Through the Pension Fund Risk Management Process delivered





	identifying, evaluating and managing risks and developing and monitoring appropriate controls.			through the <i>Pension Fund Risk Register</i> . Responsible officer: The Strategic Finance Manager – Pension Fund and Treasury
106	Carry out a risk assessment before implementing an internal controls framework which: <ul style="list-style-type: none"> • Sets the objectives of the scheme; • Determines the various functions and activities carried out in the running of the scheme and • Identifies the main risks associated with those objectives. 	Should	Not applicable	Through the Pension Fund Risk Management Process delivered through the <i>Pension Fund Risk Register</i> . Responsible officer: The Strategic Finance Manager – Pension Fund and Treasury
107	When identifying risks, refer to relevant sources of information, such as records of internal disputes and legislative breaches, the register of interests, internal and external audit reports and service contracts.	Should	Not applicable	Through the Pension Fund Risk Management Process delivered through the <i>Pension Fund Risk Register</i> . Responsible officer: The Strategic Finance Manager – Pension Fund and Treasury
108	Once risks are identified record in a risk register which is regularly reviewed. Keep appropriate records to help scheme managers demonstrate steps they have taken to comply with legal requirements.	Should	Not applicable	Through the Pension Fund Risk Management Process delivered through the <i>Pension Fund Risk Register</i> . Responsible officer: The Strategic Finance Manager – Pension Fund and Treasury
109	Prioritise risks and focus on those areas where the impact and likelihood of a risk materialising is high.	Should	Not applicable	Through the Pension Fund Risk Management Process delivered through the <i>Pension Fund Risk</i>

				<p><i>Register.</i></p> <p>Responsible officer: The Strategic Finance Manager – Pension Fund and Treasury</p>
110	Review existing arrangements and procedures to determine whether they can prevent and detect errors in scheme operations and help mitigate pension scheme-related risks.	Should	Not applicable	<p>Through the Pension Fund Risk Management Process delivered through the <i>Pension Fund Risk Register.</i></p> <p>Responsible officer: The Strategic Finance Manager – Pension Fund and Treasury</p>
111	Consider what internal controls are appropriate to mitigate the main risks identified and how best to monitor them. For example establish and operate internal controls that regularly assess the effectiveness of investment related decision making and establish and operate internal controls that regularly assess the effectiveness of data management and record-keeping.	Should	Not applicable	<p>Through the Pension Fund Risk Management Process delivered through the <i>Pension Fund Risk Register.</i></p> <p>Responsible officer: The Strategic Finance Manager – Pension Fund and Treasury</p>
112	Consider a number of issues when designing internal controls to manager risks: <ul style="list-style-type: none"> • How the control is to be implemented and the skills of the person performing the control; • The level of reliance that can be placed on information technology solutions where processes are automated; • Whether a control is capable of preventing future recurrence or 	Should	Not applicable	<p>Through the Pension Fund Risk Management Process delivered through the <i>Pension Fund Risk Register.</i></p> <p>Responsible officer: The Strategic Finance Manager – Pension Fund and Treasury</p>



	<p>merely detecting an event that has already happened;</p> <ul style="list-style-type: none"> • The frequency and timeliness of a control process; • How the control will ensure that data are managed securely; • The process for flagging errors or control failures and approval and authorisation controls. 			
114	Put in place systems and processes for making an objective assessment of the strength of an employer's covenant.	Should	Not applicable	<p>Through the Pension Fund Risk Management Process delivered through the <i>Pension Fund Risk Register</i>.</p> <p>Responsible officer: The Strategic Finance Manager – Pension Fund and Treasury</p>
115	<p>Review the adequacy of internal controls in:</p> <ul style="list-style-type: none"> • Mitigating risks; • Supporting long-term strategic aims; • Identifying successes (or otherwise) in achieving agreed objectives; • Providing a framework against which compliance with the scheme regulations and legislation can be monitored. 	Should	Not applicable	<p>Through the Pension Fund Risk Management Process delivered through the <i>Pension Fund Risk Register</i>.</p> <p>Responsible officer: The Strategic Finance Manager – Pension Fund and Treasury</p>
116	Provide that internal or external audits/ or quality assurance processes ensure that adequate internal controls are in place when substantial changes take place.	Should	Not applicable	<p>Through the Pension Fund Risk Management Process delivered through the <i>Pension Fund Risk Register</i>.</p> <p>Responsible officer: The</p>

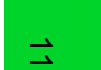
				Strategic Finance Manager – Pension Fund and Treasury
119	Ensure that third party providers can demonstrate that they have adequate and effective internal controls.	Should	Not applicable	Through the Pension Fund Risk Management Process delivered through the <i>Pension Fund Risk Register</i> . Responsible officer: The Strategic Finance Manager – Pension Fund and Treasury
120	Consider including provisions in contracts for outsourced services requiring compliance with appropriate standards.	Should	Not applicable	Through the Pension Fund Risk Management Process delivered through the <i>Pension Fund Risk Register</i> . Responsible officer: The Strategic Finance Manager – Pension Fund and Treasury

3. Administration

- (a) Scheme record keeping
- (b) Maintaining contributions, and
- (c) Providing information to members

(a) Scheme record keeping				
tPR Code of practice 14 reference no:	Scheme manager requirement	Should/ Must	Overriding legislation	Scheme manager compliance and responsible officer
122	Keep records of information relating to: <ul style="list-style-type: none"> • Member information; • Transactions; • Pension board meetings and 	Must	The Public Service Pensions (Record Keeping and Miscellaneous Amendments) Regulations 2014	Through the <i>Service level agreement between the pension investment/administration team and Surrey County Council as</i>





	decisions.			<p><i>the administering authority to the Surrey Pension Fund</i></p> <p>Responsible officer(s): The Strategic Finance Manager – Pension Fund and Treasury, The Senior Specialist Advisor, The Pension Services Manager</p>
124	Demonstrate to the regulator, where required, that accurate, up-to-date and enduring records are kept to able the pension scheme to be governed and administered efficiently.	Should	Not applicable	<p>Through the <i>Service level agreement between the pension investment/administration team and Surrey County Council as the administering authority to the Surrey Pension Fund</i></p> <p>Responsible officer(s): The Strategic Finance Manager – Pension Fund and Treasury, The Senior Specialist Advisor, The Pension Services Manager</p>
125	Establish and operate adequate internal controls including processes and systems to support record-keeping requirements and ensure that they are effective at all times.	Must	The Pensions Act 2004	<p>Through the <i>Service level agreement between the pension investment/administration team and Surrey County Council as the administering authority to the Surrey Pension Fund</i></p> <p>Responsible officer(s): The Strategic Finance Manager – Pension Fund and Treasury, The Senior Specialist Advisor, The Pension Services Manager</p>
126	Ensure that member data across all membership categories specified in the Record Keeping Regulations is complete	Must	The Public Service Pension Act 2013, The Public Service Pensions	Through the <i>Service level agreement between the pension investment/administration team</i>

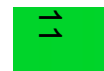
	and accurate.		(Record Keeping and Miscellaneous Amendments) Regulations 2014, The Data Protection Act 1998	<i>and Surrey County Council as the administering authority to the Surrey Pension Fund</i> Responsible officer(s): The Strategic Finance Manager – Pension Fund and Treasury, The Senior Specialist Advisor, The Pension Services Manager
127	Keep specific member data, which will enable them to uniquely identify a scheme member and calculate benefits correctly.	Must	The Public Service Pensions (Record Keeping and Miscellaneous Amendments) Regulations 2014,	Through the <i>Service level agreement between the pension investment/administration team and Surrey County Council as the administering authority to the Surrey Pension Fund</i> Responsible officer(s): The Strategic Finance Manager – Pension Fund and Treasury, The Senior Specialist Advisor, The Pension Services Manager
127	Provide members with accurate information regarding their pension benefits in accordance with legislative requirements, as well as pay the right benefits to the right person at the right time.	Must	The Public Service Pension Act 2013, The Occupational and Personal Pension Schemes (Disclosure of Information) regulations 2013	Through the <i>Service level agreement between the pension investment/administration team and Surrey County Council as the administering authority to the Surrey Pension Fund</i> Responsible officer(s): The Strategic Finance Manager – Pension Fund and Treasury, The Senior Specialist Advisor, The Pension Services Manager
128	Require participating employers to provide them with timely and accurate data in	Should	Not applicable	Through the <i>Pension Administration Strategy</i>





	order to fulfil legal obligations.			Responsible officer(s): The Senior Specialist Advisor, The Pension Services Manager
129	Seek to ensure that employers understand the main events which require information about members to be passed from the employer to the scheme or other employer.	Should	Not applicable	Through the <i>Pension Administration Strategy</i> Responsible officer(s): The Senior Specialist Advisor, The Pension Services Manager
130	Ensure that appropriate procedures and timescales are in place for scheme employers to provide updated information when member data changes, for checking scheme data against employer data and for receiving information which may affect the profile of the scheme. Report breaches of the law to the regulator if an employer fails to act according to statutory duty.	Should	Not applicable	Through the <i>Pension Administration Strategy</i> Responsible officer(s): The Senior Specialist Advisor, The Pension Services Manager
131	Trace the flow of funds into and out of the scheme and reconcile these against expected contributions and scheme costs.	Should	Not applicable	Through the Pension Fund Risk Management Process delivered through the <i>Pension Fund Risk Register</i> . Responsible officer: The Strategic Finance Manager – Pension Fund and Treasury
132	Keep records of transactions made to and from the scheme and any amount due to the scheme which has been written off.	Must	The Public Service Pensions (Record Keeping and Miscellaneous Amendments) Regulations 2014,	Through the Pension Fund Risk Management Process delivered through the <i>Pension Fund Risk Register</i> . Responsible officer: The Strategic Finance Manager – Pension Fund and Treasury

133 & 134	Keep records of pension board meetings including any decisions made and also any decisions made outside of a meeting, including date, time and place of the decision and the names of the board members participating in the decision.	Must	The Public Service Pensions (Record Keeping and Miscellaneous Amendments) Regulations 2014,	<p>Action: Publish on the Surrey Fund website (when the local pension board has been appointed and in response to any meetings or decisions) (update the Communications Policy Statement).</p> <p>Responsible officer: The Senior Specialist Advisor</p>
135	Have in place adequate systems and processes to enable the retention of records for the necessary time periods.	Should	Not applicable	<p>Through the <i>Service level agreement between the pension investment/administration team and Surrey County Council as the administering authority to the Surrey Pension Fund</i></p> <p>Responsible officer(s): The Strategic Finance Manager – Pension Fund and Treasury, The Senior Specialist Advisor, The Pension Services Manager</p>
136	Have policies and processes in place that monitor data on an ongoing basis to ensure it is accurate and complete, regardless if the volume of scheme transactions.	Should	Not applicable	<p>Through the <i>Pension Administration Strategy</i></p> <p>Responsible officer(s): The Senior Specialist Advisor, The Pension Services Manager</p>
137	Adopt a proportionate and risk-based approach to monitoring, based on any known or historical issues that may have occurred in relation to the scheme's administration.	Should	Not applicable	<p>Through the <i>Pension Administration Strategy</i></p> <p>Responsible officer(s): The Senior Specialist Advisor, The Pension Services Manager</p>

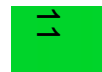




138	Continually review data and carry out a data review exercise at least annually.	Should	Not applicable	Through the <i>Pension Administration Strategy</i> Responsible officer(s): The Senior Specialist Advisor, The Pension Services Manager
141	Implement a data improvement plan if poor quality or missing data is identified.	Should	Not applicable	Through the <i>Pension Administration Strategy</i> Responsible officer(s): The Senior Specialist Advisor, The Pension Services Manager
142	Reconcile records with information held by scheme employers.	Should	Not applicable	Through the <i>Pension Administration Strategy</i> Responsible officer(s): The Senior Specialist Advisor, The Pension Services Manager
143	Ensure that processes are in place to manage scheme data in accordance with the Data Protection Act 1998.	Must	The Data Protection Act 1998	Through the <i>Pension Administration Strategy or Service level agreement between the pension investment/administration team and Surrey County Council as the administering authority to the Surrey Pension Fund</i> Responsible officer(s): The Senior Specialist Advisor, The Pension Services Manager
144	Understand: <ul style="list-style-type: none"> • Obligations as data controllers; • The difference between personal data and sensitive personal data; • How data is held are how to 	Should	The Data Protection Act 1998	Through the <i>Pension Administration Strategy or Service level agreement between the pension investment/administration team</i>

	<ul style="list-style-type: none"> respond to data requests; The systems which need to be in place to store, move and destroy data How data protection affects member communication. 			<p>and Surrey County Council as the administering authority to the Surrey Pension Fund.</p> <p>Responsible officer(s): The Senior Specialist Advisor, The Pension Services Manager</p>
146	Demonstrate that records are kept in accordance with relevant legislative requirements.	Should	The Pensions Act 1995 and 2004, The Pensions Act 2008 and the Employers' Duties (Registration and Compliance) regulations 2010	<p>Through the <i>Pension Administration Strategy or Service level agreement between the pension investment/administration team and Surrey County Council as the administering authority to the Surrey Pension Fund.</i></p> <p>Responsible officer(s): The Senior Specialist Advisor, The Pension Services Manager</p>

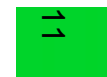
(b) Maintaining contributions				
tPR Code of practice 14 reference no:	Scheme manager requirement	Should/ Must	Overriding legislation	Scheme manager compliance and responsible officer
147	If employer contributions are not paid on or before the date they are due and this is likely to be of material significance to the regulator, give a written report on the matter to the regulator as soon as is reasonably practicable.	Must	The Pensions Act 2004	<p>Through the Pension Fund Risk Management Process delivered through the <i>Pension Fund Risk Register.</i></p> <p>Responsible officer: The Strategic Finance Manager – Pension Fund and Treasury</p>
149	If employee contributions are not paid by the scheme employer by the 19 th of the	Must	The Public Service Pension Act 2013	Through the Pension Fund Risk Management Process delivered

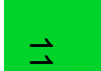




	month following the deduction from member pay (22 nd if paid electronically) and there is reasonable cause to believe that this failure is likely to be of material significance to the regulator, give notice of this failure to the regulator.			through the <i>Pension Fund Risk Register</i> . Responsible officer: The Strategic Finance Manager – Pension Fund and Treasury
149	If employee contributions are not paid by the scheme employer on an earlier date as laid out in the scheme regulations following the deduction from member pay, consider the statutory duty under section 70 of the Pensions Act 2004 to assess and if necessary report breaches of the law.	Should	The Pensions Act 2004	Through the Pension Fund Risk Management Process delivered through the <i>Pension Fund Risk Register</i> . Responsible officer: The Strategic Finance Manager – Pension Fund and Treasury
150	Ensure that there are adequate procedures and processes in place to identify payment failures.	Should	Not applicable	Through the Pension Fund Risk Management Process delivered through the <i>Pension Fund Risk Register</i> . Responsible officer: The Strategic Finance Manager – Pension Fund and Treasury
151	Monitor pension contributions, resolve payment issues and report payment failures.	Should	Not applicable	Through the Pension Fund Risk Management Process delivered through the <i>Pension Fund Risk Register</i> . Responsible officer: The Strategic Finance Manager – Pension Fund and Treasury
155	Develop a record for monitoring the payment of contributions to the scheme and prepare a contributions monitoring record in consultation with scheme employers. Included in this contribution	Should	Not applicable	Through the Pension Fund Risk Management Process delivered through the <i>Pension Fund Risk Register</i> .

