

**MINUTES** of the meeting of the **SURREY LOCAL PENSION BOARD** held at 1.00 pm on 12 October 2017 at County Hall.

These minutes are subject to confirmation by the Board at its meeting on 18 January 2018.

**Members:**

- \* Nick Harrison (Chairman)
- \* Graham Ellwood (Vice-Chairman)  
Paul Bundy  
Tina Hood
- \* Paresh Rajani
- \* David Stewart
- \* Claire Williams-Morris  
Trevor Willington

**44/17 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS [Item 1]**

Apologies were received from Paul Bundy and Trevor Willington.

**45/17 MINUTES FROM THE PREVIOUS MEETING [Item 2]**

The minutes were agreed as an accurate record of the meeting.

**46/17 DECLARATIONS OF INTEREST [Item 3]**

None were received.

**47/17 QUESTIONS AND PETITIONS [Item 4]**

None were received.

**48/17 ACTION TRACKER [Item 5]**

**Declaration of interest:**

None

**Witnesses:**

Neil Mason, Senior adviser (Pension Fund), Pensions and Treasury

**Key points raised during the discussion:**

1. The Board agreed to remove item 4/15 from the action tracker, concluding that the use of substitutes would be difficult as members required a substantial level of understanding and experience to participate effectively in meetings.
2. Officers advised that the Board can expect update reports on Surrey Pension Fund frozen refunds and unprocessed leavers at the Board's next meeting on 18 January 2018.
3. Officers stated that collaboration with peer authorities to review AVC options continued to be explored and an update will be provided at the next meeting, with a plan to include the review in the fourth quarter.
4. Members shared concerns with the disappointing response from employers regarding their requirement to produce employer discretions policies. