

Notice of Meeting

Surrey Pension Fund Committee



Date & time
Friday, 13
November 2015 at
9.30 am

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

Contact
Cheryl Hardman
Room 122, County Hall
Tel 020 8541 9075

Chief Executive
David McNulty

cherylh@surreycc.gov.uk



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

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 Alan Young (Vice-Chairman), Mr W D Barker OBE, Mr Tim Evans, Mr Stuart Selleck and Mrs Hazel Watson

Co-opted Members:

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

AGENDA

1 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

2 MINUTES OF THE PREVIOUS MEETING: 18 SEPTEMBER 2015

(Pages 1
- 12)

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 (*9 November 2015*).
2. The deadline for public questions is seven days before the meeting (*6 November 2015*).
3. The deadline for petitions was 14 days before the meeting, and no petitions have been received.

5 ACTION TRACKING

(Pages
13 - 16)

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

6 MANAGER ISSUES AND INVESTMENT PERFORMANCE

(Pages
17 - 40)

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

- 7 KEY PERFORMANCE INDICATORS AND ADMINISTRATION UPDATE** (Pages 41 - 46)
- In line with best practice, Surrey Pension Fund Committee members will be supplied with Pension Fund key performance indicators (KPIs) on a quarterly basis, covering investment and administration practices. This paper also includes an update on administration issues
- 8 SCHEME ADVISORY BOARD BENCHMARKING EXERCISE** (Pages 47 - 54)
- The Surrey Pension Fund Committee members are provided with the response of the Fund to the request of the Scheme Advisory Board (SAB) to complete a self-assessment benchmarking return.
- 9 PENSION FUND RISK REGISTER** (Pages 55 - 60)
- 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 should be monitored on a quarterly basis.
- 10 DATE OF NEXT MEETING**
- The next meeting of the Surrey Pension Fund Board will be on 12 February 2015.

David McNulty
Chief Executive
Published: 5 November 2015

MOBILE TECHNOLOGY AND FILMING – ACCEPTABLE USE

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Thank you for your co-operation

MINUTES of the meeting of the **SURREY PENSION FUND COMMITTEE** held at 11.00 am on 18 September 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 Alan Young (Vice-Chairman)
- * Mr W D Barker OBE
- * Mr Tim Evans
- * Mr Stuart Selleck
- * Mrs Hazel Watson

Ex officio Members:

Mr David Munro
 Mrs Sally Ann B Marks, Chairman of the County Council
 Mr David Hodge, Leader of the Council
 Mr Peter Martin, Deputy Leader and Cabinet Member for Economic Prosperity

Co-opted Members:

- Mr Tony Elias, Borough/District Representative
- * Ian Perkin, Office of the Surrey Police and Crime Commissioner
- * District Councillor Peter Stanyard, Borough/District representative
- * Philip Walker, Employees

In attendance

Tanuja Boyjonauth, Treasury Officer
 Cheryl Hardman, Regulatory Committee Manager
 John Harrison, Surrey Pension Fund Advisor
 Neil Mason, Senior Advisor (Pension Fund)
 Barry McKay, Hymans Actuary
 Alex Moylan, Senior Accountant
 David Munro, Chairman – Council Overview Board
 John Orrick, Vice Chairman – Local Pension Board
 Phil Triggs, Strategic Finance Manager (Pension Fund and Treasury)
 Steve Turner, Partner, Mercer

47/15 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS [Item 1]

Apologies were received from Tony Elias.

48/15 MINUTES OF THE PREVIOUS MEETING: 23 JULY 2015 [Item 2]

The Minutes were approved, subject to some minor formatting changes.

49/15 DECLARATIONS OF INTEREST [Item 3]

There were no declarations of disclosable pecuniary interest.

The Chairman did inform the committee that she had been approved as the English county council representative to the Local Government Pension Scheme Advisory Board.

50/15 QUESTIONS AND PETITIONS [Item 4]

There were none.

51/15 ACTION TRACKING [Item 5]**Declarations of interest:**

None.

Key points raised during the discussion:

1. In relation to A21/14 (synthetic equities training), the committee was informed that the results of a training needs analysis did not suggest that synthetic equities was a priority over the next year. It was agreed to abandon this action.
2. In relation to A5/15 (assessment one to ones), the Chairman corrected the tracker, stating that she hadn't yet spoken to the newest members of the committee Alan Young, Peter Stanyard and Hazel Watson. However, she would do this by the next meeting.

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.

The Chairman informed the committee that she would be reordering the agenda to ensure that the strategic policy issues were discussed first. Following item 6, the Chairman would move to item 14 Local Pension Board and then item 8 Unitisation of Assets before returning to the order as set out in the agenda.

Declarations of interest:

None.

Key points raised during the discussion:

1. The Strategic Finance Manager (Pension Fund and Treasury) introduce the report, highlighting the likely criteria for pooling and outlining the options for change. He explained that officers had deliberately not steered the committee towards any particular option because the consultation paper had not yet been published. However, the committee could give a steer to officers on a preferred option to investigate further. It was felt that options 1 to 3 would be rejected by the Government as not being 'sufficiently ambitious'.
2. The Surrey Pension Fund Advisor clarified the differences between Collective Investment Vehicles (CIVs) and Joint Vehicles.
3. The Chairman highlighted the need to work with like minded Funds with a similar investment philosophy.
4. Members stressed the need to get in early with proposals and negotiate a good deal.
5. The possibility of joining an existing CIV or Joint Vehicle was discussed at length, with officers responding to questions about the London CIV and the London Pension Fund Authority.
6. Members pointed out the good governance and investment performance of the Surrey Pension Fund and questioned the benefit of pooling assets. The Chairman highlighted the benefit of scale allowing the Local Government Pension Scheme to invest in alternatives and be a global competitor. Local accountability would also be retained, with the main difference to the committee being the loss of being able to choose investment managers.
7. Officers informed the committee that extensive networking was underway with regard to how pooling could be taken forward.
8. The Surrey Pension Fund Advisor suggested that the committee consider how joint governance will be organised, eg the London CIV has 31 members on its governing board which could be unwieldy. From the perspective of fund managers, pooling would give them one person to speak to which would potentially lead to reduced fees.
9. Members felt that as the Surrey Pension Fund was well-governed and ambitious for its investment performance, it should be a leader in whichever option it decides to follow and retain a reasonable amount of control. It was understood that this would require a lot of work.
10. The Surrey Pension Fund Advisor explained the need to run-off private equity, liquid assets being easier to pool than illiquid assets. However, run-off can go on for 20-30 years.

Actions/Further information to be provided:

None

Resolved:

That officers undertake further investigation into the options set out in the report, with option 7 being the preferred option, and bring a report back in November 2015 (**Recommendations tracker ref: A12/15**).

Next steps:

None.

53/15 LOCAL PENSION BOARD [Item 14]**Declarations of interest:**

None.

Key points raised during the discussion:

1. The Senior Advisor (Pension Fund) introduced the report. He informed the committee that legal advice had just come in stating that there is no impediment to the Chairman of the Local Pension Board having a casting vote. Therefore, for consistency with the rest of the council's committees, it was recommended and agreed that the following should be added to paragraph 4.1.2 of the Terms of Reference:

"If consensus is not reached, the Chairman to have a second or casting vote".
2. The Chairman suggested that the Local Pension Board minutes should include a list of those in attendance throughout the meeting (**Recommendation tracker ref: A13/15**).
3. The Vice-Chairman of the Local Pension Board was invited to speak and he stressed the steep learning curve and requested that joint training sessions be arranged for the future. He also informed the committee that he hoped to have more members of the Board observing committee meetings in future. The Chairman suggested that training sessions be held on separate days to the committee meetings in future but stressed that this should not result in decreased attendance at training. It was suggested that members of the committee could discuss the strategic approach to investment during these separate sessions.

Actions/Further information to be provided:

Local Pension Board minutes to include a list of those in attendance throughout the meeting.

Resolved:

That the Surrey Pension Fund Committee:

1. Notes the report; and
2. Approves amendments to the terms of reference of the Local Pension Fund Scheme, including the addition reported above.

Next steps:

None.

54/15 UNITISATION OF ASSETS [Item 8]**Declarations of interest:**

None.

Key points raised during the discussion:

1. The Senior Advisor (Pension Fund) and the Hymans Actuary introduced the report, explaining the benefits of asset unitisation for the Surrey Pension Fund.
2. The Hymans Actuary clarified that the proposals would not result in a shift of the investment strategy.

3. In response to a question on whether the impact on employers had been modelled, the Senior Advisor (Pension Fund) stated that this was underway.
4. The committee discussed whether unitisations would result in the removal of cross-subsidy, pushing less stable employers into default. Officers suggested that unitisation offered clearer transparency, allowing the Scheme Manager to identify problems earlier and if necessary work with weak employers to exit the Scheme. At present, the three year valuation identifies problems only once employers are already in deficit. Some members were still concerned that if weaker employers default this would result in the rest of the Fund having to pay the debt.
5. The Senior Advisor (Pension Fund) explained that the classification of employers as large and secure, other well-funded, or poorly-funded was decided by the Scheme Manager, in consultation with employers.
6. The Hymans Actuary informed the committee that initially unitisation would require a lot of work and therefore resource. There was also the possibility of employers rejecting the investment strategy identified for them. However, the majority would be happy with what is set.

Actions/Further information to be provided:

None.

Resolved:

That the Surrey Pension Fund Committee:

1. Notes the benefits that asset unitisation would bring to the Fund in order to support a focused employer funding and investment strategy; and
2. Approved in principle the future implementation of asset unitisation and request officers to work with the Fund's actuary towards its implementation with effect from 1 April 2016 (the effective date of the next actuarial valuation), and subject to the actuary's final report being approved by the Committee.

Next steps:

A further report to be brought to committee at a future meeting.

The committee adjourned from 12.30pm to 1.15pm for lunch.

55/15 MANAGER ISSUES AND INVESTMENT PERFORMANCE [Item 7]

Declarations of interest:

None.

Key points raised during the discussion:

1. The Strategic Finance Manager (Pension Fund & Treasury) introduced the report, highlighting key issues.
2. The Independent Advisor introduced the Financial and Performance Report and suggested that the success rate of the committee in choosing investment managers had been good. He then went on to introduce the notes from meeting with Fund Managers.

3. Members discussed the flexibility of mandates agreed for Fund Managers. It was felt that active managers should be requesting changes to mandates if they feel they have become restrictive.
4. The Surrey Pension Fund Advisor explained that Franklin Templeton was expected to depart from their benchmark with the expectation of a positive absolute return.
5. Information provided by CBRE on cash flow would be circulated to the committee (**Recommendations Tracker ref: A14/15**).
6. With regard to the Self-Assessment Results, it was suggested that some Members had requested more meetings because agendas were long and issues complex. This would hopefully be addressed by holding training on separate days. It was also suggested that members of the committee should meet informally without officers or advisors.

Actions/Further information to be provided:

Information provided by CBRE on cash flow to be circulated to the committee.

Resolved:

That the Surrey Pension Fund Committee:

3. Notes the report.
4. Delays consideration of infrastructure as a future strategy for the Fund until the Government provides clarity over proposed pooling of assets.

Next steps:

None.

56/15 KEY PERFORMANCE INDICATORS AND ADMINISTRATION UPDATE [Item 9]

Declarations of interest:

None.

Key points raised during the discussion:

1. The Senior Advisor (Pension Fund) introduced the report and highlighted a new category showing the number of active employers in the Surrey Pension Fund.

Actions/Further information to be provided:

None.

Resolved:

That the Surrey Pension Fund Committee notes the report.

Next steps:

None.

57/15 SURREY PENSION FUND ACCOUNTS 2014/15 [Item 10]

Declarations of interest:

None.

Key points raised during the discussion:

1. The Senior Accountant introduced the accounts and the audit findings.

2. It was queried why Note 24 had been signed off by the actuary. The Deputy Chief Finance Officer explained that the sign off used to be removed from the Note but the external auditor had advised that this should be retained.

Actions/Further information to be provided:

None.

Resolved:

That the Surrey Pension Fund Committee:

1. Notes and approves the financial statements.
2. Notes the content of the Audit Findings for Surrey Pension Fund Report.
3. Notes the Letter of Representation.
4. Notes the External Auditor's Report.

Next steps:

None.

58/15 REVISED STATEMENT OF INVESTMENT PRINCIPLES [Item 11]

Declarations of interest:

None.

Key points raised during the discussion:

1. The Strategic Finance Manager (Pension Fund & Treasury) introduced the report.

Actions/Further information to be provided:

None.

Resolved:

That the Surrey Pension Fund Committee:

1. Approves the Revised Statement of Investment Principles.
2. Notes the existing Core Belief Statement.

Next steps:

None.

59/15 PENSION FUND RISK REGISTER [Item 12]

Declarations of interest:

None.

Key points raised during the discussion:

1. The Strategic Finance Manager (Pension Fund & Treasury) introduced the report and highlighted the new entry at number 25 regarding the Local Pension Board. He also informed the committee that, following suggestions at the previous meeting that the risk score regarding uncertainty about possible UK withdrawal from the EU was too high, the score had been reduced.

Actions/Further information to be provided:

None.

Resolved:

That the Surrey Pension Fund Committee notes the revised Risk Register.

Next steps:

None.

60/15 CORPORATE GOVERNANCE SHARE VOTING [Item 13]**Declarations of interest:**

None.

Key points raised during the discussion:

1. The Strategic Finance Manager (Pension Fund & Treasury) introduced the report, highlighting that it had been a very busy period.
2. Members asked, with regard to times when we had voted against management on remuneration, whether we knew what action had been taken. The Strategic Finance Manager (Pension Fund & Treasury) explained that it was unlikely that a majority had voted against management. The Fund's vote is just registered as a mark of protest. However, the Chairman pointed out that the Surrey Pension Fund was also part of the Local Authority Pension Fund Forum which gives it greater influence.

Actions/Further information to be provided:

None.

Resolved:

That the Surrey Pension Fund Committee notes the report.

Next steps:

None.

61/15 EXCLUSION OF THE PUBLIC [Item 15]

RESOLVED: 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 paragraph 3 of Schedule 12A of the Act.

62/15 PRIVATE EQUITY INVESTMENT PERFORMANCE REVIEW [Item 17]

It was agreed to take item 17 next as Peter Stanyard would be leaving shortly.

Declarations of interest:

None.

Key points raised during the discussion:

1. The Strategic Finance Manager (Pension Fund & Treasury) introduced the report. The committee asked a number of questions which were responded to by the officers present, before moving to the recommendations.

Actions/Further information to be provided:

None.

Resolved:

That the Surrey Pension Fund Committee:

- i. Notes the current position on the Fund's Private Equity investment performance.
- ii. Continues to commit to draw downs of the existing private equity schemes, and submit new opportunities to the Surrey Pension Fund Committee to consider.

Next steps:

None.

63/15 PENSION FUND COST BASE: DEEP DIVE REVIEW [Item 16]

The committee's external advisors, the Surrey Pension Fund Advisor, the Mercer representative and the Hymans actuary, left the meeting at 2pm prior to the start of the committee's consideration of item 16.

Declarations of interest:

None.

Key points raised during the discussion:

1. The Chairman thanked Stuart Selleck and Tim Evans for this work on the review.
2. The Strategic Finance Manager (Pension Fund & Treasury) introduced the report and tabled some further information, attached as a confidential annex to the Minutes.
3. The committee asked a number of questions which were responded to by the officers present.

Peter Stanyard left the meeting at 2.25pm, while the discussion was ongoing.

4. The Strategic Finance Manager (Pension Fund & Treasury) reminded the committee that the Fund's investment consultancy will shortly be subject to tender review under the LGPS National Frameworks portal and it was suggested that a shortlist would be brought to committee in due course at a special meeting (**Recommendation tracker ref: A15/15**).

Actions/Further information to be provided:

A shortlist of investment consultants would be brought to committee in due course at a special meeting.

Resolved:

That the Surrey Pension Fund Committee:

- i. Notes the report.
- ii. Approves the proposed, revised fees reference the investment managers of the pension fund.

Next steps:

None.

64/15 PUBLICITY FOR PART TWO ITEMS [Item 18]

RESOLVED: That items considered under Part 2 of the agenda should remain confidential and not be made available to the press and public.

65/15 DATE OF NEXT MEETING [Item 19]

The date was noted.

Meeting ended at: 2.55 pm

Chairman

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**Surrey Pension Fund Board
13 November 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 Committee – ACTION TRACKING

ACTIONS

Number	Meeting Date	Item	Recommendation / Action	Action by whom	Action by when	Action update
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	November 2015	These were yet to take place with the most recent joiners – Alan Young, Peter Stanyard and Hazel Watson. The Chairman undertook to complete this before the next meeting.
A12/15	18 Sept 15	Chancellor's Budget: Update	That officers undertake further investigation into the options set out in the report, with option 7 being the preferred option, and bring a report back in November 2015.	Strategic Manager, Pension Fund & Treasury	November 2015	A letter detailing progress was circulated on 29 October and a report is on the agenda for 13 November 2015.
A14/15	18 Sept 15	Manager Issues and Investment Performance	Information provided by CBRE on cash flow to be circulated to the committee.	Strategic Manager, Pension Fund & Treasury	November 2015	Officers to update the committee.
A15/15	18 Sept 15	Pension Fund Cost Base: Deep Dive Review	A shortlist of investment consultants would be brought to committee in due course at a special meeting.	Strategic Manager, Pension Fund & Treasury	February 2016	To be arranged in the new year.

Surrey Pension Fund Committee – ACTION TRACKING

COMPLETED ACTIONS

Number	Meeting Date	Item	Recommendation / Action	Action by whom	Action by when	Action update
A21/14	15 May 14	Investment Strategy Review	The Board to receive training on synthetic equities.	Strategic Manager, Pension Fund & Treasury		On 18 September, it was agreed that a training needs analysis had not identified synthetic equities as a priority for the committee and therefore the action was to be abandoned.
A13/15	18 Sept 15	Local Pension Board	Local Pension Board minutes to include a list of those in attendance throughout the meeting.	Senior Advisor (Pension Fund)	November 2015	The recommendation has been passed to officer support for the Local Pension Board.

SURREY COUNTY COUNCIL

SURREY PENSION FUND COMMITTEE

DATE: 13 NOVEMBER 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 Committee, as well as manager investment performance.

RECOMMENDATIONS:

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

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 30 September 2015 and 27 October 2015 are shown in Annex 1.
Western	Multi Asset Credit	Update on implementation
Various	Client meeting	Verbal update from external fund manager meetings held on 9 November 2015 will accompany this item.

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
09 September 2015	Pitchbook	Private equity investment information	Investment summary taken to previous meeting of Pension Fund Committee
25 September 2015	Dorking Advertiser	Investments held by the fund in the following sectors: Tobacco, Aerospace, Defence, Alcohol	A summary of directly held investments in each requested sector with the book and market value for each.

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

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

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

4) **Local Pension Board**

A meeting of the Local Pension Board was held on 12 October. A verbal summary of the meeting will be delivered to the Committee.

5) **Stock Lending**

In the quarter to 30 September 2015, stock lending earned a net income for the Fund of £78k with an average value on loan equal to £153m.

6) **Internally Managed Cash**

The internally managed cash balance of the Pension Fund was £37m as at 30 September 2015. As at 27 October 2015, the cash balance was £34m.

The current internally managed cash balance, driven by higher contributions compared to benefits paid and net income from private equity, is more than sufficient for liquidity purposes.

7) **Liability Driven Investment (LDI) Framework**

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

Now that the implementation for the leveraged gilt mandate has been completed, the Committee will 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 2. This will be shown produced at every future Committee 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) Western Implementation Multi Asset Credit

At its meeting on 23 July 2015, the Pension Fund Board appointed Western Asset Management to run a Multi Asset Credit portfolio with funds from the LGIM investment grade bonds and the Western UK gilts. The establishment of regulatory approval for the pooled fund has taken longer than Western initially anticipated which has delayed the transfer of assets from LGIM and Western's gilt portfolio. The transfer is now scheduled to take place in mid November.

9) Employer Body Admission/Termination Guidance

At its meeting on 22 May 2015, the Surrey Pension Fund Committee agreed to the Fund establishing new guidance for scheme employers, which reflects a more structured and focused approach to risk assessment.

Officers have had further meetings with the Fund actuary to set out the scope of the project. This will include guidance to prospective new employers and established employers within the Fund.

The project develops a risk based approach to linking employer covenant strength to funding solutions.

The fund will consult with employers with a view to launching this new approach in line with the triennial valuation. Negotiations are taking place with the actuarial regarding the detail of the costs associated with the implementation.

10) The Impact of Markets in Financial Instruments Derivatives (MIFID II)

MIFID II is the European Union's second Markets in Financial Instruments Directive. There have been previous reported cases about poor investment decisions by local authorities in Europe and the new directive is intended to protect UK local authorities from future mis-selling. In order to achieve this, it is looking to reclassify all local authorities as retail clients from the current professional status.

This would mean that all financial services firms like banks, brokers, advisers and fund managers will have to treat local authorities in the same way as individuals and small businesses. That includes ensuring that investment products are suitable for the customer's needs, and that all the risks and features have been fully explained. That might be a welcome change, but it also involves a lot more administration for both the firm and the client in order to prove to the Financial Conduct Authority that all the necessary steps have been taken, and as evidence in case of alleged mis-selling. MIFID II does include an option for retail clients to opt for professional status.

MIFID II will not affect our current dealings with the fund managers with whom we already have arrangements. Under the “grandfathering” rules, our current service providers will continue to treat us as a professional client. However, when the Fund starts a new business relationship after 1 January 2017, we may well have a careful choice to make between categorisation as a retail investor or professional investor.

The Department for Communities and Local Government (DCLG), along with the Local Government Association (LGA) and the Pensions and Lifetime Savings Association (PLSA), formerly the National Association of Pension Funds, have invited the Surrey Fund (with six other LGPS funds) to have discussions with the FCA to put a case for keeping the LGPS as default professional. No date has been set for a meeting. Officers will keep the Committee updated when required.

11) **Separation of the Pension Fund from the Host Authority**

Each LGPS administering authority (as defined in Part 1 of Schedule 3 of the LGPS Regulations 2013) is responsible for managing and administering the LGPS for which it is the appropriate administering authority under the Regulations. The Administering Authority is responsible for maintaining and investing its own Fund for the LGPS.

The majority of Administering Authorities are local authorities and therefore operate in accordance with local government law requirements. However, some Administering Authorities are not local authorities, such as the Environment Agency, the London Pensions Fund Authority (LPFA) and the South Yorkshire Pensions Authority. Such bodies operate in accordance with their own legal constitutions.

There are diverse approaches to how each LGPS Fund operates. In some instances, two or more Administering Authorities may share their administration function, for example, through a shared service arrangement. However, where this happens, each local authority still retains its own individual Administering Authority status and therefore legal responsibility for its own Fund.

Work has been commissioned by the LGPS Scheme Advisory Board on options to improve the governance of pension funds by increasing the degree of separation between the scheme manager function (the management and administration of the scheme and the local fund) and the host authority. The following three options are being discussed.

Option One: This would entail a stronger role for a separate Section 151 Officer within a distinct entity of the local authority, separation of financial statements and audit arrangements and a pension fund specific annual governance statement. There would be a specific delegation that would require a senior officer to lead the function and group the responsibility for all LGPS related activities within one function.

Under this option each host authority would be required to group all LGPS related activities within one discrete organisational unit. Currently, the arrangement of how LGPS activities are managed is determined by individual administering authorities.

Option Two: There would be a joint committee of two or more administering authorities, delegation of full scheme manager functions and all decision making to a section 102(5) joint committee. Employment of staff and contractual issues would be dealt with through the lead authority or wholly owned company. The ownership of assets would remain unchanged. Consideration could be given to enshrining the structure in legislation in the form of a combined authority.

Under this option, each of the LGPS administering authorities involved would delegate the function of scheme manager in its entirety to a joint committee under Section 102(5) of the Local Government Act 1972 (Part 2 paragraph 5). The joint committee would be responsible for all decisions relating to the management and administration of the scheme including asset allocation, manager selection, administering authority discretions, provision of administration services, appointment of advisors and procurement of related services (e.g. actuarial, legal and custodial).

The constitution of the joint committee would need to be contained in a formal agreement entered into by the authorities. The joint committee as constituted would not be a separate legal entity. Therefore it cannot own assets, have liabilities, raise taxes, enter into contracts or employ staff. The ownership of assets (administering authority) and responsibility for meeting liabilities (employers) would not change. Employment of staff, entering into contracts and other operational matters would be delivered via a lead authority using a Local Government Act 1972 Section 113 agreement or an arrangement under the Goods and Services Act 1970. Alternatively, the authorities could create a jointly owned and controlled company to perform this function.

Option Three: There would be a complete separation of the LGPS pension fund from the host authority with the DCLG or Treasury creating a single purpose pensions body and decision making removed from elected members. This option seeks to remove the potential for conflict of interest between the host authority and the pension fund by removing the fund and placing it in a separate body with its own duties and interests that are solely aligned with those of the beneficiaries.

Elected members of a current host authority may well be on the board of the new body but as employer representatives with no more or less say in the direction of investment policy than any other board member. This option aims to remove any possibility of the host authority from taking decisions on investments which prefer its interests over the interests of the members of the LGPS or other employers in the fund.

KPMG have been appointed by the LGPS Scheme Advisory Board to look into the above three options and come up with findings. KPMG have subsequently been working with various LGPS funds and reported as follows:

Option One: There would need to be a ring fencing of a new S151 officer for the Pension Fund, but this is recognised to be conflicted to the extent that the officer would still be part of the Local Authority. However, this could be managed through clear guidance, investment strategies, and a separate audit opinion for the Pension Fund. To facilitate this, changes to legislation would be needed.

Option Two: With joint committees, the optimal number of funds in a joint committee would need to be ascertained and size becomes an issue. In terms of the investment strategy, how that is ascertained would need to be decided in order to ensure no dictatorship by a dominant fund. However, there are fewer conflicts of interest as the Joint Committee would be separate to that of the participating Local Authorities.

Option Three: With full separation from the Local Authority and the Pension Fund, there would be clear separation and better transparency. This option is very much private sector so corporate practice to an extent would be followed. Further legislation would be needed with additional set-up costs involved.

It is important to note that, as part of their work, KPMG have not been asked to come up with a recommendation and, in the current climate of national asset pooling, there is no timeline in relation to when this is to be brought in.

11) National Asset Pooling

At the time of writing, we are still awaiting a consultation paper and nothing has been formally announced on timeframes. The latest expected timeline is set out below:

Government commissioned and received independent advice from “industry experts” to help set the “common criteria”.	Oct 2015
Consultation paper (and the backstop enforcement regulation) to be published.	Early Nov 2015
Consultation response from all stakeholders (expectation is for 12-week response period).	Early Feb 2016
Draft Regulations to be published.	March 2016
Effective date.	April 2016
Creation of national asset pools (to be phased in over three years).	April 2019
Transition of assets for those funds not meeting the ‘common criteria’.	Unknown

The November 2016 consultation paper will cover:

- Legislative changes circulated in draft to give the Secretary of State increased powers;
- Proposed changes in the investment regulations;
- Acceptable criteria for pooling;
- Back stop measures for recalcitrant schemes.

There are no plans yet to formally consult on the criteria for pooling. It is thought that the criteria for pooling (all asset classes) are likely to be:

- Size (£30bn target);
- Cost Savings;
- Governance;
- Scope to invest in infrastructure.

There will be a further statement in the Chancellor's March 2016 Budget. The Government acknowledges that pooling could take over three years to implement.

Officers will report on the latest developments on national asset pooling at the meeting.

Report of the Strategic Finance Manager

Financial and Performance Report

1. Funding Level

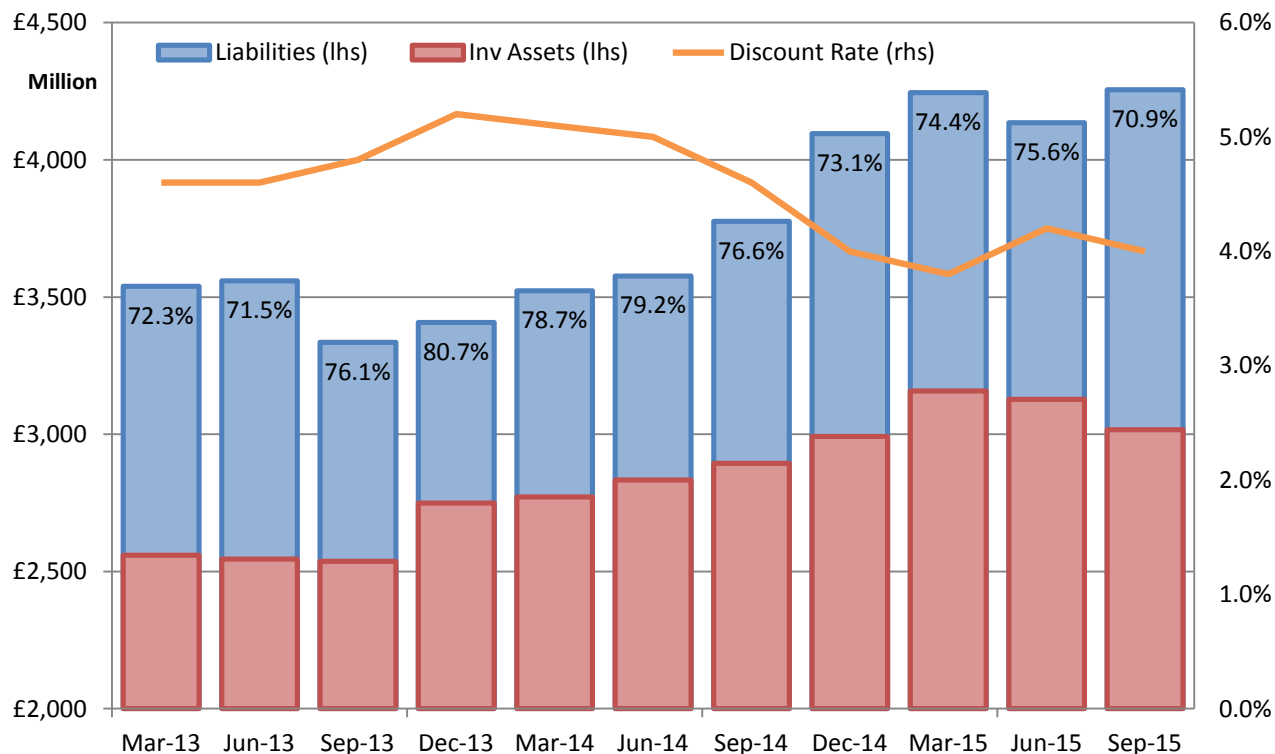
Past Service Position	30 September 2015 £m
Past Service Liabilities	-4,255
Market Value of Assets	3,016
Deficit	-1,239
Funding Level	70.9%

The funding level at the latest formal valuation at 31 March 2013 was 72.3% and as at the end of September 15 it was calculated to be 70.9%, a drop of 4.7% compared to the end of June 2015. The previous quarter saw a decline in bond yields leading to a reduction in the discount rate; from 4.2% to 4.0% as well as a fall in the Fund market value.

This impact is shown in the below table which highlights amongst other factors a £79m increase in liabilities arising from changes to actuarial assumptions.

Quarterly Reconciliation	£m
Deficit at 30 June 2015	-1,087
Interest on deficit	-14
Excess return on assets	-73
Change in actuarial assumptions	-79
Contributions less benefits accruing	14
Deficit at 30 September 2015	-1,239

The period since the 2013 actuarial valuation has seen sizable movements in the discount rate, reaching 5.2% in December 2013 which corresponded to the funding level of 80.7%. The below graph sets out the value of liabilities and fund assets and the corresponding funding level along with the discount rate applied for each quarter



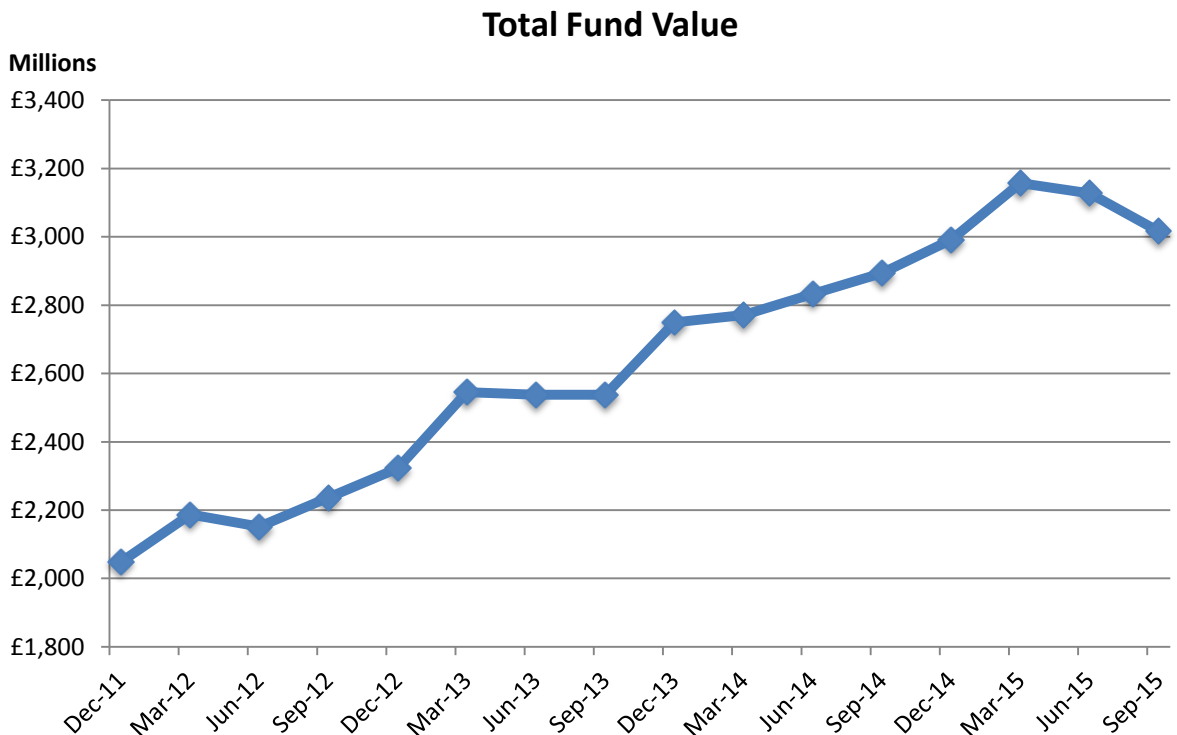
Valuation Period to date Reconciliation	£m
Deficit at 31 March 2013	-980
Interest on deficit	-130
Excess return on assets	72
Change in actuarial assumptions	-311
Contributions less benefits accruing	110
Deficit at 30 September 2015	-1,239

2. Market Value

The value of the Fund was £3,016.0 at 30 September 2015 compared with £3,127.2m at 30 June 2015. The investment performance for the period was -3.5%. The fund has managed to recover the losses incurred during the quarter in the following month with a market rally bringing the Fund back up to £3,139m on 28 October.

The change in market value is attributed as follows:

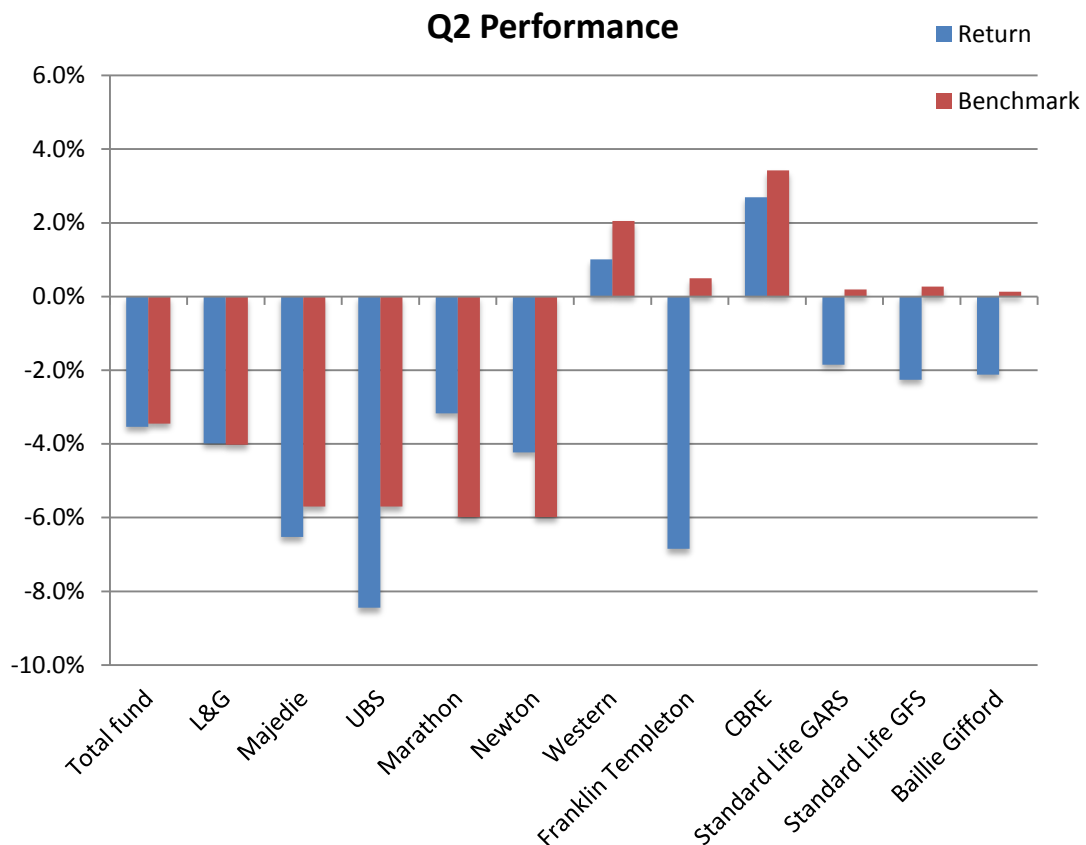
	£m
Market Value at 30/06/2015	3,127.3
Contributions less benefits and net transfer values	3.0
Investment income received	13.5
Investment expenses incurred	-3.2
Market movements	-124.6
Market Value at 30/09/2015	3,016.0
Market Value at 28/10/2015	3,139.1



3. Fund Performance

Summary of Quarterly Results (gross of investment fees)

Overall, the Fund returned -3.5% in Q2 2015/16, in comparison with the Fund's customised benchmark of -3.4%.



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

Q2 2015/16 saw a very significant decline in investment market confidence as fears over the underlying causes of China's exchange rate policy shift and collapsing internal stock market led to substantial falls in global equity and commodity prices. The UK equity market benchmark, with a large proportion of the index comprising mining and oil companies suffered a decline of -5.7%, with both UK active managers returning greater losses of -6.5% and -8.4%.

Emerging market assets were hit particularly hard with many reliant on commodity industries and capital flows; with shifting capital flows putting pressure on emerging market currencies. Franklin Templeton's quarterly performance, of -6.9%, was primarily a result of significant detrimental currency movements in Asia and Latin America

The table below shows manager performance for 2015/16 Q2 (gross of investment manager fees) against manager specific benchmarks using Northern Trust data.

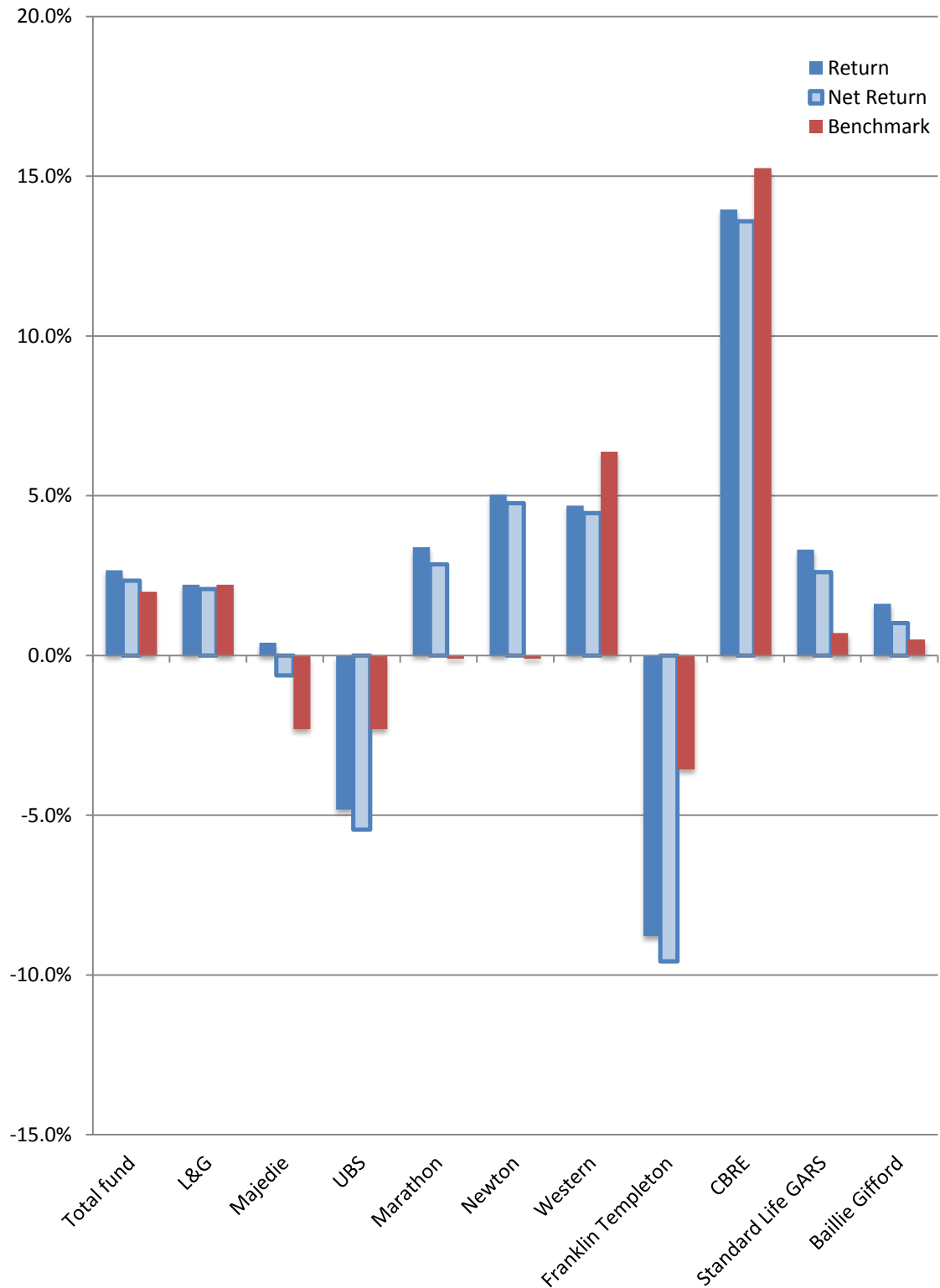
Manager	Performance %	Benchmark %	Relative %
Total fund	-3.5	-3.4	-0.1
L&G	-4.0	-4.0	0.0
Majedie	-6.5	-5.7	-0.8
UBS	-8.4	-5.7	-2.7
Marathon	-3.2	-6.0	2.8
Newton	-4.2	-6.0	1.8
Western	1.0	2.0	-1.0
Franklin Templeton	-6.9	0.5	-7.4
CBRE	2.7	3.4	-0.7
Standard Life GARS	-1.8	0.2	-2.0
Standard Life GFS	-2.3	0.3	-2.6
Baillie Gifford	-2.1	0.1	-2.2

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

Summary of Full Year Results

During the course of the previous 12 months to 30 September 2015, the Fund returned +2.7% gross of investment fees against the customised benchmark of +2.0%.

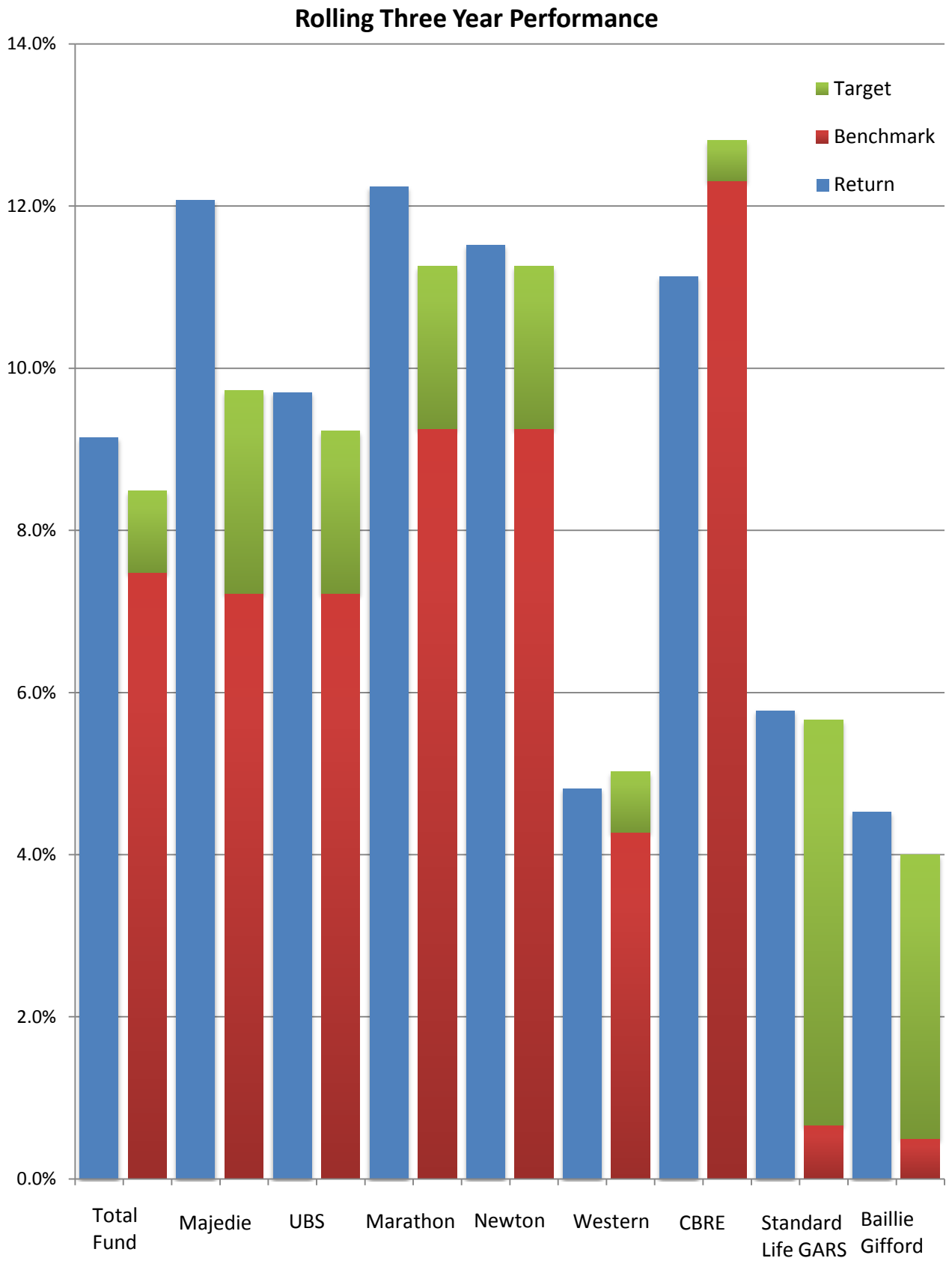
Rolling Full Year Performance



Manager	Gross of Fees Performance %	Benchmark %	Relative %	Net of Fees Performance %
Total fund	2.7	2.0	0.7	2.3
L&G	2.2	2.2	0.0	2.1
Majedie	0.4	-2.3	2.7	-0.6
UBS	-4.8	-2.3	-2.5	-5.4
Marathon	3.4	-0.1	3.5	2.8
Newton	5.0	-0.1	5.1	4.8
Western	4.7	6.4	-1.7	4.5
Franklin Templeton	-8.8	-3.6	-5.2	-9.6
CBRE	14.0	15.3	-1.3	13.6
Standard Life GARS	3.3	0.7	2.6	2.6
Baillie Gifford	1.6	0.5	1.1	1.0

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

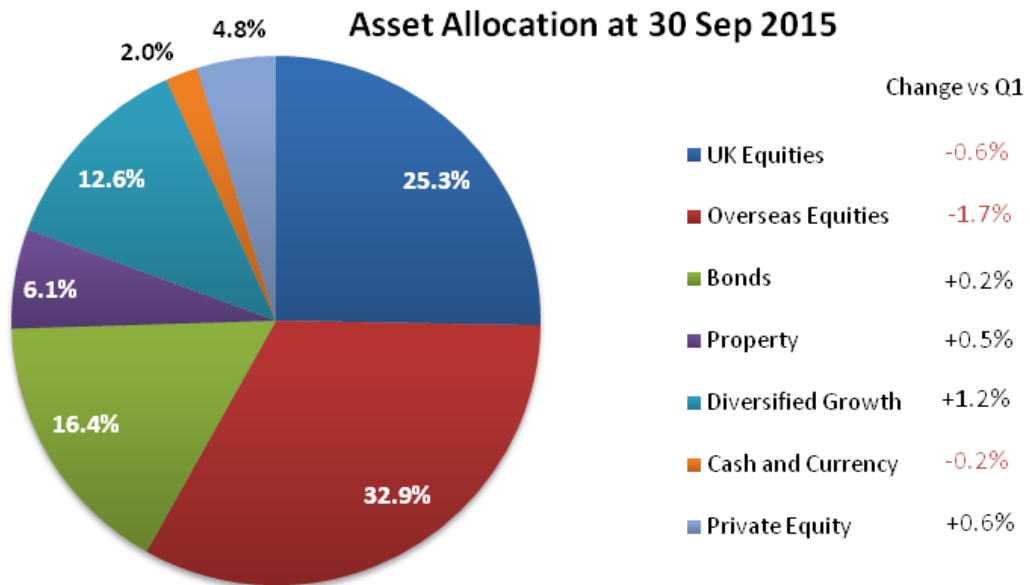


The below table shows the annualised performance by manager for the previous three years.

Manager	Performance %	Benchmark %	Target %	Relative %
Total fund	9.1	7.5	8.5	0.7
Majedie	12.1	7.2	9.7	2.3
UBS	9.7	7.2	9.2	0.5
Marathon	12.2	9.3	11.3	1.0
Newton	11.5	9.3	11.3	0.3
Western	4.8	4.3	5.0	-0.2
CBRE	11.1	12.3	12.8	-1.7
Standard Life GARS	5.8	0.7	5.7	0.1
Baillie Gifford	4.5	0.5	4.0	0.5

4. Asset Allocation

The graph and table below summarise the asset allocation of the fund as at the 30 September 2015.

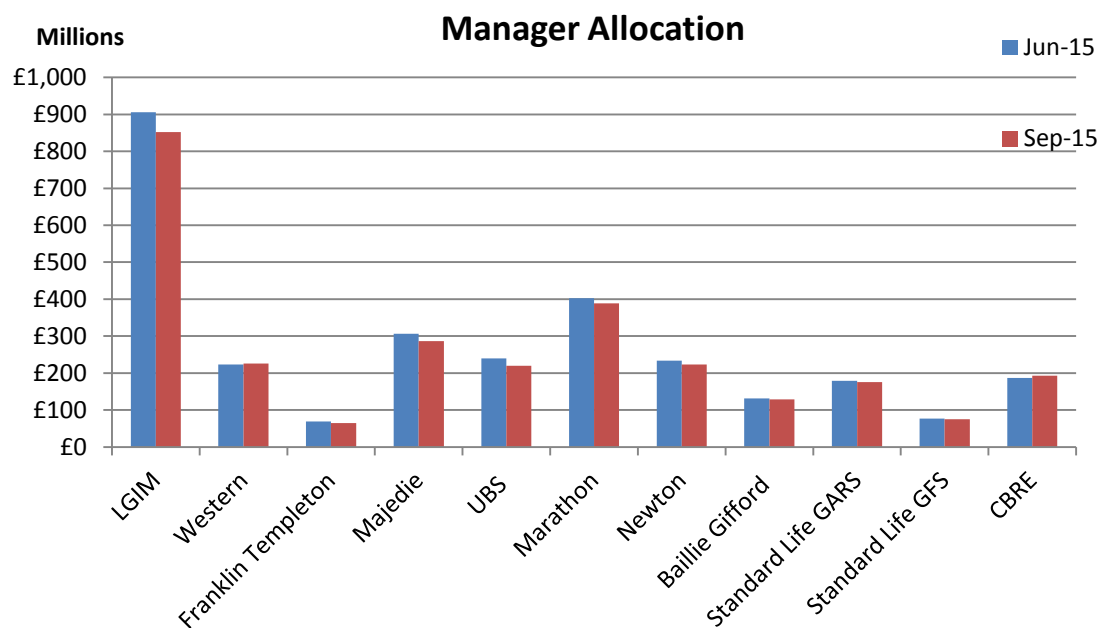


The table below compares the actual asset allocation as at 30 September 2015 against target asset weightings.

	TOTAL FUND	Actual	Target	Last Quarter	
	£m	%	%	£m	%
Fixed Interest					
UK Government	64.5	2.1	2.6	62.8	2.0
UK Non-Government	131.2	4.3	7.1	130.9	4.2
Overseas	74.6	2.5	0.0	75.0	2.4
Total Return	64.2	2.1	2.4	69.0	2.2
Index Linked	159.3	5.3	5.5	155.7	5.0
Equities					
UK	762.1	25.3	27.5	779.7	24.9
Overseas	991.6	32.9	32.3	1,068.6	34.2
Property Unit Trusts	183.6	6.1	6.2	187.4	6.0
Diversified growth	379.7	12.6	11.4	387.4	12.4
Cash	75.7	2.5	0.0	62.1	2.0
Currency hedge	-16.2	-0.5	0.0	5.0	0.1
Private Equity	145.8	4.8	5.0	143.6	4.6
TOTAL	3,016.1		100.0	3,127.2	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 Q2 2015/16

Manager	Market Value 30/09/2015 £m	Manager Fees Q2 £000	Annualised Average Fee
L&G	852.2	166	0.08%
Western	225.4	131	0.23%
Franklin Templeton*	64.2	134	0.83%
Majedie	286.3	763	1.07%
UBS	219.8	145	0.26%
Marathon	388.7	465	0.48%
Newton	222.9	303	0.54%
Baillie Gifford*	128.7	172	0.53%
Standard Life GARS*	175.7	291	0.66%
Standard Life GFS*	75.3	188	1.00%
CBRE**	193.2	0	
Manager Fees Total		2,758	0.28%
Tax withheld		151	
Other investment expenses***		300	
Total Investment Expenses		3,209	

*Estimated, to exclude transaction fees

** Invoiced after end of quarter

*** Primarily transaction costs & property fund expenses

CONSULTATION:

- 7 The Chairman of the Pension Fund Committee 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.

SECTION 151 OFFICER (DIRECTOR OF FINANCE) COMMENTARY

- 10 The Section 151 Officer (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:

Pension Fund Committee Chairman

Annexes:

1. Asset Allocation Policy and Actual as at 30 September 2015 and 27 October 2015
2. 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 30 September 2015 against the target allocation. The allocation for 27 October 2015 is shown overleaf.

	Category	Allocation Policy %	Allocation at 30/09/2015	Variance %
Equities		63.0	62.2	-0.8
UK				
<i>Legal and General</i>	<i>Passive</i>	10.0	9.0	-1.0
<i>Majedie</i>	<i>Concentrated Active</i>	11.0	10.1	-0.9
<i>UBS</i>	<i>Core Active</i>	8.0	7.8	-0.2
Overseas				
<i>Legal and General</i>	<i>Passive</i>	14.0	13.7	-0.3
<i>Marathon</i>	<i>Concentrated Active</i>	12.0	13.7	+1.7
<i>Newton</i>	<i>Core Active</i>	8.0	7.9	-0.1
Property		6.5	6.8	+0.3
<i>CBRE</i>	<i>Core Active</i>	6.5	6.8	+0.3
Alternatives		12.0	13.4	+1.4
<i>Standard Life</i>	<i>Diversified growth</i>	8.0	8.9	+0.9
<i>Baillie Gifford</i>	<i>Diversified growth</i>	4.0	4.5	+0.5
Bonds		18.5	17.5	-1.0
Fixed interest gilts				
<i>Western</i>	<i>Core Active</i>	2.8	2.3	-0.5
Index linked gilts				
<i>Legal and General</i>	<i>Passive</i>	5.8	5.6	-0.2
<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	1.8	-0.1
<i>Western</i>	<i>Core Active</i>	5.5	5.6	+0.1
Total Return				
<i>Franklin Templeton</i>	<i>Unconstrained</i>	2.5	2.2	-0.3
Total		100.0	100.0	

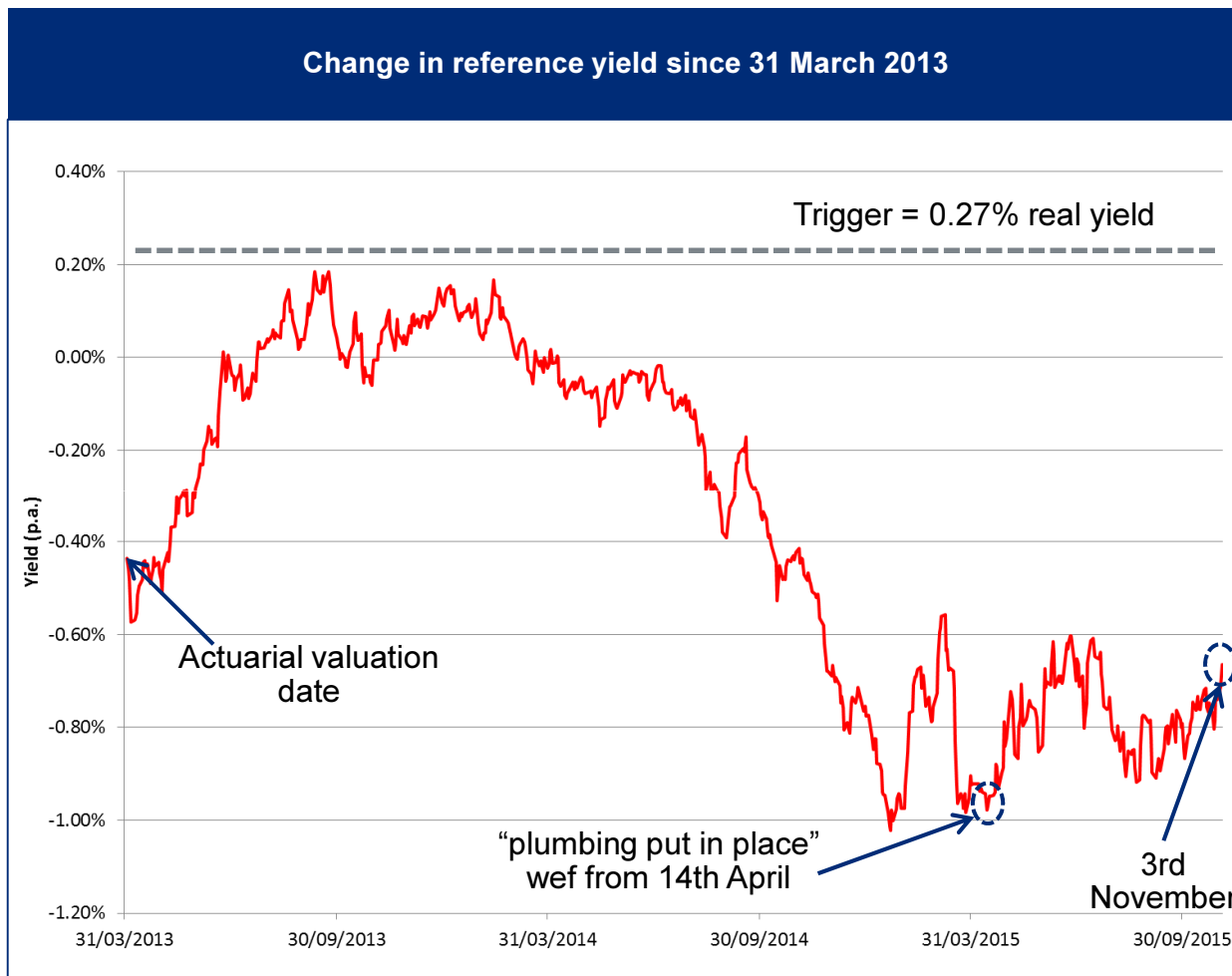
Asset Allocation Update

The table shows the actual managed asset allocation as at 27 October 2015 against the policy.

	Category	Allocation Policy %	Allocation at 27/10/2015	Variance %
Equities		63.0	63.3	+0.3
UK				
<i>Legal and General</i>	<i>Passive</i>	10.0	9.2	-0.8
<i>Majedie</i>	<i>Concentrated Active</i>	11.0	10.1	-0.9
<i>UBS</i>	<i>Core Active</i>	8.0	7.9	-0.1
Overseas				
<i>Legal and General</i>	<i>Passive</i>	14.0	14.1	+0.1
<i>Marathon</i>	<i>Concentrated Active</i>	12.0	13.9	+1.9
<i>Newton</i>	<i>Core Active</i>	8.0	8.1	+0.1
Property		6.5	6.7	+0.2
<i>CBRE</i>	<i>Core Active</i>	6.5	6.7	+0.2
Alternatives		12.0	12.9	+0.9
<i>Standard Life</i>	<i>Diversified growth</i>	8.0	8.5	+0.5
<i>Baillie Gifford</i>	<i>Diversified growth</i>	4.0	4.4	+0.4
Bonds		18.5	17.1	-1.4
Fixed interest gilts				
<i>Western</i>	<i>Core Active</i>	2.8	3.1	+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	4.5	-1.0
Total Return				
<i>Franklin Templeton</i>	<i>Unconstrained</i>	2.5	2.3	-0.2
Total		100.0	100.0	

Annex 2 Surrey Pension Fund – update on yield trigger

Page 39



Comments

Chart opposite shows the progression in the yield available on the 2035 ILG over 2015. Current yield is -0.66% 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%

↓ = ↑
Yields = Liabilities
↑ = ↓



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SURREY COUNTY COUNCIL

SURREY PENSION FUND COMMITTEE

DATE: 13 NOVEMBER 2015

LEAD OFFICER: SHEILA LITTLE, DIRECTOR OF FINANCE

SUBJECT: KEY PERFORMANCE INDICATORS & ADMINISTRATION UPDATE



SUMMARY OF ISSUE:

In line with best practice, Surrey Pension Fund Committee members will be supplied with Pension Fund key performance indicators (KPIs) on a quarterly basis, covering investment and administration practices. This paper also includes an update on administration issues

RECOMMENDATIONS:

It is recommended that the Surrey Pension Fund Committee note this report and the KPI statement shown in Annex 1.

REASON FOR RECOMMENDATIONS:

To comply with best practice.

MATERIAL CHANGES FROM THE LAST REPORTING PERIOD (30 JUNE 2015)

- 1 There is one funding category and 12 administration categories that report changes over a three-month period as measured against their target.
- 2 The funding category has shows a deterioration as compared with the previous three-month reporting period and the target performance level.
- 3 Of the 12 administration categories, four show a deterioration as compared against the previous three-month reporting period and three show an improvement. Five categories failed to meet the performance target and six exceeded the performance target in the reporting period.
- 4 KPI number eight confirms that the administration costs per member remains in the lowest CIPFA benchmark quartile, as measured in the 12 months from 31 March 2014.

DETAILS:

Requirement

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

- 6 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;
 - Scheme membership;
 - Employer membership.
- 7 To provide the committee with a overview of the number of administration cases completed in the three-month reporting period, this number is now included in the KPI schedule.
- 8 The KPI schedule to 30 September 2015 is shown as Annex 1.
- 9 Periods covered in the schedule range from one month, three months and twelve months.
- 10 Members are invited to discuss the performances set out in the schedule.

Update on administration issues

(i) The abolition of contracting out in defined benefit pension schemes

- 11 On the 6 April 2016, the new State Pension will replace the existing basic and additional State Pension and will bring to an end contracting out and the National Insurance (NI) rebate. This means that from April 2016, all employers and employees will pay the standard rate of NI contributions instead of the contracted out rate.
- 12 Assuming current rates of NI, this will mean an increase in NI contributions of 3.4% for employers and 1.4% for pension scheme members.
- 13 We will be communicating further with employers and members regarding the impact of these changes.
- 14 With the abolition of contracting out, the facility provided by HMRC for processing Guaranteed Minimum Pensions (GMP) will also disappear.
- 15 GMP is a benefit, broadly integrating with the state pension, so that state pensions are reduced by the GMP amount expected to be paid by the pension scheme.

- 16 The GMP reconciliation is a project comparing the scheme's GMP information with that held by HMRC. It investigates any discrepancies between the two sets of figures, so that both parties end up with consistent GMP data and benefit records.
- 17 The Pension Service received data from HMRC and has commissioned a third party contractor (ITM Group) to conduct a high level analysis.
- 18 Results of this analysis are expected by December 2015 and will inform the next steps.

(ii) Annual benefit statements 2015

- 19 On 6 August 2015, an email was sent by the Local Government Pension Committee (LGPC) Secretariat to administering authorities in England and Wales, requesting information on the number of 2015 annual benefit statements they expected to issue prior to this year's deadline of 31st August 2015, and the issues that have made this year's deadline particularly challenging.
- 20 The main issues noted in the responses concerned late/incorrect data submitted by employers, pensions software issues and internal resourcing issues caused by both cuts and a general increase in the workload of the pensions function.
- 21 The LGPC shared these concerns with the Pensions Regulator (tPR), with funds (including Surrey) self certifying to tPR that they had failed to meet the 31 August 2015 statutory deadline. The Regulator responded on 9 October 2015, acknowledging the difficulties faced by funds in meeting the statutory deadline due to the introduction of a new benefit design, but with an expectation that all statements to be issued by at least 30 November 2015.
- 22 The Pension Service has now issued annual benefit statements for all employers who submitted timely and clean data. For employers on SAP (including Surrey County Council, academies and further education colleges), there has been a significant delay in the Fund obtaining the necessary 2008 scheme and 2014 scheme pay figures. Some of these returns were not received until October 2015 and, as a consequence, a second tranche of statements will be produced in mid-November 2015.
- 23 The Pension Service does not envisage that it will breach the 30 November 2015 Regulator expectation for 2014/15 statements, or the statutory deadline of 31 August 2015 for future annual benefit statements.

CONSULTATION:

- 24 The Chairman of the Surrey Pension Fund Committee has been consulted and has offered full support regarding the content, structure and performances achieved set out in the schedule.

RISK MANAGEMENT AND IMPLICATIONS:

- 25 There are no risk related issues contained within the report.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

26 There are no financial and value for money implications.

SECTION 151 (DIRECTOR OF FINANCE) COMMENTARY

27 The Section 151 (Director of Finance) is satisfied that all material, financial and business issues and possibility of risks have been considered and addressed and that the current KPI model offers an effective framework for the monitoring of the essential pension fund KPIs.

LEGAL IMPLICATIONS – MONITORING OFFICER

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

EQUALITIES AND DIVERSITY

29 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

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

WHAT HAPPENS NEXT

31 The following next steps are planned:

- Continued improvement in the key performance indicators.
- Further refinement and additions of useful data.
- Review of KPIs in accordance with future guidance from the Scheme Advisory Board and Local Pension Board.

Contact Officer:

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

Consulted:

Surrey Pension Fund Committee Chairman.

Annexes:

Annex 1: Schedule of Key Performance Indicators

Sources/background papers:

Letter from Joey Patel of tPR to Jeff Houston of LGPC, 9 October 2015

No	Description	Target	Lead Officer	No of cases	Actual (Score and RAG)	Reporting Period	Previous no of cases	Previous Score	Date Last Reported	Improvement/Deterioration	Comments
1	FUNDING										
	IMPROVE FUNDING LEVEL Funding level to increase from current levels of 72%	100%	PT		70.9%	30/09/15		75.6%	30/06/15	↓ -4.70%	
2	PENSION ADMINISTRATION										
	DEATH BENEFITS Notify potential beneficiary of lump sum death grant within 5 days	95%		4	100.0%	3 months to 30 Sep 15	7	100.0%	3 months to 30 Jun 15	→ 0.00%	
	Write to dependant and provide relevant claim form within 5 days of notification of death	90%	JB	108	75.0%	3 months to 30 Sep 15	103	90.3%	3 months to 30 Jun 15	↓ -15.29%	
	Pay death grant within 5 days of receipt of relevant documentation	90%		35	77.0%	3 months to 30 Sep 15	21	95.0%	3 months to 30 Jun 15	↓ -18.00%	
	Issue notification of dependant's pension within 5 days of receipt of relevant claim forms	90%		35	77.0%	3 months to 30 Sep 15	21	95.0%	3 months to 30 Jun 15	↓ -18.00%	
	RETIREMENTS Retirement options to members within 10 days	90%		246	63.0%	3 months to 30 Sep 15	176	68.0%	3 months to 30 Jun 15	↓ -5.00%	
	New retirement benefits processed for payment following receipt of election within 10 days	95%	JB	293	93.9%	3 months to 30 Sep 15	281	92.0%	3 months to 30 Jun 15	↑ 1.86%	
	BENEFIT STATEMENTS ABS issued to 95% of eligible active members by 30th September	95%		7024	1st tranche issued Oct 2015	11 months to 31 Aug 15		Not achieved: issued Dec 2014	12 months to 30 Sep 14		Balance to be issued November 2015
	DBS issued to 85% of eligible deferred members by 30th June	95%	JB		Issued July 2015	12 months to 30 Jun 15		100% issued by 30/06/14	12 months to 30 Jun 14		
	NEW JOINERS New starters processed within 20 days	90%	JB	691	93.2%	3 months to 30 Sep 15	680	91.0%	3 months to 30 Jun 15	↑ 2.20%	
	TRANSFERS IN Non LGPS transfers-in quotations processed within 20 days	90%		77	91.0%	3 months to 30 Sep 15	70	91.0%	3 months to 30 Jun 15	→ 0.00%	
	Non LGPS transfers-in payments processed within 20 days	90%	JB	31	97.0%	3 months to 30 Sep 15	47	91.5%	3 months to 30 Jun 15	↑ 5.50%	
	TRANSFERS OUT Non LGPS transfers-out quotations processed within 20 days	90%		126	91.0%	3 months to 30 Sep 15	50	91.0%	3 months to 30 Jun 15	→ 0.00%	
	Non LGPS transfers out payments processed within 20 days	90%	JB	37	92.0%	3 months to 30 Sep 15	58	91.1%	3 months to 30 Jun 15	→ 0.93%	
	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 30 Sep 15		100%	3 months to 30 Jun 15		
3	CUSTOMER SERVICE										
	EMPLOYER SATISFACTION/SURVEY Overall satisfaction score for employers to be 80%	80%	JB/NM		82%	At Aug 15		92%	At May 14	↓ -10.00%	19/23 respondents rated service good or higher. 4 rated Fair
	MEMBER SATISFACTION/SURVEY Overall satisfaction score for members to be 80%	80%	JB		89%	At Jun 15		85%	12 months to 30 Sep 14	↑ 4.20%	April to June 2015 retirements
4	INVESTMENT PERFORMANCE										
	INVESTMENT RETURNS/OVERALL FUND PERFORMANCE Returns to at least match the benchmark	Benchmark	PT		BENCHMARK 2.0%	12 months to 30 Sept 15		BENCHMARK 6.8%	12 months to 30 June 15		
					ACTUAL 2.7%	12 months to 30 Sept 15		ACTUAL 8.0%	12 months to 30 June 15		
5	DATA										
	DATA QUALITY Common data quality within the Fund should be at least 90% accurate.	90%	JB		99%	12 months to 31 Mar 15		99%	12 months to 31 Mar 14	→ 0.00%	
6	CONTRIBUTIONS										
	CONTRIBUTIONS RECEIVED Pension Fund 98% (total value) of contributions to be received by 21st day of the ensuing period.	98%	PT		98%	Sep-15		97%	Jun-15	↑ 0.50%	Increased staff turnover at a scheduled employer led to the Fund having to issue a reminder
7	AUDIT										
	CLEAN AUDIT REPORT Receive an unqualified audit opinion from the external auditors	Unqualified			Achieved			Achieved			
	Annual audit returns no significant findings	No significant findings	PT/JB		Administration Internal Audit opinion "effective"	12 months to 31 Mar 15		Achieved	12 months to 31 Mar 14		
8	COST										
	COST PER MEMBER Administration cost per member to remain in lowest CIPFA benchmarking quartile	< lowest quartile	PT/JB		Lowest Quartile achieved	12 months to 31 Mar 15		Achieved	12 months to 31 Mar 14		
9	SCHEME MEMBERSHIP										
	SURREY COUNTY COUNCIL Number of SCC members administered by the Pension Service Team		JB		No material change	As of 30 Sep 15		92,389	As of 30 Jun 15		
	TOTAL Total number of members across all LGPS schemes administered by the Pension Service Team		JB		No material change	As of 30 Sep 15		199,972	As of 30 Jun 15		This sum includes all current schemes administered by the Pension Service Team and an estimate for new schemes starting in 2015/16 based on data available.
10	SCHEME MEMBERSHIP										
	SURREY EMPLOYERS Number of active employers in the Surrey Pension Fund		NM		194	As of 30 Sep 15		189	As of 30 Jun 15		

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SURREY COUNTY COUNCIL

SURREY PENSION FUND COMMITTEE

DATE: 13 NOVEMBER 2015

LEAD OFFICER: SHEILA LITTLE, DIRECTOR OF FINANCE

SUBJECT: SCHEME ADVISORY BOARD BENCHMARKING EXERCISE



SUMMARY OF ISSUE:

The Surrey Pension Fund Committee members are provided with the response of the Fund to the request of the Scheme Advisory Board (SAB) to complete a self-assessment benchmarking return.

RECOMMENDATIONS:

It is recommended that the Surrey Pension Fund Committee note this report and the benchmarking return shown in Annex 1.

REASON FOR RECOMMENDATIONS:

To meet the requirements of the SAB.

DETAILS:

Background

- 2 During 2014 the Shadow Scheme Advisory Board (SSAB) Scheme Reporting Working Group developed a suite of 18 key performance indicators (KPIs). The aims of the KPIs were:
 - To assess and benchmark the health of funds as part of the 2016 triennial valuation;
 - To be proactive in encouraging best practice, continuous improvement and raising standards within the LGPS;
 - To provide support to funds in a targeted manner.
 - 3 During March and April 2015, 13 Funds (including the Surrey Fund) accepted the invitation of the SSAB to take part in a pilot KPI return (the pilot KPI return was reported to the Pension Fund Committee at the meeting of 25 May 2015).
 - 4 After considering the pilot KPIs, on 4 September 2015 the SAB issued a request to all LGPS funds to complete the benchmarking return by 31 October 2015.
- The benchmarking criteria**
- 5 The benchmarking criteria consists of four core KPIs and 14 supplementary KPIs, including 10 governance and eight performance related metrics.

Four core KPIs:

- Risk management;
- Funding level and contributions;
- Deficit recovery;
- Investment returns.

14 secondary KPIs:

- Pensions Committee and Pensions Board member competence;
- Administering authority staff accountability, leadership, experience and training;
- Statutory governance standards and principles (as per DCLG guidance and tPR codes);
- Quality and accessibility of information and statutory statements, strategies, policies (governance, FSS, SIP, comms, admin authority and employer discretions policies);
- Adoption and report compliance with Investment Governance Principles (IGP) (was Myners Principles) and voluntary adoption signatory to FRC Stewardship Code and UNPRI;
- Historic investment returns (last 1,3,5 and 10 years) and total investment costs compared to other LGPS funds;
- Annual report and audited financial statements;
- Scheme membership data;
- Pension queries, pension payments and Annual Benefit Statements;
- Cost efficient administration and overall VFM of fund management;
- Handling of formal complaints and IDRPs;
- Fraud prevention;
- Internal and external audit;
- Quality assurance.

6 The benchmarking return is shown as Annex 1.

7 Members are invited to discuss the performances set out in the return.

Next steps

8 Further to receipt of returns from Funds the SAB has the following intentions:

- December 2015 / early 2016: SAB to consider the results of the exercise;
- SAB will recommend to DCLG that the KPIs are included in the LGPS regulations and guidance and/or as part of 2016 valuation process;
- KPIs Issued in April 2016;
- From December 2016 the KPIs will be used as a tool to assess and support funds.

CONSULTATION:

17 The Chairman of the Surrey Pension Fund Committee has been consulted.

RISK MANAGEMENT AND IMPLICATIONS:

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

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

19 There are no financial and value for money implications.

SECTION 151 (DIRECTOR OF FINANCE) COMMENTARY

20 The Section 151 (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

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

EQUALITIES AND DIVERSITY

22 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

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

WHAT HAPPENS NEXT

- 24 The following next steps are planned:
- Review of KPIs in accordance with future guidance from the SAB and Local Pension Board.

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

Consulted:
Surrey Pension Fund Committee Chairman.

Annexes:
Annex 1: SAB Benchmarking return

Sources/background papers: None

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No.	Key Indicator	Examples of level for concern	Negative Score	Examples of good practice for high performing fund	Positive Score	Fund score	Evidence and comments	Attachment
1	Risk management	<p>No or only a partial and/or an unclear risk register with no or poorly specified or un-implemented mitigation actions over time leading to increased fund risk.</p> <p>No evidence of a risk register being</p> <p>a) prioritised b) annually reviewed by Pensions Committee c) annually reviewed by internal audit or external audit</p> <p>d) used to reduce high risks</p> <p>e) available for public scrutiny. Self score -1 point for each one</p>		<p>Comprehensive risk register covering the key risks (in accordance with current CIPFA guidelines) with prioritisation, robust mitigation actions, defined deadlines, with action tracking to completion.</p> <p>Evidence and e-links to demonstrate</p> <p>a) risks prioritised on a RAG red, amber, green or by a scoring methodology b) completed actions signed off by Pensions Committee after at least annual update, c) annual review by internal audit and external audit</p> <p>d) <3 priority/"red" risks</p> <p>e) public disclosure of a summary version published on fund website or in fund annual report. Self score +1 point for each one</p>	1 1 1 1	1 0 1 4	<p>- Comprehensive risks register - ranked by priority - robust mitigation - reviewed quarterly by officers and committee</p> <p>deadlines not applied to actions</p> <p>Yes</p> <p>Only 3 risks 'red' after mitigation - although not sure this is necessarily particularly good measurement of a high performing Published quarterly</p>	<p>Risk Register from latest committee meeting (Sept 2015)</p> <p>As above</p> <p>As above</p>
2	Funding level and contributions (see explanatory notes)	<p>a) Decreasing funding level (calculated on a standardised and consistent basis) and/or in bottom decile of LGPS, over the last three triennial valuations on a standardised like for like basis. b) No or minimal employer funding risk assessment and monitoring and not reported to Pensions Committee c) Total actual contributions and actual received in last 6 years less than that assumed and certified in last 2 triennial valuations. d) Net inward cash flow less than benefit outgoings so need for any unplanned or forced sale of assets.</p> <p>Self score -1 for each one</p>		<p>Evidence and e-links to demonstrate</p> <p>a) Funding level rising and getting closer to 100% funded (or above) over last three triennial valuations on a standardised like for like basis. Funding % 91 to >100 =score +5 80-90 =+4 70-79 =+3 60-69 = +2 <59 = +1</p> <p>b) Employer funding risk assessment and monitoring reports to Pension Committee. Net inward cashflow forecasts meeting planned income or significantly exceeding benefit outgoings.</p> <p>c) Total actual contributions received in last 6 years equate to (or exceed) that assumed and certified in the last 2 triennial valuations.</p> <p>d) Net inward cash flow significantly exceeds benefit out-goings</p> <p>Self score a) as above and rest +1 for each one</p>	3 0 1 1	0 0 0 0 3 0 1 1 5	<p>2007 - 75.7% 2010 - 72.0% 2013 - 79.1%</p> <p>Budgeted net cashflow (ex investment income) to remain positive at least next three years</p> <p>Total contributions over past 4 years and every year exceed assumed at both valuations 2014/15 Net cashflow (ex investment income less benefits = +1% of total fund value</p>	<p>Information provided by Fund Actuary</p> <p>Annual Report</p> <p>2013 Actuarial Valuation + Statement of Accounts from 2011/12 - 2014/15</p> <p>Statement of Accounts</p>
3	Deficit recovery (see explanatory notes)	<p>a) No or opaque deficit recovery plan. b) Lengthening implied deficit recovery period (for contributions) c) Implied deficit recovery periods >25 years for last 3 valuations.</p> <p>Self score -1 point for each</p>		<p>Evidence and e-links to demonstrate :</p> <p>a) Transparent deficit recovery plan for tax raising and non-tax raising bodies. b) Implied deficit recovery reducing each triennial valuation. c) Implied deficit recovery period in line <15 years for last 3 valuations</p> <p>Self score +1 point for each one</p>	1 0 0	1 0 0 1	<p>Yes - Funding Strategy statement sets out approaches to deficit recovery 2007 - 12.6 years 2010 - 16.7 years 2013 - 15.0 years</p> <p>2007 - 12.6 years 2010 - 16.7 years 2013 - 15.0 years</p>	<p>Annual Report</p> <p>Information provided by Fund Actuary</p> <p>Information provided by Fund Actuary</p>
4	Investment returns	<p>a) 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.</p>		<p>Evidence and e-links to demonstrate :</p>				





(see explanatory notes)	b) Actual investment returns consistently undershoot actuarially required returns	a) Required future fund investment return (calc by actuary) are consistent with and aligned to investment strategy (asset mix expected target returns) so higher likelihood of the fund meeting its funding strategy.	1	1	Required investment return calculated by actuary = 4.6% aligned with asset allocation policy Investment consultant calculated expected investment return at 3.2% pa above gilts in 2014, compared to actuarial assumption of 1.6% above gilts 3 year gross investment return 11.8% p.a	Confidential consultant report
	Self score -1 point for each one	b) Actual investment returns consistently exceed actuarially required returns Self score +1 point for each one	1	2		Pension Committee performance report - September 2015

No.	Key Indicator	Examples of level for concern	Negative Score	Examples of good practice for high performing funds	Positive Score	Total Fund Score	Evidence and comments	Evidence
5	Pensions Committee and Pensions Board members competence	Appointees unclear of statutory role and unable to clearly articulate the funds funding and investment objectives. No evidence of a) different scheme employer types and no or minimal scheme member representation. b) No training needs analysis, or training strategy, or training log or use of CIPFA LGPS training framework. c) No training record disclosures d) Self assessment Self score core -1 point for each		Appointees understand their statutory role and are able to clearly articulate the funds funding and investment objectives Evidence and e-links to demonstrate a) representation from different scheme employer types (scheduled and admitted) and member types (actives, deferred and pensioners). b) annual training plan recorded against the CIPFA knowledge and understanding framework. c) annual training records disclosed in Annual Report d) annual self-assessment of training undertaken and identification of future needs. Self score +1 point for each one		0 1 0 1 2	Representation on Pension Committee and Local Board by member and employer representatives, but not for every category of member or employer Not specific to CIPFA, but, annual training is recorded against the requirements of our Attendance and Knowledge and Understanding Policy. Hence we have scored positively in this category. Training records held, but, not disclosed in the Annual Report. Board members complete a self assessment of their own performance and knowledge as well as the operations of the committee	http://mycouncil.surreycc.gov.uk/mgCommitteeDetails.aspx?ID=334 Committee board report - review of training
6	Administering authority staff accountability, leadership, experience, and training	a) No or only part time Head of Fund and or only part time officers b) No or little induction or on- going training provision or experience recorded on the adoption of CIPFA LGPS knowledge and understanding framework. Self score -1 for each one		Evidence and e-links to demonstrate a) Experienced Head of Fund with full time dedicated officers with at least 3+ years' experience. b) staff undertake regular CIPFA LGPS TKU or other CPD training recorded across all LGPS skills (governance, benefits administration, funding, investments, and communications) Self score +1 point for each one	1 1	1 1 2	Yes Yes	
7	Statutory governance standards and principles (as per DCLG guidance and TPR codes)	Several key areas of non- compliance with a) DCLG LGPS statutory guidance b) TPR guidance and codes and reasons why not explained. c) No, little or poor key decision taking records and no or poor self, or scheme employers, or scheme members assessment of overall fund effectiveness. Self score -1 for each one		Evidence and e-links to demonstrate a) Full compliance with DCLG LGPS statutory guidance b) Full compliance with TPR guidance and codes for public sector pension schemes c) Meet or exceed other LGPS best practice on recording all key decision taking and annual self, scheme employers, scheme member assessment of overall effectiveness. Self score +1 for each one	1 1 1	1 1 1 3		Governance Compliance Policy and Statement taken to May 2015 Committee Governance Compliance Policy and Statement taken to May 2015 Committee All decisions are made by the Committee and recorded in meeting minutes, published online. This has been independently assessed by Avida Governance Consultants
8	Quality and accessibility of information and statutory statements, strategies, policies (governance, FSS, SIP, comms, admin authority and employer discretions policies)	a) Statutory publications not all in place or published on fund website or updated in accordance with regulatory requirements and due timelines. b) Fund and employers discretions not published c) Do not seek to meet any recognised 'Plain English' or e-publishing standards Self score -1 for each one	-1	Evidence and e-links to demonstrate a) Statutory publications all in place and published on fund website and updated in accordance with regulatory requirements and due timelines. b) Fund and employer discretions published c) Meet 'Plain English' and or other recognised e-publishing standards. Self score +1 for each one	1	1 -1 0 0	Yes Not currently; discretions are under review and revised discretions will be published There is policy to abide by 'Plain English' standards but the Fund is not assessed against this	http://www.surreypensionfund.org/
9	a) Adoption and report compliance with Investment Governance Principles (IGP) (was Myner's Principles) and voluntary adoption/signatory to FRC Stewardship Code and UNPRI	No or un-explained non- compliance and/or non-support of a) IGP b) UK Stewardship Code c) UN PRI Self score -1 for each		Evidence and e-links to demonstrate a) 100% compliance with IGP b) adoption and public reporting of compliance against the FRC UK Stewardship Code c) external managers or fund are PRI signatories Self score +1 for each		1 1 1 3	Yes - Annual Report Yes - Annual Report A number of managers are signatories, not all	
10	a) Historic investment returns (last 1, 3, 5, and 10 years) and b) total investment costs compared to other LGPS funds. (See explanatory notes)	a) overall fund investment returns (net of fees) for last 1, 3, 5 years bottom two quintiles Score -3 and -5 points b) Retain fund managers under- performing their mandates for 2 triennial valuation cycles. Score -1 point c) Fund does not benchmark its fund manager and total investment costs relative to other LGPS funds. Score -1 point		Evidence and e-links to a) overall fund investment return (net of fees) for last 1, 3, 5 years i) Top quintile score +5 points ii) Next two quintiles score +3 and 0 points respectively b) >75% of fund mandates deliver over rolling 3 year performance periods. Score +1 point c) Fund benchmarks its fund manager and total investment costs Score +1		0 0 0 1 0 1 1 2	1 year - 12.3% 3 year - 11.8% p.a 5 year - 9.2% p.a Measured gross of fees as the SIPP targets and objectives are gross The Fund does not have access to quintile rankings Yes Measured against wider peer group.	Annual Report Pension Committee performance report - September 2015 Avida Governance Report.

No.	Key Indicator	Examples of level for concern	Negative Score	Examples of good practice for high performing funds	Positive Score	Total Fund score	Evidence and comments	Evidence
11	Annual report and audited financial statements	a) Do not fully meet some regulatory requirements or CIPFA LGPS guidance b) Not published in Admin Authority Accounts by 1 st October. c) Published on SAB website after 1 st November Self score -1 for each one	-1	Evidence and e-links to demonstrate a) Meet all regulatory and CIPFA best practice guidance b) Publish in Administering Authority accounts by 1 st October c) Publish fund report and accounts of SAB website before 1 st November. Self score +1 for each one		1 1 -1 1	Yes Yes Awaiting auditor sign off	Statement of Accounts Approved by July Committee
12	Scheme membership data	a) Common data does not meet TPR standards b) Conditional data do not meet the TPR standards. No plans in place to rectify this. Self score -1 for each		Evidence and e-links to demonstrate a) >99% common data meets TPR quality and due date standards b) >95% of conditional data meets TPR quality and due date standards. Plans in place to improve this. Self score +1 for each one	1 1	1 1 2		Data quality report from the Fund actuary for 2013 Valuation
13	Pension queries, pension payments, and Annual Benefit Statements	a) No or poor website with no scheme member or employer access. b) ABS do not meet regulatory requirements or due timelines for issuance. Self score -1 for each		Evidence and e-links to demonstrate a) Good website with interactive scheme member and employer access. b) ABS meet or exceed regulatory standards and due timelines for issuance. Self score +1 for each	0 1	0 1 1	The 2014/15 ABS return did not meet the 31/08/15 deadline, however, will meet the November 2015 tPR expectation.	http://www.surreypensionfund.org/
14	Cost efficient administration and overall VFM fund management	a) In bottom quartile with high total admin cost pa per member (based CIPFA or other benchmark tool). b) Not in any national or regional frameworks for any externally procured services or collective investments. Self score -1 for each		Evidence and e-links to demonstrate a) In top quartile with low total admin cost pa per fund member (based CIPFA or other benchmark tool calculated on a consistent and transparent basis). b) Lead and/or actively participates in collaborative working and collective LGPS procurement, shared services or CIVs Self score +1 for each	1 1	1 1 2	2014/15 CIPFA Administration Benchmarking Survey Surrey provides pension administrative services for East Sussex, Westminster, Hammersmith and Fulham and Kensington and Chelsea councils and is an active member of the National LGPS Framework.	
15	Handling of formal complaints and IDRPCs	a) Any Pensions Ombudsman determinations (and any appeals) fines were against the actions of the fund (ie not employer). Score -1		Evidence and e-links to demonstrate a) No Stage 2 IDRPCs and no Pensions Ombudsman findings <u>against the fund</u> actions in last 3 years. Score +1		1 1	None	
16	Fraud prevention	No or minimal systems/programme or plan or mechanisms in place to a) Prevent fraud b) Detect fraud c) detect pension over-payments due to unreported deaths Self score -1 for each one		Evidence and e-links to demonstrate a) Fraud prevention programme in place. b) Use external monthly, quarterly/annual mortality screening services, and c) participate in bi-annual National Fraud Initiative. Self score +1 for each one	1 1 1	1 1 1 3		
17	Internal and external audit	a) No annual internal audit or qualified internal and external audit opinions b) Urgent management action recommended on high/serious risks. c) Only moderate or low level of assurance and a number of high priority action recommended Self score -1 for each		Evidence and e-links to demonstrate a) Unqualified annual internal reports with no or only low priority management actions b) Unqualified and annual external audit with no or only low priority management recommendations. c) Full or substantial assurance against all key audit areas with no high risk recommendations. Self score +1 for each		0 1 1	One Medium recommendation on internal audit, only low recommendations for administration Unqualified external audit	Evidence -Audit Finding Report
18	Quality assurance	No evidence of a) quality management system b) external reviewed publications c) externally approved website accessibility d) any awards. Self score -1 for each one	-1 -1 -1	Evidence and e-links to demonstrate a) Fund has formal quality management external certification b) Crystal Mark for plain English for publications/forms c) externally approved website accessibility d) pensions & investment recognition award(s) Self score +1 for each one		-1 -1 -1 1 -2	No certification There is policy to abide by 'Plain English' standards but the Fund is not assessed against this No certification Shortlisted for the Pension Fund of the Year Award at the LGC Investment Awards 2015.	https://www.lgcinvestmentawards.com/

SURREY COUNTY COUNCIL

SURREY PENSION FUND COMMITTEE

DATE: 13 NOVEMBER 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 should be monitored 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.

MATERIAL CHANGES FROM THE LAST REPORTING PERIOD (30 JUNE 2015)

- 1 The review of the risk register during the preceding quarter has led not led to any adjustments to the risk ratings or mitigation actions.

DETAILS:

Background

- 2 A review of the current risk register for the Pension Fund will give the Pension Fund Committee the opportunity to influence and drive the Pension Fund risk management process for 2014-2015.

Risk Management Process

- 3 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.
- 4 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
- 5 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 Committee and Surrey County Council as the administering authority. Assessment has also been given as to the likelihood of the risk.
- 6 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.
- 7 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.
- 8 Within the residual red risks, cost ranges are provided on the implications where possible.

CONSULTATION:

- 9 The Chairman of the Surrey Pension Fund Committee has been consulted and has offered full support for the quarterly scrutiny process.

RISK MANAGEMENT AND IMPLICATIONS:

- 10 The risk related issues are contained within the report's Annex 1.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

- 11 There are no expected additional costs from compiling, maintaining and monitoring a risk register.

SECTION 151 OFFICER (DIRECTOR OF FINANCE) COMMENTARY

- 12 The Section 151 Officer (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

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

EQUALITIES AND DIVERSITY

- 14 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

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

WHAT HAPPENS NEXT

- 16 The following next steps are planned:
- Monitoring by officers and reporting to the Committee every quarter.

Contact Officer:

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

Consulted:

Surrey Pension Fund Committee 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 and postcode 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) 2015/16 Investment strategy review is current. 3) Separate source of advice from Fund's independent advisor. 4) Setting of Fund specific benchmark relevant to the current position of fund liabilities. 5) Fund manager targets set and based on market benchmarks or absolute return measures. Overall investment benchmark and out-performance target is fund specific.	3	30
Operational	5	6	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 will result in an annual impact of £2.6m	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 compared with less diversified structures.	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
Investment	9	11	Investment markets fail to perform in line with expectations leading to deterioration in funding levels and increased contribution requirements from employers	4	3	3	10	3	30	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	10	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 of bond	3	4	3	10	3	30	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) Periodic reviews of the covenant strength of employers are undertaken and indemnity applied where appropriate.	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
Investment	13	5	Volatility caused by uncertainty with regard to the possible withdrawal of the UK from the European Union	3	3	2	8	3	24	TREAT- 1) Officers to consult and engage with advisors. 2) Possibility of looking at move from UK to global benchmarks on UK Equities and UK Property. 3) Possibility of further hedging of currency movements against Sterling.	2	16
Operational	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
Funding	18	10	Impact of government policy on the employer workforce	3	2	1	6	3	18	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.	2	12
Governance	19	19	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	20	20	Change in membership of Pension Fund Committee 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	21	21	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	22	22	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	23	23	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	24	24	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
Governance	25	New Entry	Failure to comply with recommendations from the local pension board, resulting in the matter being escalated to the scheme advisory board and/or the pensions regulator	1	1	4	6	1	6	TOLERATE -1) Ensure that an cooperative, effective and transparent dialogue exists between the pension committee and local pension board	1	6
Financial	26	25	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	27	26	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	28	27	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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