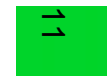
	<p>monitoring record:</p> <ul style="list-style-type: none"> • Contribution rates; • The date(s) on or before which employer contributions are to be paid to the scheme; • The date by when, or period within which, the employee contributions are to be paid to the scheme; • The rate or amount of interest payable where the payment of contributions is late. 			Responsible officer: The Strategic Finance Manager – Pension Fund and Treasury
158	Assess the timing of payments against the date specified in accordance with the scheme regulations.	Should	Not applicable	<p>Through the Pension Fund Risk Management Process delivered through the <i>Pension Fund Risk Register</i>.</p> <p>Responsible officer: The Strategic Finance Manager – Pension Fund and Treasury</p>
161	Monitor contributions on an ongoing basis for all membership categories in the scheme.	Should	Not applicable	<p>Through the Pension Fund Risk Management Process delivered through the <i>Pension Fund Risk Register</i>.</p> <p>Responsible officer: The Strategic Finance Manager – Pension Fund and Treasury</p>
162	Apply a risk-based and proportionate approach to help identify employers and situations which present a higher risk of payment failures occurring which are likely to be of a material significance and require intervention.	Should	Not applicable	<p>Through the Pension Fund Risk Management Process delivered through the <i>Pension Fund Risk Register</i>.</p> <p>Responsible officer: The Strategic Finance Manager – Pension Fund and Treasury</p>





163	Be aware if what is to be paid in accordance with the contributions monitoring record and identify when payments are late or over or under paid.	Should	Not applicable	Through the Pension Fund Risk Management Process delivered through the <i>Pension Fund Risk Register</i> . Responsible officer: The Strategic Finance Manager – Pension Fund and Treasury
165	Have adequate internal controls in place to monitor the sharing of payment information between the employer, pension scheme and member. Request payment information if it is not automatically available.	Should	Not applicable	Through the Pension Fund Risk Management Process delivered through the <i>Pension Fund Risk Register</i> . Responsible officer: The Strategic Finance Manager – Pension Fund and Treasury
166	Record and retain information on transactions, including employer and employee contributions received and payments of pensions and benefits.	Must	The Public Service Pensions (Record Keeping and Miscellaneous Amendments) Regulations 2014	Through the Pension Fund Risk Management Process delivered through the <i>Pension Fund Risk Register</i> . Responsible officer: The Strategic Finance Manager – Pension Fund and Treasury
168	When notified of a problem or a problem is identified, assess whether a payment failure has occurred, taking in to account: <ul style="list-style-type: none">• Legitimate agreed payments made directly by an employer for scheme purposes;• Legitimate agreed payment arrangements made between an employee and employer;• Contributions paid directly to a pension provider, scheme	Should	Not applicable	Through the Pension Fund Risk Management Process delivered through the <i>Pension Fund Risk Register</i> . Responsible officer: The Strategic Finance Manager – Pension Fund and Treasury

	<p>administrator or investment manager;</p> <ul style="list-style-type: none"> Any AVCs included with an employer's overall payment. 			
169	<p>Follow a process including the following, if a payment failure is identified:</p> <ul style="list-style-type: none"> Investigate any apparent employer failure to pay contributions in accordance with the contributions monitoring record or legal requirements; Contact the employer promptly to alert them to the payment failure and seek to resolve the overdue payment; Discuss it further with the employer as soon as practicable to find out the cause and circumstances of payment failure; Ask the employer to resolve the payment failure and take steps to avoid a recurrence in the future. 	Should	Not applicable	<p>Through the Pension Fund Risk Management Process delivered through the <i>Pension Fund Risk Register</i>.</p> <p>Responsible officer: The Strategic Finance Manager – Pension Fund and Treasury</p>
170	<p>Maintain a record of their investigation and communications between themselves and the employer.</p>	Should	Not applicable	<p>Through the Pension Fund Risk Management Process delivered through the <i>Pension Fund Risk Register</i>.</p> <p>Responsible officer: The Strategic Finance Manager – Pension Fund and Treasury</p>
171	<p>Review current processes or develop new processes which are able to detect situations where fraud may be more likely to occur and where additional checks may be appropriate.</p>	Should	Not applicable	<p>Through the Pension Fund Risk Management Process delivered through the <i>Pension Fund Risk Register</i>.</p>





				Responsible officer: The Strategic Finance Manager – Pension Fund and Treasury
173	Report payment failures which are likely to be of material significance to the regulator within a reasonable period, in the case of employee contributions; and as soon as reasonably practicable in the case of employer contributions.	Must	The Pensions Act 1995, The Pensions Act 2004	Through the Pension Fund Risk Management Process delivered through the <i>Pension Fund Risk Register</i> . Responsible officer: The Strategic Finance Manager – Pension Fund and Treasury
174	Attempt to recover contributions within 90 days from the due date or prescribed period having passed without full payment of the contribution.	Should	Not applicable	Through the Pension Fund Risk Management Process delivered through the <i>Pension Fund Risk Register</i> . Responsible officer: The Strategic Finance Manager – Pension Fund and Treasury
175 - 177	Gain assurance from employers over: <ul style="list-style-type: none"> • The cause and circumstances of payment failures; • What action the employer has taken as a result of the payment failure, and • The wider implications or impact of the payment failure. And consider these points as part of the judgement process, when reaching a decision over whether there are reasonable grounds to report to the regulator.	Should	Not applicable	Through the Pension Fund Risk Management Process delivered through the <i>Pension Fund Risk Register</i> . Responsible officer: The Strategic Finance Manager – Pension Fund and Treasury, The Senior Specialist Advisor
181	Identify and report to the regulator any payment failures that may not be of material significance taken individually,	Should	Not applicable	Through the Pension Fund Risk Management Process delivered through the <i>Pension Fund Risk</i>

	but, which could indicate a systemic problem.			<i>Register.</i> Responsible officer: The Strategic Finance Manager – Pension Fund and Treasury
182	Consider whether it may be appropriate to report a payment failure of employer contributions to scheme members.	Should	Not applicable	Through the Pension Fund Risk Management Process delivered through the <i>Pension Fund Risk Register.</i> Responsible officer: The Strategic Finance Manager – Pension Fund and Treasury
184	Report to the regulator within 10 working days and to members within 30 days of having reported to the regulator if it is judged that the payment failure is likely to be of material significance.	Must	The Pensions Act 1995, The Occupational Pension Schemes (Scheme Administration) Regulations 1996, The Pensions Act 2004	Through the Pension Fund Risk Management Process delivered through the <i>Pension Fund Risk Register.</i> Responsible officer: The Strategic Finance Manager – Pension Fund and Treasury
185	Report to the regulator made in writing	Must	The Pensions Act 2004	Through the Pension Fund Risk Management Process delivered through the <i>Pension Fund Risk Register.</i> Responsible officer: The Strategic Finance Manager – Pension Fund and Treasury

(c) Providing information to members				
tPR Code of practice 14 reference no:	Scheme manager requirement	Should/ Must	Overriding legislation	Scheme manager compliance and responsible officer





189	Provide first statement no later than 17 months after scheme regulations are established and then at least annually thereafter.	Must	The Public Service Pension Act 2013	Through the <i>Service level agreement between the pension investment/administration team and Surrey County Council as the administering authority to the Surrey Pension Fund & the Key Performance Indicators</i> Responsible officer(s): The Pension Services Manager
190	Statements comply with HM Treasury directions	Must	The Public Service Pension Act 2013	Through the <i>Service level agreement between the pension investment/administration team and Surrey County Council as the administering authority to the Surrey Pension Fund & the Key Performance Indicators</i> Responsible officer(s): The Pension Services Manager
191	Provide a benefit statement following a request by an active, deferred or pension credit members if one had not already been provided in the previous 12 months.	Must	The Occupational and Personal Pension Schemes (Disclosure of Information) regulations 2013	Through the <i>Service level agreement between the pension investment/administration team and Surrey County Council as the administering authority to the Surrey Pension Fund & the Key Performance Indicators</i> Responsible officer(s): The Pension Services Manager
192	Statements include information about of benefits by reference to a particular date and how they are calculated.	Must	The Occupational and Personal Pension Schemes (Disclosure of Information) regulations 2013	Through the <i>Service level agreement between the pension investment/administration team and Surrey County Council as the administering authority to the</i>

				<p><i>Surrey Pension Fund & the Key Performance Indicators</i></p> <p>Responsible officer(s): The Pension Services Manager</p>
193	Information given as soon as practicable and no more than two months after the date of the request is made.	Must	The Occupational and Personal Pension Schemes (Disclosure of Information) regulations 2013	<p>Through the <i>Service level agreement between the pension investment/administration team and Surrey County Council as the administering authority to the Surrey Pension Fund & the Key Performance Indicators</i></p> <p>Responsible officer(s): The Pension Services Manager</p>
194	Provide a benefit statement to a (non excluded person) member of a DC scheme within 12 months of the end of the scheme year.	Must	The Occupational and Personal Pension Schemes (Disclosure of Information) regulations 2013	<p>Through the <i>Service level agreement between the pension investment/administration team and Surrey County Council as the administering authority to the Surrey Pension Fund & the Key Performance Indicators</i></p> <p>Responsible officer(s): The Pension Services Manager</p>
195	Provide the following information on the DC statement: <ul style="list-style-type: none"> • Amount of contributions • Value of accrued rights • A statutory money purchase illustration 	Must	The Occupational and Personal Pension Schemes (Disclosure of Information) regulations 2013	<p>Through the <i>Service level agreement between the pension investment/administration team and Surrey County Council as the administering authority to the Surrey Pension Fund & the Key Performance Indicators</i></p> <p>Responsible officer(s): The Pension Services Manager</p>





196 & 197	Provide information in certain circumstances (for example, on request) along with confirmation that members may request further information and the postal and email address to which the person should send those requests and enquiries.	Must	The Occupational and Personal Pension Schemes (Disclosure of Information) regulations 2013	Through the <i>Communications Policy Statement</i> . Responsible officer(s) The Senior Specialist Advisor, The Pension Services Manager
198	Ensure that scheme members and others are given information in accordance with the Disclosure Regulations 2013.	Must	The Occupational and Personal Pension Schemes (Disclosure of Information) regulations 2013	Through the <i>Communications Policy Statement</i> . Responsible officer(s) The Senior Specialist Advisor, The Pension Services Manager
200	Disclose certain basic information about the scheme and benefits provided to prospective or new members.	Must	The Occupational and Personal Pension Schemes (Disclosure of Information) regulations 2013	Through the <i>Communications Policy Statement</i> . Responsible officer(s) The Senior Specialist Advisor, The Pension Services Manager
201	Provide information on request to a relevant person within two months of the request being made except where the same information was provided to the same person or trade union in the 12 months before the request.	Must	The Occupational and Personal Pension Schemes (Disclosure of Information) regulations 2013	Through the <i>Communications Policy Statement</i> . Responsible officer(s) The Senior Specialist Advisor, The Pension Services Manager
203	Take the following steps if information is being provided by electronic means: <ul style="list-style-type: none"> • Provide scheme members and beneficiaries with the option to opt out of receiving information electronically by giving a written notice to the scheme; • Electronic communications is designed: <ul style="list-style-type: none"> - so that the person will be able to access and rather store or print the 	Must	The Occupational and Personal Pension Schemes (Disclosure of Information) regulations 2013	Through the <i>Communications Policy Statement</i> . Responsible officer(s) The Senior Specialist Advisor, The Pension Services Manager

	<p>relevant information and</p> <ul style="list-style-type: none"> - taking into account the requirements of disabled people. • Ensuring that members and beneficiaries who were members or beneficiaries on 1 December 2010 have been sent a written notice informing them: <ul style="list-style-type: none"> - it is proposed to provide information electronically in the future and - scheme members and beneficiaries may opt out of receiving information electronically by sending written notice. 			
204 & 205	<p>If information is being provided on the website for the first time or subsequently give notice (other than via a website) including:</p> <ul style="list-style-type: none"> • A statement advising that the information is available on the website, the website address, how and where it can be read. 	Must	The Occupational and Personal Pension Schemes (Disclosure of Information) regulations 2013	<p>Through the <i>Communications Policy Statement</i>.</p> <p>Responsible officer(s) The Senior Specialist Advisor, The Pension Services Manager</p>
207	Deliver communications to scheme members in a way that ensures they are able to engage with their pension provision.	Should	Not applicable	<p>Through the <i>Communications Policy Statement</i>.</p> <p>Responsible officer(s) The Senior Specialist Advisor, The Pension Services Manager</p>
208	Attempt to make contact with scheme members and where this is not possible carry out a tracing exercise.	Should	Not applicable	<p>Through the <i>Communications Policy Statement</i>.</p> <p>Responsible officer(s) The Senior Specialist Advisor, The Pension Services Manager</p>

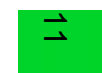


209	Acknowledge receipt if unable to provide an immediate answer to an information request.	Should	Not applicable	Through the <i>Communications Policy Statement</i> . Responsible officer(s) The Senior Specialist Advisor, The Pension Services Manager
210	Make information readily available.	Should	Not applicable	Through the <i>Communications Policy Statement</i> . Responsible officer(s) The Senior Specialist Advisor, The Pension Services Manager
211	Comply with other legislation requiring information to be provided to members of public service pension schemes.	Must	The Occupational and Personal Pension Schemes (Contracting-out) Regulations 1996, The Occupational and Personal Pension Schemes (Transfer Values) Regulations 1996, The Occupational and Personal Pension Schemes (Winding up etc.) Regulations 2005, The Occupational and Personal Pension Schemes (Internal Dispute Resolution Procedures Consequential and Miscellaneous Amendments) Regulations 2008,	Through the <i>Communications Policy Statement</i> . Responsible officer(s) The Senior Specialist Advisor, The Pension Services Manager

4. Resolving issues

- (a) Internal dispute resolution
- (b) Reporting breaches of the law

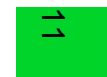
(a) Internal dispute resolution				
tPR Code of practice 14 reference no:	Scheme manager requirement	Should/ Must	Overriding legislation	Scheme manager compliance and responsible officer
213	Make and implement dispute resolution arrangements that comply with the requirements of the law and help resolve pensions disputes between the scheme manager and a person with an interest in the scheme.	Must	The Public Service Pension Act 2013	Through the <i>Internal Resolution Dispute Procedures</i> Responsible officer(s): The Strategic Finance Manager – Pension Fund and Treasury, The Pension Services Manager
217	Specified persons take a decision required on matters in dispute within a reasonable period.	Must	The Pensions Act 1995	Through the <i>Internal Resolution Dispute Procedures</i> Responsible officer(s): The Strategic Finance Manager – Pension Fund and Treasury, The Pension Services Manager
218	Dispute procedures state the manner in which an application for the resolution of a pension dispute is to be made, the particulars which must be included in such an application, the manner in which any decision in relation to such an application are to be reached and specify a reasonable period within the application must be made by certain people.	Must	The Pensions Act 1995	Through the <i>Internal Resolution Dispute Procedures</i> Responsible officer(s): The Strategic Finance Manager – Pension Fund and Treasury, The Pension Services Manager
219	Provide information about the scheme's resolution procedure as well as	Must	Disclosure Regulations 2013, Occupational Pension	Through the <i>Internal Resolution Dispute Procedures</i>

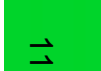




	information about The Pensions Advisory Service and the Pensions Ombudsman.		Schemes (Internal Dispute Resolution Procedures) (Consequential and Miscellaneous Amendments) Regulations 2008	Responsible officer(s): The Strategic Finance Manager – Pension Fund and Treasury, The Pension Services Manager
223	Decide on the detail of the dispute resolution procedure.	Should	Not applicable	Through the <i>Internal Resolution Dispute Procedures</i> Responsible officer(s): The Strategic Finance Manager – Pension Fund and Treasury, The Pension Services Manager
225	Publish and make specified time limits readily available to ensure that those with an interest in the scheme are aware that they must submit an application within a prescribed time.	Should	Not applicable	Through the <i>Internal Resolution Dispute Procedures</i> Responsible officer(s): The Strategic Finance Manager – Pension Fund and Treasury, The Pension Services Manager
226	Ensure procedures specify a reasonable period within which applications by the following people must be made: <ul style="list-style-type: none"> A person who has ceased to be a scheme member, widow, widower, surviving civil partner surviving dependent of a deceased member, surviving non-dependent beneficiary of a s deceased member and prospective scheme member. 	Must	The Pensions Act 1995	Through the <i>Internal Resolution Dispute Procedures</i> Responsible officer(s): The Strategic Finance Manager – Pension Fund and Treasury, The Pension Services Manager
228	Decide the matter in dispute within a reasonable period of receiving the application.	Must	Not applicable	Through the <i>Internal Resolution Dispute Procedures</i> Responsible officer(s): The Strategic Finance Manager

				– Pension Fund and Treasury, The Pension Services Manager
230	Be satisfied that the time taken to reach a decision is appropriate to the situation as is able to demonstrate this if necessary.	Should	Not applicable	Through the <i>Internal Resolution Dispute Procedures</i> Responsible officer(s): The Strategic Finance Manager – Pension Fund and Treasury, The Pension Services Manager
231	Notify applicants of the decision made within a reasonable time period.	Must	The Pensions Act 1995	Through the <i>Internal Resolution Dispute Procedures</i> Responsible officer(s): The Strategic Finance Manager – Pension Fund and Treasury, The Pension Services Manager
231	Notify applicants of the decision no later than 15 working days after the decision has been made.	Should	Not applicable	Through the <i>Internal Resolution Dispute Procedures</i> Responsible officer(s): The Strategic Finance Manager – Pension Fund and Treasury, The Pension Services Manager
232	Provide the applicant with regular updates on the progress of their investigation and, where the time period for a decision is expected to be shorter or longer than a reasonable time period, let them know when they are to receive an outcome.	Should	Not applicable	Through the <i>Internal Resolution Dispute Procedures</i> Responsible officer(s): The Strategic Finance Manager – Pension Fund and Treasury, The Pension Services Manager
233	Focus on educating and raising awareness of the internal dispute resolution arrangements and ensuring they are implemented.	Should	Not applicable	Through the <i>Internal Resolution Dispute Procedures and the Communications Policy Statement</i>





				Responsible officer(s): The Strategic Finance Manager – Pension Fund and Treasury, The Pension Services Manager
234	Ensure that the effectiveness of arrangements are assessed regularly and be satisfied that those following the process are complying with the requirements, set which includes	Should	Not applicable	Ensure that internal controls are reviewed and remain compliant Responsible officer(s): The Strategic Finance Manager – Pension Fund and Treasury, The Pension Services Manager
235	Confirm and communicate dispute arrangements to members and make them accessible to potential applicants.	Should	Not applicable	Through the <i>Internal Resolution Dispute Procedures and the Communications Policy Statement</i> Responsible officer(s): The Strategic Finance Manager – Pension Fund and Treasury, The Pension Services Manager
236	Provide information about the procedures and processes that scheme has in place for internal disputes to the following people in certain circumstances: <ul style="list-style-type: none">• Prospective members;• Any scheme member who has not already been given the information;• Relevant people who request the information and who have not been given that information in the previous 12 months, and• Members or prospective members when schemes receive jobholder information, or when a jobholder becomes an active member, in	Must	Disclosure Regulations 2013	Through the <i>Internal Resolution Dispute Procedures and the Communications Policy Statement</i> Responsible officer(s): The Strategic Finance Manager – Pension Fund and Treasury, The Pension Services Manager

	connection with automatic enrolment			
237	Provide the postal or email address and job title of the person to contact in order to make use of the internal dispute arrangements.	Must	Not applicable	Through the <i>Internal Resolution Dispute Procedures</i> Responsible officer(s): The Strategic Finance Manager – Pension Fund and Treasury, The Pension Services Manager
238	Provide information about The Pension Advisory Service and the Pensions Ombudsman at certain stages.	Must	Occupational Pension Schemes (Internal Dispute Resolution Procedures) (Consequential and Miscellaneous Amendments) Regulations 2008	Through the <i>Internal Resolution Dispute Procedures</i> Responsible officer(s): The Strategic Finance Manager – Pension Fund and Treasury, The Pension Services Manager
239	Ensure the following information is made available to applicants: <ul style="list-style-type: none"> • The procedure and processes to for a dispute to be resolved; • The information that an applicant must include; • The processes by which any decisions are reached, and • An acknowledgment once an application has been received. 	Should	Not applicable	Through the <i>Internal Resolution Dispute Procedures and the Communications Policy Statement</i> Responsible officer(s): The Strategic Finance Manager – Pension Fund and Treasury, The Pension Services Manager
240	When reviewing an application, ensure that they have all the information to make an informed decision, request further information if required and be satisfied that the time taken to reach a decision and notify the applicant are appropriate to the situation. Be able to demonstrate this to the regulator if required.	Should	Not applicable	Through the <i>Internal Resolution Dispute Procedures and the Communications Policy Statement</i> Responsible officer(s): The Strategic Finance Manager – Pension Fund and Treasury, The Pension Services Manager





(b) Reporting breaches of the law

tPR Code of practice 14 reference no:	Scheme manager requirement	Should/ Must	Overriding legislation	Scheme manager compliance and responsible officer
244	Be satisfied that those responsible for reporting breaches are made aware of the legal requirements and tPR guidance.	Should	Not applicable	Through the <i>Local Pension Board Attendance and knowledge and understanding policy</i> and <i>Local Pension Board Code of Conduct and Conflict of Interests Policy</i> for Local Pension Board members and through the <i>CIPFA Knowledge and Skills Framework</i> and <i>Member's Code of Conduct</i> for Surrey Pension Fund Board Members. Responsible officer: The Senior Specialist Advisor
244	Provide training for scheme managers and pension board members.	Should	Not applicable	Through the <i>Local Pension Board Attendance and knowledge and understanding policy</i> and <i>Local Pension Board Code of Conduct and Conflict of Interests Policy</i> for Local Pension Board members and through the <i>CIPFA Knowledge and Skills Framework</i> and <i>Member's Code of Conduct</i> for Surrey Pension Fund Board Members. Responsible officer: The Senior Specialist Advisor

245	Have procedures enable people to raise concerns and facilitate the objective consideration of these matters.	Should	Not applicable	<p>Through the <i>Local Pension Board Attendance and knowledge and understanding policy and Local Pension Board Code of Conduct and Conflict of Interests Policy</i> for Local Pension Board members and through the <i>CIPFA Knowledge and Skills Framework and Member's Code of Conduct</i> for Surrey Pension Fund Board Members.</p> <p>Responsible officer: The Senior Specialist Advisor</p>
246	<p>Procedures include the following features:</p> <ul style="list-style-type: none"> • A process for obtaining clarification of the law around the suspected breach where needed; • A process for clarifying the facts around the suspected breach where they are not known; • A process for consideration of the material significance of the breach by taking into account its cause, effect, the reaction to it, and its wider implications, including (where appropriate) dialogue with the scheme manager or pension board; • A clear process for referral to the appropriate level of seniority at which decisions can be made on whether to report to the regulator; • An established procedure for 	Should	Not applicable	<p>Through the <i>Local Pension Board Attendance and knowledge and understanding policy and Local Pension Board Code of Conduct and Conflict of Interests Policy</i> for Local Pension Board members and through the <i>CIPFA Knowledge and Skills Framework and Member's Code of Conduct</i> for Surrey Pension Fund Board Members.</p> <p>Responsible officer: The Senior Specialist Advisor</p>

	<p>dealing with difficult cases;</p> <ul style="list-style-type: none">• A timeframe for the procedure to take place that is appropriate to the breach and allows the report to be made as soon as is reasonably practicable;• A system to record breaches even if they are not reported to the regulator (the record of past breaches may be relevant in deciding whether to report future breaches, for example it may reveal a systemic issue), and• A process for identifying promptly any breaches that are so serious they must always be reported.			
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SURREY COUNTY COUNCIL

SURREY PENSION FUND BOARD

DATE: 22 MAY 2015

LEAD OFFICER: SHEILA LITTLE, DIRECTOR OF FINANCE

SUBJECT: LOCAL PENSION BOARD



SUMMARY OF ISSUE:

The report explains the implemented changes to the governance of the Local Government Pension Scheme (LGPS) as a result of the Public Service Pensions Act 2013 and Regulations issued on 28 January 2015. The key requirement is for a proposed new Local Pension Board to assist the Administering Authority in the running of the Pension Fund, and to monitor compliance with rules and standards. The Council's Constitution was amended on 17 March 2015, following a report to full Council. This report provides an update on progress achieved.

RECOMMENDATIONS:

It is recommended that the Surrey Pension Fund Board note the report.

REASON FOR RECOMMENDATIONS:

The Surrey Pension Fund Board must be aware of all governance Regulations and implementation progress for the governance of the Pension Fund.

DETAILS:

Background

- 1 The changes introduced by the Public Service Pensions Act 2013 Act are aimed at achieving a more coherent and consistent system to provide assurance that benefits are paid, contributions are received and the Pensions Regulator Code of Practice 14 is followed in accordance within the law and subject to good practice. The creation of a new Local Pension Board was achieved at a meeting of full Council on 17 March 2015.

Implementation of the new Local Pension Board

- 2 The terms of reference of the Local Pension Board were approved at the meeting of full Council on 17 March 2015. As part of the LGPS Regulations, it is a requirement to add this to the Fund's Governance Compliance Statement. The recommendation to include this in a revised Governance Policy Statement is contained in a separate report to the Surrey Pension Fund Board on the 22 May 2015.
- 3 The terms of reference of the Local Pension Board includes an Appointment and Termination Process, which is attached as Annex 1.

- 4 The Appointment and Termination Process refers to the make-up of the four employer, four member representatives and two independent representatives on the Local Pension Board. This is:
- 2 x Surrey County Councillors;
 - 2 x representatives to come from nominations from other employers (e.g. District, Borough and Parish Councils, Academies, Police and other scheduled, designated or admitted body employers in the Surrey Pension Fund);
 - 1 x GMB nominated representative;
 - 1 x Unison nominated representative;
 - 2 x other member representatives;
 - 2 x independent representatives.
- 5 The appointment of the Local Pension Board members will be carried out by the People, Performance and Development Committee, following recommendations from the Appointment/Termination Panel.
- 6 The Appointment/Termination Panel overseeing the process shall consist of the following representatives of the Administering Authority:
- The Chairman of the Pension Fund Board;
 - The Director of Finance (or her nominee);
 - The Strategic Finance Manager (Pension Fund and Treasury);
 - The Director of Legal & Democratic Services (or her nominee).
- 7 Communications were issued from the beginning of April 2015 in respect of the recruitment process for employer and employee representatives. The short listing of candidates is currently underway, with a view to making appointments by the end of May 2015. There will be an induction of newly appointed Local Pension Board members throughout June and July 2015, with the first Local Pension Board meeting scheduled for October 2015.
- 8 An Attendance and Knowledge and Understanding Policy is shown as Annex 2. A Code of Conduct and Conflict of Interests Policy is shown as Annex 3. These two documents have been drafted to assist the Local Pension Board in its compliance with the LGPS Regulations and the Pension Regulators Code of Conduct in respect of knowledge and understanding and conflict of interest requirements.
- 9 The Local Pension Board Terms of Reference, Knowledge and Understanding Policy and Code of Conduct and Conflict of Interests Policy have been published on the Pension Fund website, along with the Appointment and Termination Process. Further statutory information will be published when appointments to the Local Pension Board have been made. This will include the members of the Local Pension Board and whom they represent.

CONSULTATION:

- 10 The Chairman of the Surrey Pension Fund Board has been consulted on the report.

RISK MANAGEMENT AND IMPLICATIONS:

11 There are no risk related issues.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

12 The costs of running the new Local Pension Board will be borne by the administration cost centre of the Pension Fund, as prescribed by the Regulations.

DIRECTOR OF FINANCE COMMENTARY

13 The Director of Finance has been consulted on the report.

LEGAL IMPLICATIONS – MONITORING OFFICER

14 Legal implications and legislative requirements were addressed in the full Council report dated 17 March 2015.

EQUALITIES AND DIVERSITY

15 The establishment of this Board is a statutory requirement. There are no equality implications.

OTHER IMPLICATIONS

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

WHAT HAPPENS NEXT

17 The following next steps are planned:

- The first Local Pension Board meeting will be held in October 2015.

Contact Officer:

Phil Triggs, Strategic Finance Manager (Pension Fund and Treasury)

Consulted:

Surrey Pension Fund Board Chairman

Annexes:

Annex 1: Appointment and Termination Process

Annex 2: Attendance and Knowledge and Understanding Policy

Annex 3: Code of Conduct and Conflict of Interests Policy

Sources/background papers:

None

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THE SURREY LOCAL PENSION BOARD

APPOINTMENT AND TERMINATION PROCESS



Appointment process

1. Employer representatives

1.1 The Scheme Manager will attempt to contact all scheme employers in the Surrey County Council Pension Scheme. They will be informed of the nomination process and issued with a nomination pack. The nomination pack will consist of:

- Employer representative application form;
- Attendance and knowledge and understanding policy;
- Code of conduct and conflict of interest policy;
- Conflict of interest declaration;
- Role description;
- Terms of reference.

1.2 On receipt of applications the nominations will be considered by the Appointment Panel in line with the Appointment process timetable.

1.3 The requirement will be to appoint employer representatives as follows:

- 2 x Surrey County Councillors;
- 2 x representatives to come from nominations from other employers (e.g. District, Borough and Parish Councils, Academies, Police and other scheduled, designated or admitted body employers in the Surrey Pension Fund).

2. Member representatives

2.1 The Scheme Manager will attempt to contact all member representatives. They will be informed of the nomination process and the availability of the nomination pack on the pension website. Communication channels will include:

- A mail shot to all active, deferred and pensioner members;
- Broadcast on the Surrey S-Net;
- Communication to all scheme employers with a template for their web pages;
- A dedicated web page on the Surrey Pension Fund website.

2.2 The Scheme Manager will inform the Trade Union bodies recognised by Surrey County Council (GMB and Unison). They will be informed of the nomination process and issued with a nomination pack. The nomination pack will consist of:

- Member representative application form;

- Attendance and knowledge and understanding policy;
- Code of conduct and conflict of interest policy;
- Conflict of interest declaration;
- Role description;
- Terms of reference.

2.3 On receipt of applications the nominations will be considered by the Appointment Panel in line with the Appointment process timetable.

2.4 The requirement will be to appoint employer representatives as follows:

- 1 x GMB nominated representative;
- 1 x Unison nominated representative;
- 2 x other member representatives.

3. Independent representatives

3.1 Any Independent representatives will be directly appointed by the Appointment Panel through an open and transparent process.

4. The Appointment/termination panel

4.1 The Appointment/termination panel overseeing the process shall consist of the following representatives of the Administering Authority:

- The Chairman of the Pension Fund Board;
- The Director of Finance (or her nominee);
- The Strategic Finance Manager – Pension fund and treasury;
- The Director of Legal & Democratic Services (or her nominee).

5. Appointment of Local Pension Board members

5.1 Appointment of Local Pension Board members will be carried out by the People, Performance and Development Committee following recommendations for the Appointment/termination panel.

5.2 Appointment will be without regard to gender, gender reassignment, sexual orientation, marital or civil partnership status, colour, race, nationality, ethnic or national origins, religion or belief, age, pregnancy or maternity leave or trade union membership.

5.3 Appointment will be based on merit and values as measured against the Local Pension Board Member role description.

5.4 The Appointment/termination panel reserves the right to interview candidates at its discretion.

5.5 If an interim vacancy arises during the term of the Local Pension Board the People, Performance and Development Committee will appoint a replacement following a recommendation from the Appointment/termination panel.

6. Appointment of the Chairman and Vice Chairman of the Local Pension Board

- 6.1 Appointment of the Chairman of the Local Pension Board will be carried out by the People, Performance and Development Committee on the recommendation of the Appointment/termination panel.
- 6.2 Appointment of the Chairman of the Local Pension Board will be made without regard to gender, gender reassignment, sexual orientation, marital or civil partnership status, colour, race, nationality, ethnic or national origins, religion or belief, age, pregnancy or maternity leave or trade union membership.
- 6.3 Appointment will be based on merit and values as measured against the Chairman of the Local Pension Board Member role description.
- 6.4 Appointment of the Vice Chairman will be made by the Local Pension Board at its first meeting.

7. Responsibility for terminating membership of the Local Pension Board

- 7.1 The People, Performance and Development Committee will have responsibility for terminating membership of a member of the Local Pension Board on the recommendation of the Appointment/termination panel. This may come under the recommendation of the Chairman of the Local Pension Board.
- 7.2 Circumstances under which membership of the Local Pension Board may be terminated:
- i) a member representative appointed on the basis of their membership of the scheme no longer being a scheme member of the Fund;
 - ii) an employer representative no longer holding the office or employment or being a member of the body on which their appointment relied;
 - iii) a Local Pension Board member no longer being able to demonstrate to the Scheme Manager their capacity to attend and prepare for meetings or to participate in required training or otherwise to carry out the requirements of the role appropriately;
 - iv) a Local Pension Board member having a conflict of interest which cannot be managed in accordance with the Local Pension Boards Code of Conduct and Conflict of Interest Policy;
 - v) a Local Pension Board member becomes responsible for the discharge of any function of the Administering Authority under the Regulations;
 - vi) the Scheme Manager may at its discretion terminate the membership of a Local Pension Board member if it believes that it appropriate and is consistent with the role of the Local Pension Board to do so.

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THE SURREY LOCAL PENSION BOARD

ATTENDANCE AND KNOWLEDGE AND UNDERSTANDING POLICY



1. Attendance

- 1.1 Local Pension Board members will be required to attend at least two Local Pension Board meetings per year.
- 1.2 Local Pension Board members should also commit sufficient time in order to prepare for meetings and obtain and keep under review their knowledge and understanding.

2. Knowledge and understanding requirements

2.1 Legislative requirements

- 2.1.1 In accordance with the Pensions Act 2004 every member of the Surrey Local Pension Board must be conversant with:
 - The rules of the Local Government Pension Scheme (LGPS) (the LGPS Regulations);
 - Any document recording policy about the administration of the Surrey Pension Fund which is for the time being adopted in relation to the Surrey Pension Fund.

- 2.1.2 Local Pension Board members should also have knowledge and understanding of:
 - The law relating to pensions;
 - Such other matters as may be prescribed.

- 2.1.3 Members of the Local Pension Board should be aware that their individual legal responsibility begins from the date they take up their role on the Board.

- 2.1.4 It is for individual Local Pension Board members to ensure they have the appropriate degree of knowledge and understanding to enable them to properly exercise their functions as a member of the Local Pension Board.

- 2.1.5 Local Pension Board members are required to be able to demonstrate their knowledge and understanding and to refresh and keep their knowledge up to date. Local Pension Board members are therefore required to maintain a written record of relevant training and development.

- 2.1.6 Local Pension Board members will undertake a personal training needs analysis and regularly review their skills, competencies and knowledge to identify gaps or weaknesses.

- 2.1.7 Local Pension Board members will comply with this Attendance and knowledge and understanding policy.

2.2 Key areas of knowledge and understanding of the law relating to pensions

2.2.1 Examples of knowledge and understanding of the law relating to pensions:

- Background and understanding of the legislative framework of the LGPS;
- General pension legislation applicable to the LGPS;
- Role and responsibilities of the Local Pension Board;
- Role and responsibilities of the Administering Authority;
- Funding and investment;
- Role and responsibilities of Scheme Employers;
- Tax and contracting out;
- Role of advisors and key persons;
- Key bodies connected to the LGPS.

3. Induction training

3.1 Local Pension Board members are expected to complete induction training within the first three months of their appointment. This consists of an online training course provided in a Trustee Toolkit by the Pensions Regulator (TPR).

3.2 TPR Trustee toolkit

3.2.1 The TPR Trustee toolkit provides a guide to learning development and assessment of learning needs and includes a series of online learning modules and downloadable resources developed to help Local Pension Board members meet the minimum level of knowledge and understanding introduced in the Pensions Act 2004.

3.2.2 The toolkit includes ten **Essential learning for trustee** compulsory modules and seven Public Sector Toolkit compulsory online learning modules that must be completed successfully to pass the induction training.

3.2.3 The ten Essential learning for trustee compulsory modules test Local Pension Board member knowledge in the following key areas:

- Introducing pension schemes;
- The trustee's role;
- Running a scheme;
- Pensions law;
- An introduction to investment;
- How a defined benefit scheme works;
- Funding your defined benefit scheme;
- Defined benefit recovery plans, contributions and funding principles;
- How a defined contribution scheme works;
- Investment in a defined contribution scheme.

3.2.4 The seven **Public Sector Toolkit** compulsory modules test Local Pension Board member knowledge in the following key areas:

- Conflicts of interest;
- Managing risk and internal controls;
- Maintaining accurate member data;
- Maintaining member contributions;

- Providing information to members and others;
- Resolving internal disputes;
- Reporting breaches of the law.

4. Ongoing training and development to meet knowledge and understanding requirements

4.1 Local Pension Board members will undertake the same knowledge and understanding framework which is currently provided to members of the Surrey Pension Fund Board through the **CIPFA Knowledge and Skills Framework**.

4.2 CIPFA Knowledge and Skills Framework

4.2.1 In an attempt to determine the right skill set for quasi trustees involved in decision making, CIPFA has developed, with the assistance of expert practitioners, a technical knowledge and skills framework.

4.2.2 The framework is intended to have two primary uses:

- As a tool for organisations to determine whether they have the right skill mix to meet their scheme financial management needs;
- As an assessment tool for individuals to measure their progress and plan their development.

4.2.3 The framework has been designed so that organisations and individuals can tailor it to their own particular circumstances. Local Pension Board members may already have some of the required skills, and the more experienced Local Pension Board members will already possess many of them.

4.2.4 In total there are six areas of knowledge and skills identified as the core technical requirements for those working in public sector pensions. They are:

- Pensions legislative and governance context;
- Pensions accounting and auditing standards;
- Financial services procurement and relationship management;
- Investment performance and risk management;
- Financial markets and products knowledge;
- Actuarial methods, standards and practices.

4.2.5 Individual members can be set up within the online framework and will be able to use the toolkit as they see fit. It is anticipated that members will, over a period of time, work towards a full understanding of the relevant issues. There is no current intention of imposing a timescale in which certain targets must be met by individual members. It is not expected that all members of the Local Pension Board will, at all times, have an expert knowledge of all areas, but the Local Pension Board as a whole needs a breadth of skills and knowledge to ensure that all relevant issues are scrutinised when making recommendations. Member progress in improving their skill set will be reviewed on an annual basis.

4.2.6 It is suggested that, initially, Local Pension Board members use the online toolkit to assess their own training needs. The Scheme Managers can then work with members, both individually and collectively, to identify how best to meet any skills/knowledge gaps.

4.2.7 It is suggested that there are four main ways in which knowledge and skill levels can be increased:

- Use of the web-based packages and CIPFA repository when developed;
- Manager or actuary led training sessions or specific training as part of the Board meeting agenda;
- An induction training package for new Board members that covers the areas outlined in the CIPFA Framework;
- Courses and seminars organised by managers, actuaries, NAPF and other experts, details of which can be circulated to Local Pension Board members as they arise.

4.3 The Strategic Finance Manager - Pension Fund and Treasury will use the TPR Trustee Toolkit assessments that the Local Pension Board members complete as a basis for agreeing an appropriate training programme.

THE SURREY LOCAL PENSION BOARD

CODE OF CONDUCT & CONFLICT OF INTEREST POLICY



1. Code of conduct

1.1 As members of a publicly funded body with a responsibility to discharge public business members the Local Pension Board should have the highest standards of conduct.

1.2 Local Pension Board members should have regard to the Seven Principles of Public life:

- Selflessness
- Integrity
- Objectivity
- Accountability
- Openness
- Honesty
- Leadership

1.3 In accordance Local Pension Board members should:

- Act solely in the public interest and should never improperly confer an advantage or disadvantage on any person or act to gain financial or other material benefits for yourself, your family, a friend or close associate.
- You must not place yourself under a financial or other obligation to outside individuals or organisations that might seek to influence you in the performance of your official duties.
- When carrying out your public duties you must make all choices on merit and must be impartial and seen to be impartial.
- You must co-operate fully with whatever scrutiny is appropriate to your role.
- You will on occasions be privy to confidential and sensitive information, such as personal information about someone, or commercially sensitive information which, if disclosed, might harm the commercial interests of the Council or another person or organisation. This information must not be revealed without proper authority.
- You must, when using or authorising the use by others of the resources of your authority, ensure that such resources are not used improperly for political purposes (including party political purposes) and you must have regard to any applicable Local Authority Code of Publicity made under the Local Government Act 1986.

- You must promote and support high standards of conduct when serving in your public post, in particular as characterised by the above requirements, by leadership and example.
- In addition to compliance with the Member Code of Conduct, you will sign adherence to the Conflict of Interest Declaration and declare any further potential conflicts of interest that may arise once appointed as a member ;
- You should comply with the Local Pension Board Code in addition to existing compliance with the Member or Officer Code of Conduct.

2. Conflict of interest

- 2.1 The Public Service Pensions Act 2013, Section 5(4) requires that any member of a Pension Board must not have a “conflict of interest”, which is defined in Section 5(5) as a “financial or other interest which is likely to prejudice the person’s exercise of functions as a member of the board, but does not include a financial or other interest arising merely by virtue of membership of the scheme or any connected scheme.”
- 2.2 A conflict of interest exists where there is a divergence between the individual interests of a person and their responsibility towards the Local Pension Board, such that it might be reasonably questioned whether the actions or decisions of that person are influenced by their own interests. A conflict of interest would prejudice an individual’s ability to perform their duties and responsibilities towards the Local Pension Board in an objective way.
- 2.3 An example of a potential conflict of interest could be:
- A Local Pension Board member may be required to review a decision which may be, or appear to be, in opposition to another interest or responsibility; e.g(s):
 - a review of a decision which involves the use of departmental resource in the function of the Local Pension Board, whilst at the same time being tasked with reducing this departmental resource by virtue of their employment;
 - a Local Pension Board member could also be employed or have an interest in either privately or as part of the Council in a service area of the Council for which the Local Pension Board has cause to review;
 - an independent member of the Local Pension Board may have a conflict of interest if they are also advising the Scheme Manager.
- 2.4 All prospective Local Pension Board members are required to complete the **Surrey Local Pension Board Conflict of interest declaration** before they are appointed to the Local Pension Board.
- 2.5 All appointments to the Local Pension Board should be kept under review by the Local Pension Board.
- 2.5 It is the duty of any appointed Local Pension Board member to declare any potential conflict of interest. This declaration should be made to the Chair of the Local Pension Board in the first instance or to the Scheme Manager and recorded in a register of interests.

- 2.7 The Local Pension Board shall identify and monitor any potential conflict of interests in a register of interests. The register of interests should be circulated to the Local Pension Board and Scheme Manager for review and publication.
- 2.8 If the Local Pension Board suspects any conflict of interest it should report its concerns to the Scheme Manager.
- 2.9 When seeking to prevent a potential conflict of interest becoming detrimental to the conduct of decisions of the Local Pension Board, the Local Pension Board should consider obtaining legal advice when assessing its course of action and response. The Local Pension Board may wish to consult the Director of Legal and Democratic Services in the first instance.
- 2.10 Education on identifying and dealing with conflict of interest will be included as part of the training requirement in the **Attendance and knowledge and understanding policy**.
- 3. Alleged breaches of the Code of Conduct and conflict of interest policy**
- 3.1 A process for dealing with the consideration of any alleged breaches, to include any sanctions to be applied, will be agreed by the Scheme Manager and the Local Pension Board.

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SURREY COUNTY COUNCIL

SURREY PENSION FUND BOARD

DATE: 22 MAY 2015

LEAD OFFICER: SHEILA LITTLE, DIRECTOR OF FINANCE

SUBJECT: CORPORATE GOVERNANCE SHARE VOTING



SUMMARY OF ISSUE:

This report provides a summary of the Fund's share voting process in Q2 and Q3 2014/15.

RECOMMENDATIONS:

It is recommended that the Surrey Pension Fund Board note the report.

REASON FOR RECOMMENDATIONS:

The Surrey Pension Fund Board must approve all pension fund working documents.

DETAILS:

Background

- 1 The informed use of shareholder votes, whilst not a legal duty, is a responsibility of shareholders and an implicit fiduciary duty of pension fund trustees and officers to whom they may delegate this function. Such a process requires the adherence to an approved share voting policy and the advice of a consultant skilled in this particular field.
- 2 The Surrey Pension Fund appointed Manifest in 2013 to provide consultancy advice on share voting and the whole spectrum of company corporate governance. Manifest has assisted in ensuring that the Fund's stewardship policy reflects the most up-to-date standards and officers learn of the latest developments and can reflect these developments in the Fund's share voting policy and the Statement of Investment Principles (SIP).

Responsible Investment and Stewardship Policy

- 3 The Financial Reporting Council (FRC) is currently consulting on its two-yearly review of changes to the UK Corporate Governance Code. This review follows earlier consultations on directors' remuneration, risk management, internal control and the going concern basis of accounting. The proposed changes to the UK Corporate Governance Code were published at the start of October 2014 and reported to the Board meeting of 13 February 2015.

- 4 A report with the new Code and revised share voting policy was presented to the 14 November 2014 Board meeting. A schedule of the abbreviations used in the report is shown as Annex 1. The proposed share voting policy is included within the Responsible Investment and Stewardship report in this meeting's agenda.

Meetings Voted: Q4 2014/15

- 5 Table 1: Meetings Voted below shows that 45 meetings were voted in total, comprising 32 AGMs and 13 other meetings.

Table 1: Meetings Voted

Region	Meeting Type					Total
	AGM	EGM	GM	SGM	Class	
UK & Ireland	6	-	7	-	-	13
Japan	4	-	-	-	-	4
Europe – Developed	10	1	-	1	-	12
Asia & Oceania – Developed	9	-	1	-	1	11
Asia & Oceania – Emerging	-	1	-	-	-	1
South & Central America	2	1	-	-	-	3
North America	-	-	-	-	-	-
Europe – Emerging	1	-	-	-	-	1
Africa	-	-	-	-	-	-
Total	32	3	8	1	1	45

Resolutions

- 6 Table 2: Resolutions Voted shows the total number of resolutions voted by region, broken down by meeting type. This clearly shows the high volume of voting decisions that AGMs bring compared with other meetings. In Table 1, even though AGMs comprise less than 75% of the meetings Table 2 shows AGMs account for over 90% of the resolutions. During Quarter 4, 1,540 resolutions were voted, with the bulk of these in Europe (241) and the UK & Ireland (135).

Table 2: Resolutions Voted

Region	Meeting Type					Total
	AGM	GM	EGM	Class	SGM	
UK & Ireland	123	12	-	-	-	135
Europe – Developed	232	-	8	-	1	241
Japan	39	-	-	-	-	39
Asia & Oceania – Developed	87	1	-	1	-	89
Asia & Oceania – Emerging	-	-	3	-	-	3
Europe – Emerging	15	-	-	-	-	15
North America	-	-	-	-	-	-
South & Central America	13	-	5	-	-	18
Africa	-	-	-	-	-	-
Total	509	13	16	1	1	540

- 7 There is a significant increase in voting at the end of Q4, heralding the start of peak proxy session in Europe.

Table 3: Resolutions Voted per Month (January to March)

Event	Jan	Feb	Mar	Total
AGM	3	4	25	32
EGM	-	2	-	2
GM	2	1	5	8
OGM	1	1	-	2
Total	6	8	30	44

Voting Patterns

- 8 This section examines some patterns of voting by resolution category and voting policy.

Votes Against Management

- 9 The data in Table 4 (Votes Against Management By Resolution Category) shows some important perspective on the type of voting decisions being made. As a part of the research analysis of meetings business, each resolution is categorised according to the governance considerations they relate to. Surrey voted against just over 12% of all resolutions for which votes were cast during Q1, which is consistent with the proportion of resolutions opposed in the previous two quarters.
- 10 Board resolutions account for just over half of all resolutions to be voted on but, in contrast to voting in recent periods, also represent around half of resolutions which were voted against. The increase in Q4 is attributable to the inclusion of votes against board discharge at the AGM for TUI AG which sought authority for discharge from liability for each of its 23 directors. TUI Travel (a UK PLC), merged with TUI AG a German company in the year and the discharge vote is a common feature of the German market.
- 11 Conversely, a high proportion of sustainability resolutions and shareholder rights resolutions were voted against. Sustainability is broadly defined and includes authorities to allow political donations. Political donation authorities account for all of the 20 Sustainability resolutions which were voted against. All of the 36 Shareholder Rights resolutions voted against were resolutions seeking to approve 14 day notice periods for ordinary general meetings (other than AGMs).
- 12 The resolution category where Surrey CC has voted against management most frequently is Remuneration. Of the remuneration resolutions voted against over half were related to quantum rather than design of pay policy. Seven of the 13 votes against were resolutions seeking approval of the aggregate limit on board remuneration.

Table 4: Votes Against Management By Resolution Category

Resolution Category	Total Resolutions	Voted Against Management	% votes against Management
Board	278	35	50.7%
Capital	70	10	14.7%
Audit & Reporting	74	1	1.5%
Remuneration	51	13	19.1%
Shareholder Rights	52	5	7.4%
Corporate Actions	5	-	-
Sustainability	9	4	5.9%
Total	540	68	100.0%

Shareholder Proposed Resolutions

- 13 Seventeen of the resolutions voted during the period were proposed by shareholders. Shareholder proposed resolutions often attract relatively high levels of votes against management, especially where the matter at hand is one on which investors have strong views. The tabling of a shareholder proposal is one way in which shareholders can put pressure on a company, by highlighting an issue and potentially garnering public support for their cause.
- 14 The flipside danger is, of course, the possibility of a very public rejection of the question by other shareholders. This was the case with the resolutions proposed during Q4, all of which were rejected. Of those for which detailed voting results are available, all received less than 0.5% support. Unlike in the UK there is no regulatory requirement for disclosure of proxy results in the Japanese or Norwegian markets.

Table 5: Shareholder Proposed Resolutions

Resolution Sub-category	Shareholder Proposals	Voted Against Management
Total	17	0

Remuneration

- 15 The specific aspects of Surrey's policy against which UK companies are most frequently coming up short on Remuneration Report votes are:
- Where the aggregate limit proposed for board remuneration is not accompanied by individual disclosure of remuneration for each director. This was the case at six Korean companies and the occurrence of the peak AGM season in Korea with its attendant disclosure problems. During Q4, this contributed heavily to votes against on remuneration issues.
 - Where the upper bonus cap for any of the executive directors exceeds an acceptable multiple of salary. This was the case at all of the UK companies where the report on implementation of remuneration policy was voted against.

Table 6: Remuneration

Resolution Category	Total Resolutions	Voted Against Management	% Against Management
Remuneration Report	14	5	35.7%
Remuneration Policy	6	-	-
Policy (Long-term Incentives)	3	-	-
Non-executive Remuneration	8	1	12.5%
Amount (Total, Collective)	12	6	50.0%
Policy (Short-term Incentives)	-	-	-
Policy (Other Component)	1	-	-
Other	7	1	14.3%
Total	51	13	25.5%

Monitoring and Review

16 The share voting policy is kept under constant review.

CONSULTATION:

17 The Chairman of the Surrey Pension Fund Board has been consulted on the current position and has offered full support for the proposals.

RISK MANAGEMENT AND IMPLICATIONS:

18 There are no risk related issues contained within the report's proposals.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

19 There are no financial and value for money implications.

DIRECTOR OF FINANCE COMMENTARY

20 The Director of Finance is satisfied that the share voting policy offers an effective framework for the sound share voting of the pension fund, subject to the proposed revision to be presented to the Board when possible.

LEGAL IMPLICATIONS – MONITORING OFFICER

21 There are no legal implications or legislative requirements associated with this report.

EQUALITIES AND DIVERSITY

22 The approval of a share voting policy will not require an equality analysis, as the initiative is not a major policy, project or function being created or changed.

OTHER IMPLICATIONS

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

WHAT HAPPENS NEXT

24 The following next steps are planned:

- Adoption and implementation of the share voting policy
 - Policy is kept under review
-

Contact Officer:

Phil Triggs, Strategic Finance Manager (Pension Fund and Treasury)

Consulted:

Surrey Pension Fund Board Chairman

Annexes:

Annex 1: List of abbreviations

Sources/background papers:

None

AGM

An Annual General Meeting of shareholders, normally required by law.

EGM

An Extraordinary General Meeting of shareholders, where a meeting is required to conduct business of an urgent or extraordinary nature. Such business may require a special quorum or approval level.

GM

A General Meeting of shareholders, often used interchangeably with the term EGM or OGM, depending on the term used by the issuer in question.

OGM

An Ordinary General Meeting of shareholders, which is a meeting at which ordinary business is to be conducted (i.e. business which does not require a special quorum or approval level).

Court

A meeting of shareholders which is convened by a Court as opposed to by management. This is often used in the UK in order to effect a scheme of arrangement during a corporate transaction.

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SURREY COUNTY COUNCIL

SURREY PENSION FUND BOARD

DATE: 22 MAY 2015

LEAD OFFICER: SHEILA LITTLE, DIRECTOR OF FINANCE

SUBJECT: KEY PERFORMANCE INDICATORS



SUMMARY OF ISSUE:

In line with best practice, Surrey Pension Fund Board members will be supplied with Pension Fund key performance indicators (KPIs) on a quarterly basis, covering investment and administration practices.

RECOMMENDATIONS:

It is recommended that:

- 1 The Surrey Pension Fund Board note the KPI statement shown in Annex 1.
- 2 The Surrey Pension Fund Board note the Shadow Scheme Advisory Board pilot KPI statement shown in Annex 2.

REASON FOR RECOMMENDATIONS:

To comply with best practice and to assist the work of the LGPS Shadow Scheme Advisory Board.

DETAILS:

Requirement

- 1 In line with best practice, future Pension Fund Board meetings will continue to be supplied with a schedule of Pension Fund key performance indicators (KPIs), covering investment and administration practices.

Key Performance Indicators

- 2 The current KPIs cover the following areas:
 - Funding level;
 - Death benefit administration;
 - Retirement administration;
 - Benefit statements;
 - New joiners;
 - Transfers in and out;
 - Material posted on website;
 - Employer and member satisfaction;
 - Investment performance;
 - Data quality;

- Contributions monitoring;
- Audit;
- Overall administration cost.

3 Further to a request by the Surrey Pension Fund Board at the Board meeting of 13 February 2015, the total number of membership now administered by the Surrey Pension Service, across all local authorities is now included in the KPI schedule.

4 The KPI schedule to 31 March 2015 is shown as Annex 1.

5 Periods covered in the schedule range from one month, three months and twelve months.

6 Members are invited to discuss the performances set out in the schedule.

The Shadow Scheme Advisory Board (SSAB) Key Performance Indicator Pilot

7 On 2 March 2015, an invitation was received from the Secretariat of the SSAB for the Surrey Pension Fund to submit a pilot set of the Surrey Pension Fund KPIs on a self assessment basis.

8 The suite of KPIs was developed during 2014 by the SSAB Scheme Reporting Group, which comprises LGPS practitioners and external bodies including NAPF, CIPFA and the ACA sub group.

9 The aims of the pilot KPIs are to enable funds to compare themselves across the scheme and will enable the Scheme Advisory Board to provide more targeted support to funds.

10 Results taken from the pilot KPIs will allow funds to:

- Assess their fund against the examples of best practice for high performing funds and examples of concern for each KPI;
- Inform the SSAB how much effort/time/cost undertaking the pilot actually consumed compared with the SSAB estimate;
- Provide general feedback on the KPIs and examples of best practice and example of concern and any suggestions for their clarification, refinement and improvement.

11 The pilot has four primary KPIs and 14 secondary KPIs covering the following areas:

- Primary KPIs:
 - Risk management (covering all pension fund activities)
 - Funding level and contributions
 - Deficit recovery
 - Required investment returns
- Secondary KPIs:
 - Pensions committee and local pensions board member competance
 - Adminsterring authority staff accountability, leadership experience and training

- Statutory governance standards and principles (as per DCLG or SSAB and tPR codes)
 - Quality and accesability of information and statutory statements/strategies/policies (Governance, FSS, SIP, comms, admin authority and employer discretions policies)
 - a) Compliance with the Principles for Investment Governance (ie Myners principles) and b) voluntary adoption of UK Stewardship Code and UNPRI
 - a) Historic investment returns (last 3, 5, and 10 years) and b) total investment costs compared to other LGPS funds
 - Annual report(s) and audited financial statements
 - Scheme membership data
 - Pension queries, pension payments, and annual benefit statements
 - Cost efficient administration and overall VFM management
 - Handling of formal complaints and IDRP's
 - Fraud prevention
 - Internal and external audit
 - Quality assurance
- 12 The Surrey Pension Fund responded to the SSAB pilot KPI request on 31 March 2015.
- 13 The pilot KPI schedule covering the year to 31 March 2014 is shown as Annex 2.

CONSULTATION:

- 14 The Chairman of the Surrey Pension Fund Board has been consulted and has offered full support regarding the content, structure and performances achieved set out in the schedule.

RISK MANAGEMENT AND IMPLICATIONS:

- 15 There are no risk related issues contained within the report.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

- 16 There are no financial and value for money implications.

DIRECTOR OF FINANCE COMMENTARY

- 17 The Director of Finance is satisfied that all material, financial and business issues and possibility of risks have been considered and addressed and that the proposed KPI model offers an effective framework for the monitoring of the essential pension fund KPIs.

LEGAL IMPLICATIONS – MONITORING OFFICER

- 18 There are no legal implications or legislative requirements associated with this report.

EQUALITIES AND DIVERSITY

- 19 The reporting of such information will not require an equality analysis, as the initiative is not a major policy, project or function being created or changed.

OTHER IMPLICATIONS

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

WHAT HAPPENS NEXT

- 21 The following next steps are planned:
- Continued improvement in the indicators.
 - Further refinement and additions of useful data.
 - Review of KPIs in accordance with future guidance from the Scheme Advisory Board.

Contact Officer:

Phil Triggs, Strategic Finance Manager (Pension Fund and Treasury)

Consulted:

Surrey Pension Fund Board Chairman.

Annexes:

Annex 1: Schedule of Key Performance Indicators

Annex 2: SSAB Pilot Schedule of Key Performance Indicators

Sources/background papers:

None

No	Description	Target	Lead Officer	Actual (Score and RAG)	Reporting Period	Previous Score	Date Last Reported	Improvement/Deterioration
1	FUNDING							
	IMPROVE FUNDING LEVEL Funding level to increase from current levels of 72%	100%	PT	74.4%	31/03/15	73.1%	31/12/14	↑ 1.30%
2	PENSION ADMINISTRATION							
	DEATH BENEFITS Notify potential beneficiary of lump sum death grant within 5 days	95%	JB	100.0%	3 months to 31 Mar 15	100.0%	3 months to 31 Dec 14	→ 0.00%
	Write to dependant and provide relevant claim form within 5 days of notification of death	90%		90.4%	3 months to 31 Mar 15	91.2%	3 months to 31 Dec 14	↓ -0.80%
	Pay death grant within 5 days of receipt of relevant documentation	90%		93.8%	3 months to 31 Mar 15	92.6%	3 months to 31 Dec 14	↑ 1.20%
	Issue notification of dependant's pension within 5 days of receipt of relevant claim forms	90%		93.8%	3 months to 31 Mar 15	92.6%	3 months to 31 Dec 14	↑ 1.20%
	RETIREMENTS Retirement options to members within 10 days	90%	JB	70.0%	3 months to 31 Mar 15	76.0%	3 months to 31 Dec 14	↓ -6.00%
	New retirement benefits processed for payment following receipt of election within 10 days	95%		97.8%	3 months to 31 Mar 15	97.0%	3 months to 31 Dec 14	→ 0.80%
	BENEFIT STATEMENTS ABS issued to 95% of eligible active members by 30th September	95%	JB	Not achieved	12 months to 30 Sep 14	100.0%	12 months to 30 Sep 13	
	DBS issued to 85% of eligible deferred members by 30th June	95%		100% issued by 30/06/14	12 months to 30 Jun 14	100% issued by 26/09/13	12 months to 30 June 13	
	NEW JOINERS New starters processed within 20 days	90%	JB	76.0%	3 months to 31 Mar 15	96.6%	3 months to 31 Dec 14	↓ -20.60%
	TRANSFERS IN Non LGPS transfers-in quotations processed within 20 days	90%	JB	100.0%	3 months to 31 Mar 15	96.7%	3 months to 31 Dec 14	↑ 3.30%
	Non LGPS transfers-in payments processed within 20 days	90%		100.0%	3 months to 31 Mar 15	100.0%	3 months to 31 Dec 14	→ 0.00%
	TRANSFERS OUT Non LGPS transfers-out quotations processed within 20 days	90%	JB	90.6%	3 months to 31 Mar 15	96.6%	3 months to 31 Dec 14	↓ -6.00%
	Non LGPS transfers out payments processed within 20 days	90%		94.3%	3 months to 31 Mar 15	96.7%	3 months to 31 Dec 14	↓ -2.40%
	MATERIAL POSTED ON WEBSITE Relevant Communications Material will be posted onto website within one week of being signed off	95%	JB/NM	100%	3 months to 31 Mar 15	100%	3 months to 31 Dec 14	
3	CUSTOMER SERVICE							
	EMPLOYER SATISFACTION/SURVEY Overall satisfaction score for employers to be 80%	80%	JB/NM	Not available	At Sep 14	92%	At May 14	
	MEMBER SATISFACTION/SURVEY Overall satisfaction score for members to be 80%	80%	JB	85%	3 months to 30 Sep 14	95%	3 months to 31 Mar 14	
4	INVESTMENT PERFORMANCE							
	INVESTMENT RETURNS/OVERALL FUND PERFORMANCE Returns to at least match the benchmark	Benchmark	PT	BENCHMARK 12.3%	12 months to 31 March 15	BENCHMARK 7.9%	12 months to 31 Dec 14	
				ACTUAL 12.3%	12 months to 31 March 15	ACTUAL 6.9%	12 months to 31 Dec 14	
5	DATA							
	DATA QUALITY Data quality within the Fund should be at least 90% accurate.	90%	JB	99%	12 months to 31 Mar 14	99%	12 months to 31 Mar 13	
6	CONTRIBUTIONS							
	CONTRIBUTIONS RECEIVED Pension Fund 98% (total value) of contributions to be received by 21st day of the ensuing period.	98%	PT	99%	Mar-15	98%	Dec-14	↑ 1.00%
7	AUDIT							
	CLEAN AUDIT REPORT Receive an unqualified audit opinion from the external auditors	Clean Report	PT/JB	Achieved	12 months to 31 Mar 14	Achieved	12 months to 31 Mar 13	
	Annual audit returns no significant findings	No significant findings		Achieved		Achieved		
8	COST							
	COST PER MEMBER Administration cost per member to remain in lowest CIPFA benchmarking quartile	< lowest quartile	PT/JB	Achieved	12 months to 31 Mar 15	Achieved	12 months to 31 Mar 14	

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Proforma 1

Pension Fund Name	Surrey CC
Contact Name	Neil Mason
Position within organisation	Advisor
Email address	neil.mason@surreycc.gov.uk

KPI number and name (the 4 primary KPIs are in bold). See annex 1 for examples of best practice and concern	Please provide your funds self assessment for each of the examples of best practice and examples of concern in Annex 1. For each one please assess your fund is Full, Partly, or None. If it helps clarify your response please provide figures or notes.	Yes, No, Partly	Please provide your source of factual evidence you have used to make your self- assessment	Please provide any general comment or feedback or ideas to improve the KPIs or any alternative more differentiating/stretching KPI.
1) Risk management (covering all pension fund activities)	Comprehensive risk register covering the key risks (in accordance with current CIPFA guidelines) with robust mitigation actions, timelines, and action tracking to completion.	Partly	Risk register approved by the pension committee. Performance against areas identified in the register monitored quarterly and published in quarterly pension committee minutes.	
	Risk register and completed actions signed off by Pensions Committee after at least annual update and disclosed via a summary version published on fund website.	Yes	As above	
2) Pensions Committee and Pensions Board members competence	Both large employer and member types representation.	Yes	Constituent members of the pension committee	
	Regular and completed training recorded against the CIPFA knowledge and understanding framework.	Yes	Training disclosed in pension committee minutes.	
	CIPFA training disclosure in Annual Report.	Partly	As above	
	Appointees able to clearly explain the funds objectives.	Yes	Member competences quality assured by an independent governance audit	
3) Administering authority staff accountability, leadership, experience, and training	Experienced Head of Fund with full time dedicated officers with at least 3+ years' experience and regular CIPFA and other CPD training recorded across all LGPS skills and topics.	Yes	CPD and training record	
4) Statutory governance standards and principles (as per DCLG or SSAB guidance and TPR codes)	100% compliant and meet or exceed guidance/codes on best practice including key decision taking recording and self-assessment of effectiveness.	Yes	Governance compliance statement.	
5) Quality and accessibility of information and statutory statements/strategies/policies (Governance, FSS, SIP, comms, admin authority and employer discretions policies)	Publications well articulated and all in place and published on fund website and updated in accordance with regulatory requirements and due timelines and meet Plain English and other e- publishing standards.	Partly	Fund website	All statutory documents are available on either the Council and Fund website, but, could be more clearly articulated.
6) Funding level and contributions	Funding level rising and getting closer to 100% funded (or above) over last three triennial valuations.	Yes	Triennial valuations.	On a like for like analysis the FL improved from 72% to 79% between 2010 and 2013
	Strong funding covenants with all employers.	Partly	Covenant review in progress to establish key risks.	A value matrix of covenant strengths would be useful.
	Rising contributions or actual contributions received in last 6 years equate to (or exceed) that assumed and certified in the last 2 triennial valuations.	Partly		We are unclear over what the KPI is requesting?
	Net inward cash flow significantly exceeds benefit out-goings	Yes	Statement of accounts.	We do not consider the parameters of this KPI to be appropriate. The cash flow position of a fund is not necessarily a qualitative measure.
7) Deficit recovery	Well-articulated deficit recovery plan for tax raising and non-tax raising bodies.	Yes	Funding strategy statement.	
	Implied deficit recovery reducing each triennial valuation.	No	Triennial valuations.	We do not consider the parameters of this KPI to be appropriate. Deficit recovery positions in the fund are not necessarily a qualitative measure, as they are reliant on external factors outside of fund influence (e.g. discount rates, covenant reassessments).
	Implied deficit recovery period in line with TPR best practice for DB schemes (<10 years) or top decile of LGPS	No	Valuation report. And like for like analysis provided by Hymans Robertson	The implied deficit recovery period on the HMT long term assumptions is 15 years.
8) Required investment returns	Required future fund investment return consistent with and aligned to investment strategy (asset mix expected target returns) so higher likelihood of the fund meeting its funding strategy.	Yes	Investment consultant's review in conjunction with the Fund actuary.	Like for like analysis shows required return is 4.7% p.a. which is consistent with investment and funding strategy
9) a) Compliance with the Principles for Investment Governance (ie Myner's principles) and b) voluntary adoption of UK Stewardship Code and UNPRI	100% compliance and signatory status.	Yes	Annual report and pension committee minutes.	
10) a) Historic investment returns (last 3, 5, and 10 years) and b) total investment costs compared to other LGPS funds.	Investment returns top quartile for last 5 and 10 years	Partly	WM	Fund in top quartile for five year period, top 30% for for three years, ten year is not immediately available. Source WM. Not data available for comparable investment costs.
	Fund managers deliver or exceed their mandates over rolling 3 to 5 year performance periods.	Partly	Manager and custodial reports and pension committee minutes.	Five out of six existing managers with mandates over three years have exceeded benchmark and target out-performance.
	Infrequent fund manager changes.	Yes	Annual reports and pension committee minutes.	Most fund managers have been with the fund for more than five years. Outside enforced changes from adjustments in asset allocation there have been limited changes in fund manager. This KPI implies that a high turnover of fund managers is negative, when this should be judged in the context of the total returns of the fund.
11) Annual report(s) and audited financial statements	Meet and or exceed all regulatory and CIPFA best practice guidance and published on Advisory Board website by 1 September.	Yes	SSAB website	
12) Scheme membership data	All data (common and conditional) meet TPR Code 14, standards, guidelines, due timelines.	Partly	Analysis reports of common data are run against the pensions database annually and reported to the Pensions Board. 'Partly' is shown only because we have a number of 'deferred' gone away members who we do not have current addresses for.	It would be helpful to have clarification of how much LA funds are expected to engage in 'pursuing' gone away members (e.g. by use of address screening services) as there are clearly cost implications of engaging with this sort of activity with tracing agencies (there is no option to deal with this in-house).
13) Pension queries, pension payments, and annual benefit statements	Good website with interactive scheme member and employer access.	Partly	Our own opinion is that website is user friendly and accessible for members and employers but self-service is still to be developed.	It would be helpful to have clarification as to what 'good' looks like in terms of website - what specific functionality for example is it expected this should include?
	ABS meet or exceed regulatory standards and due timelines for issuance.	Partly	Date of issue of ABS's.	
14) Cost efficient administration and overall VFM fund management	In top quartile with low total admin cost pa per fund member (based on CIPFA or other benchmark tool calculated on a consistent and transparent basis.)	Yes	CIPFA Benchmarking	
	Lead and/or actively participates in joint and collective LGPS procurement mechanisms.	Yes	Member of LGPS frameworks	
15) Handling of formal complaints and IDRPs	No Stage 2 IDRPs or no Pensions Ombudsman determinations against the funds actions in last 3 years.	Yes	Pension Fund's own records	
16) Fraud prevention	Fraud prevention programme in place.	Partly	See point 37	If there is an expectation of any actions beyond those set out in Point 37 it would be helpful to have clarification on what these might be.
	Use external monthly, quarterly/annual mortality screening services, and participate in bi-annual National Fraud Initiative.	Yes	Monthly mortality screening against GRO database plus life certification for overseas pensioners and participation in NFL.	
17) Internal and external audit	Unqualified annual internal and annual external audit opinions with no management recommendations.	Partly	Annual report (external audit). Pension committee minutes (internal audit).	
	Full assurance against all key audit areas.	Partly	Annual report (external audit). Pension committee minutes (internal audit).	
18) Quality assurance	Has ISO/BSI quality management certification and/or Crystal Mark for plain English and or externally approved website accessibility, and/or peer or pensions & investment industry recognition award(s)	No		

Performance theme	KPI number and name (the 4 primary KPIs are in bold)	Technical owner of the KPI
Fund governance, management, administration, transparency, and accountability	1) Risk management (covering all pension fund activities)	CIPFA as the KPIs is based on the CIPFA LGPS risk management guidelines.
	2) Pensions Committee and Pensions Board members competence	CIPFA because the KPI is based on adoption of the CIPFA LGPS training, knowledge, understanding, and disclosure framework
	3) Administering authority staff accountability, leadership, experience, and training	CIPFA because the KPIs is based on the adoption of the CIPFA LGPS training, knowledge, understanding, and disclosure framework.
	4) Statutory governance standards and principles (as per DCLG, SSAB guidance, and TPR codes)	DCLG, SSAB and tPR as the creators of the statutory or best practice governance standards, principles and guidance
	5) Quality and accessibility of information and statutory statements/strategies/policies (Governance, FSS, SIP, comms, admin authority and employer discretions policies)	DCLG as the authors of the guidance on the production of LGPS statutory strategy and policy statements
Funding level, contributions, deficit reduction and ability to meet pension liabilities	6) Funding level and contributions	SSAB and ACA LGPS Sub-Group
	7) Deficit recovery	SSAB and ACA LGPS Sub-Group
Asset management strategy, stewardship, and investment returns	8) Required investment returns	SSAB and ACA LGPS Sub-Group in consultation with WM as required
	9) a) Compliance with Investment Governance Principles (ie Myners principles) and b) voluntary adoption of UK Stewardship Code and UNPRI	SSAB Secretariat in consultation with IGC, FRC, and PRI
	10) a) Historic investment returns (last 3, 5, and 10 years) and b) total investment costs compared to other LGPS funds.	WM (State Street) or other investment performance measurer
	11) Annual report(s) and audited financial statements	DCLG in terms of legal requirements plus CIPFA in terms of LGPS financial reporting and accounting guidance
	Pension benefits, member services, and communications	12) Scheme membership data
13) Pension queries, pension payments, and annual benefit statements		DCLG in terms of legal requirements and tPR code 14 and best practice guidance.
14) Cost efficient administration and overall VFM fund management		CIPFA in terms of defining LGPS administrative costs.
15) Handling of formal complaints and IDRPCs		DCLG as the KPI is based on their LGPS IDRPC guidance (it needs updating)
Independent external review and assurance		16) Fraud prevention
	17) Internal and external audit	Auditing Practices Board standards
	18) Quality assurance	ISO/BSI quality standards, and or Crystal Mark or Plain English recognition

Primary indicators

Performance theme	KPI number and name	Examples of level for concern	Examples of good practice for high performing fund
Fund governance, management, administration, transparency, and accountability	1) Risk management	No or only a partial and/or an unclear risk register with no or poorly specified or unimplemented mitigation actions over time leading to increased fund risk. Risk register not signed off by Pensions Committee or annually updated or unavailable for public scrutiny.	Comprehensive risk register covering the key risks (in accordance with current CIPFA guidelines) with robust mitigation actions, timelines, and action tracking to completion. Risk register and completed actions signed off by Pensions Committee after at least annual update and disclosed via a summary version published on fund website.
Funding level, deficit reduction and ability to meet pension liabilities	6) Funding level and contributions (see explanatory notes)	Decreasing funding level (calculated on a standardised and consistent basis) and/or in bottom decile of LGPS, over the last three triennial valuations. Weak funding covenants with employers or a large number of smaller employers. Declining contributions and actual contributions received in last 6 years less than that assumed and certified in last 2 triennial valuations. Net inward cash flow less than benefit outgoings so need to sell assets.	Funding level rising and getting closer to 100% funded (or above) over last three triennial valuations. Strong funding covenants with all employers. Rising contributions or actual contributions received in last 6 years equate to (or exceed) that assumed and certified in the last 2 triennial valuations. <u>Net inward cash flow significantly exceeds benefit out-goings</u>
Funding level, deficit reduction and ability to meet pension liabilities	7) Deficit recovery (see explanatory notes)	No or weak/unrealistic deficit recovery plan. Lengthening implied deficit recovery period (for contributions) than majority of other funds. Implied deficit recovery periods >25 years for last 3 valuations.	Well-articulated deficit recovery plan for tax raising and non-tax raising bodies. Implied deficit recovery reducing each triennial valuation. Implied deficit recovery period in line with TPR best practice for DB schemes (<10 years) or top decile of LGPS
Asset management, stewardship, and investment returns	8) Investment returns (see explanatory notes)	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.	Required future fund investment return consistent with and aligned to investment strategy (asset mix expected target returns) so higher likelihood of the fund meeting its funding strategy.

Secondary Indicators

Performance theme and number of KPIs	KPI number and name	Examples of level for concern	Examples of good practice for high performing funds
Fund governance, management, administration, transparency, and accountability	2) Pensions Committee and Pensions Board members competence	No large employers or member representation. No training needs analysis, or training strategy, or training log or use of CIPFA LGPS training framework. Appointees unable to clearly articulate the funds funding and investment objectives.	Both large employer and member types representation. Regular and completed training recorded against the CIPFA knowledge and understanding framework. CIPFA training disclosure in Annual Report <u>Appointees able to clearly explain the funds objectives.</u>
	3) Administering authority staff accountability, leadership, experience, and training	No or only part time Head of Fund and or only part time officers with no or little induction or on-going training or experience on the CIPFA LGPS knowledge and understanding framework.	Experienced Head of Fund with full time dedicated officers with at least 3+ years' experience and regular CIPFA and other CPD training recorded across all LGPS skills and topics.
	4) Statutory governance standards and principles (as per DCLG guidance and TPR codes)	Several key areas of non-compliance and reasons why not explained. Poor key decision taking recording and no or poor self-assessment of effectiveness.	100% compliant and meet or exceed guidance/codes on best practice including key decision taking recording and self-assessment of effectiveness.
	5) Quality and accessibility of information and statutory statements, strategies, policies (governance, FSS, SIP, comms, admin authority and employer discretions policies)	Publications poorly articulated and some not in place nor published on fund website nor updated in accordance with regulatory requirements and due timelines.	Publications well articulated and all in place and published on fund website and updated in accordance with regulatory requirements and due timelines and meet Plain English and other e-publishing standards.
Asset management, stewardship, and investment performance	9) a) Compliance with Investment Governance Principles (ie Myrners principles) and b) voluntary adoption/signatory to UK Stewardship Code and UNPRI	Several areas of unexplained non-compliance and/or non-support of UK and or UN codes.	100% compliance and signatory status.
	10) Historic investment returns	Investment returns in LGPS bottom	Investment returns top quartile for last 5 and 10 years
	(last 3, 5, 10 years) and total investment costs compared to other LGPS funds. (See explanatory notes)	Quartile and investment costs in top LGPS quartile for last 3 to 5 years. Retention of fund managers underperforming their stated investment mandates for 2 triennial valuation cycles. Fund manager sackings within 3 years of appointment.	Fund managers deliver or exceed their mandates over rolling 3 to 5 year performance periods. Infrequent fund manager changes.
	11) Annual report(s) and audited financial statements	Do not fully meet some regulatory requirements or CIPFA LGPS guidance or not issued by due date.	Meet and or exceed all regulatory and CIPFA best practice guidance and published on Advisory Board website by 1 September.
	12) Scheme membership data	Some common and conditional data do not meet the TPR standards, guidelines, or due timelines. No plans in place to rectify this.	All data (common and conditional) meet TPR Code 14, standards, guidelines, due timelines.
	13) Pension queries, pension payments, and Annual Benefit Statements	No or poor website with no scheme member or employer access. ABS do not meet regulatory requirements or due timelines for issuance.	Good website with interactive scheme member and employer access. ABS meet or exceed regulatory standards and due timelines for issuance.
	14) Cost efficient administration and overall VFM fund management	In bottom quartile with high total admin cost pa per member (based on CIPFA or other benchmark tool). Not in any national or regional frameworks for any externally procured services or collective investments.	In top quartile with low total admin cost pa per fund member (based on CIPFA or other benchmark tool calculated on a consistent and transparent basis.) Lead and/or actively participates in joint and collective LGPS procurement mechanisms.
	15) Handling of formal complaints and IDRPs	Pensions Ombudsman determinations (and any appeals) find against the actions of the fund.	No Stage 2 IDRPs or no Pensions Ombudsman determinations against the funds actions in last 3 years.
Independent external review and assurance	16) Fraud prevention	No or minimal systems/programme or mechanisms in place to detect fraud	Fraud prevention programme in place. Use external monthly, quarterly/annual mortality screening services, and participate in bi-annual National Fraud Initiative.
	17) Internal and external audit	No annual internal audit or qualified internal and external audit opinions with urgent management action recommended on	Unqualified annual internal and annual external audit opinions with no management recommendations. <u>Full assurance against all key audit areas.</u>
	18) Quality assurance	No externally assured systems or processes or peer recognition awards.	Has ISO/BSI quality management certification and/or Crystal Mark for plain English and or externally approved website accessibility, and/or peer or pensions & investment industry recognition award(s)

Explanatory definitions and notes for KPIs 6, 7, 8 (for use by your actuary and as discussed by the LGPS ACA Group) and KPI 10 (for use by your investment performance measurer as discussed with WM)

Indicator number and name	Explanatory definitions and notes
6) Funding level and contributions	<p>Funding level calculated at last triennial valuation (on consistent HMT SCAPE financial assumptions) compared to the actual proportion of the fund's deficit (calculated on the above consistent HMT assumptions) being paid off annually.</p> <p>Actual contributions paid (sourced from annual accounts) as compared and expected total contributions (sourced from last 2 triennial valuations)</p> <p>Net inward cashflows (excluding investment income) as a proportion % pa of fund assets. Use to monitor if negative cash flow is close to or above say 3% of total assets. Above this should be sufficient income from assets to supplement contributions to meet benefit payments without having to sell assets.</p>
7) Implied deficit recovery period	<p>Implied deficit recovery period (derived using figures under indicator 2) reducing each triennial valuation. This metric is not the deficit spreading period used to set contributions. It is the estimated number of years required to repay each fund's deficit assuming a) current levels of contributions continue and b) the liabilities targeted for full funding are measured on like for like HMT assumptions (not each funds valuation assumptions).</p> <p>Also the contributions assumed in the calculation (and other metrics like required future investment return) should be the actual total contribution income expected into a fund based on actual payroll information from each employer at the valuation date and the rates of contribution certified at the valuation.</p> <p>The estimate of aggregate contributions for a fund is not the same as the "common rate" in the valuation report.</p>
8) Investment returns compared to the funds required future investment return	<p>The fund's required future investment return (calculated as the return needed to repay its deficit over a specified standard period (say 20 years) using common financial assumptions (HMT SCAPE) for the value of the fund liabilities to be met over that period and assuming the rates of contributions certified at the last valuation). All returns post 1 April 2014 must be quoted net of fees.</p> <p>The required future investment return should also be compared with the estimated future return being targeted by a fund's investment strategy calculated on a consistent agreed basis.</p>
10) Investment returns and costs compared to other LGPS funds	<p>Historic investment returns (over 1, 3 and 5 year and 10 years and longer period) as compared with other LGPS funds from external service provider. Going forward all figures post 1 April 2014 to be net of fees and preferably all investment returns on an agreed and consistent risk adjusted basis.</p> <p>Care will be needed to compare the absolute level of returns between funds because each fund has different asset allocations. Need to use a metric that takes account of performance and/or risk and/or sub-divide funds into high, medium, low growth asset allocation and make comparisons within these categories (not across categories).</p> <p>Total investment costs should be as per the financial accounts as % of total assets under management. This may need a specialist external service input to do analysis and reporting on a consistent and transparent basis and to enable benchmarking.</p>

SURREY COUNTY COUNCIL

SURREY PENSION FUND BOARD

DATE: 22 MAY 2015

LEAD OFFICER: SHEILA LITTLE, DIRECTOR OF FINANCE

SUBJECT: PENSION FUND RISK REGISTER



SUMMARY OF ISSUE:

Surrey County Council, as administering authority for the Surrey Pension Fund, is responsible for the delivery of benefit promises made to members of the Surrey Pension Fund. It achieves this by setting objectives and goals with varying timeframes. Risks lie in failing to meet the intended goals.

Risks that are established as an issue must be identified and evaluated via a risk register. The risks must be prioritised with existing controls or new controls implemented to mitigate the risks. This should be recorded in a risk register, which needs monitoring on a quarterly basis.

RECOMMENDATIONS:

It is recommended that Members assess the revised Risk Register in Annex 1, making any suggestions for amendment/additions as necessary.

REASON FOR RECOMMENDATIONS:

A solid framework of risk management is required in order to manage the considerable risk environment surrounding the governance and investment of the pension fund.

DETAILS:

Background

- 1 A review of the current risk register for the Pension Fund will give the Surrey Pension Fund Board the opportunity to influence and drive the Pension Fund risk management process for 2014-2015.

Risk Management Process

- 2 The risk management policy of the Surrey Pension Fund is to adopt best practice in the identification, evaluation and control of risks in order to ensure that the risks are recognised, and then either eliminated or reduced to a manageable level. If neither of these options is possible, then means to mitigate the implications of the risks should be established.

- 3 The Pension Fund & Treasury Manager has identified a number of risks associated with the Pension Fund. The risks are grouped as follows:
- Investment
 - Financial
 - Funding
 - Operational
 - Governance
- 4 Each of the risk areas has been assessed in terms of its impact on the Fund as a whole, on the fund employers, and on the reputation of the Pension Board and Surrey County Council as the administering authority. Assessment has also been given as to the likelihood of the risk.
- 5 Each of the three areas of impact identified above is assessed on a scale of one to four, with four implying the highest level of impact. The likelihood of the risk description (between one and five) is then applied to the combined impact score, which produces an overall risk score. Depending on the score, the risks are then identified as Red, Amber or Green.
- 6 To comply with best practice, a scoring process has been implemented, which will reassess the risk scores after the mitigating action taken to control and reduce the risks. The risk register includes a revised impact score and net risk score as a result of those mitigating actions.
- 7 Within the residual red risks, cost ranges are provided on the implications where possible.

CONSULTATION:

- 8 The Chairman of the Surrey Pension Fund Board has been consulted and has offered full support for the quarterly scrutiny process.

RISK MANAGEMENT AND IMPLICATIONS:

- 9 The risk related issues are contained within the report's Annex 1.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

- 10 There are no expected additional costs from compiling, maintaining and monitoring a risk register.

DIRECTOR OF FINANCE COMMENTARY

- 11 The Director of Finance is satisfied that all material, financial and business issues and possibility of risks have been considered and addressed and that the risk register will provide officers with a suitable platform for the monitoring and control of pension fund risks.

LEGAL IMPLICATIONS – MONITORING OFFICER

- 12 There are no legal implications or legislative requirements associated with this report.

EQUALITIES AND DIVERSITY

- 13 The creation of a risk register will not require an equality analysis, as the initiative is not a major policy, project or function being created or changed.

OTHER IMPLICATIONS

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

WHAT HAPPENS NEXT

- 15 The following next steps are planned:
- Monitoring by officers and reporting to the Board every quarter.

Contact Officer:

Phil Triggs, Strategic Finance Manager (Pension Fund and Treasury)

Consulted:

Surrey Pension Fund Board Chairman

Annexes:

Annex 1: Pension Fund Risk Register

Sources/background papers:

None

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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	Bond yields fall leading to a increase in value of liabilities: a 0.1% reduction in the discount rate will increase the liability valuation by 2%	4	4	4	12	4	48	TREAT-1) IAS19 data is received annually and provides an early warning of any potential problems. 2) Early consultation with the actuary will take place with regard to the 2016 valuation. 3) Liability driven investment strategy implementation designed to hedge against future risk approved by Pension Fund Board on 13 February 2015. Future trigger points for leverage will provide liability protection against interest rate risk with the full protection framework in place. Once leverage commences, this will reduce the net score arising from mitigating actions.	4	48
Funding	2	2	Pay & 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	TREAT- 1) Fund employers should monitor own experience. 2) Assumptions made on pay and price inflation (for the purposes of IAS19/FRS17 and actuarial valuations) should be long term assumptions. 3) The fund holds investment in index linked bonds within a liability driven investment portfolio to mitigate risk. 4) Liability driven investment strategy implementation designed to hedge against future risk approved by Pension Fund Board on 13 February 2015. Future trigger points for leverage will provide liability protection against inflation risk with the full protection framework in place. Once leverage commences, this will reduce the net score arising from mitigating actions.	4	48
Funding	3	3	Pensioners living longer: adding one year to life expectancy will increase the future service rate by 0.8%	4	4	1	9	5	45	TREAT- 1) Hymans Robertson use long term longevity projections in the actuarial valuation process. 2) SCC has joined Club Vita, which looks at mortality rates that are employer specific.	5	45
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 Board, officers and consultants. 2) 2014/15 Investment strategy review is underway. 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.	3	30
Operational	5	5	Rise in ill health retirements impact employer organisations	1	4	1	6	4	24	TREAT- 1) Possibility of insuring against the cost and impact previously considered and deferred.	4	24
Investment	6	7	Investment Managers fail to achieve performance targets over the longer term: a shortfall of 0.1% on the investment target	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 Board 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. 5) The Fund's investment management structure is highly diversified, which lessens the impact of manager risk	2	24
Financial	7	8	Financial loss of cash investments from fraudulent activity	4	4	4	12	3	36	TOLERATE - 1) Policies & 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 have to provide SAS 70 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.	2	22
Funding	9	10	Impact of government policy on the employer workforce	3	3	1	7	4	28	TREAT- 1) Hymans Robertson use 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.	3	21
Investment	10	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	TREAT- 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 1.6% over gilts is regarded as achievable over the long term when compared with historical data.	2	20
Funding	11	12	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	12	13	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/FSS/Governance statement and that appropriate advice is sought.	2	18
Funding	13	14	Structural changes in an employer's membership or an employer fully/partially closing the scheme. Employer bodies transferring out of the pension fund or employer bodies closing to new membership. An employer ceases to exist with insufficient funding or adequacy	4	3	1	8	3	24	TREAT- 1) Administering Authority actively monitors prospective changes in membership. 2) Maintain knowledge of employer future plans. 3) Contributions rates and deficit recovery periods set to reflect the strength of the employer covenant. 4) The terms of admission agreements/bonds provide for regular review of bond adequacy. 5) The Fund considers seeking a guarantor for new admitted bodies.	2	16
Operational	14	15	Poor data quality results in poor information and decision making	2	2	4	8	3	24	TOLERATE 1) Northern Trust provides 3rd party validation of performance and valuation data. 2) Pension Fund team and pension board members are able to integrate data to ensure accuracy.	2	16
Operational	15	16	Insufficient attention to environmental, social and governance (ESG) leads to reputational damage	1	1	3	5	4	20	TREAT-1) Review SIP 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 SIP. 3) The Fund is a member of the Local Authority Pension Fund Forum (LAPFF), 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.	3	15
Governance	16	17	Implementation of proposed changes to the LGPS 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 DCLG, LGPS Advisory Board, consultants, peers, seminars, conferences. 2) Officers engage in early planning for implementation against agreed deadlines.	2	14
Operational	17	18	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 Board will be mindful of the proposed CIPFA Knowledge and Skills Framework when setting objectives and establishing training needs.	2	14
Governance	18	6	Changes to LGPS regulations	3	2	1	6	3	18	TREAT-1) Fundamental change to LGPS regulations to be implemented from 1 April 2014. 2) Impact on contributions and cashflows will need to be considered during the 2013 valuation process. 3) Fund will respond to consultations.	2	12
Governance	19	19	Change in membership of Pension Fund 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 Board members. 3) Pension Fund Board 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 Board members to take the test.	2	12
Operational	20	20	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.	2	12
Operational	21	21	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) Review of Northern Trust took place in January 2009, ahead of decision on whether to retain (Jan 2009) - a fee reduction was secured in 2011). 3) Actuarial and investment consultancies are provided by two different providers.	2	12
Operational	22	22	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	TOLERATE - Ensure that assessment criteria remains robust and that full feedback is given at all stages of the procurement process.	2	12
Governance	23	23	Failure to comply with legislative requirements e.g. SIP, 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 and IMA. 3) Pension Board self-assessment to ensure awareness of all relevant documents. 4) Annual audit review.	1	9
Financial	24	24	Counterparty risk within the SCC treasury management operation	2	2	2	6	2	12	TOLERATE - 1) A separate bank account exists for the pension fund 2) Lending limits with approved banks are set at prudent levels 3) The pension fund treasury management strategy is based on that of SCC.	1	6
Financial	25	25	Incorrect, failed or late employee/employer contributions payments received	1	4	1	6	2	12	TOLERATE- 1) Monthly monitoring of pensions contributions against expectation. 2) Reminders sent to employers when they fail to meet payment deadline. 3) Scope to report persistent late payment to OPRA.	1	6
Financial	26	26	Inaccurate cash flow forecasts or drawdown payments lead to shortfalls on cash levels and borrowing becomes necessary to ensure that funds are available	2	1	1	4	2	8	TOLERATE- 1) Borrowing limits with banks are set at levels that are more than adequate should cash be required at short notice. 2) Cashflow analysis of pension fund undertaken at regular intervals.	1	4

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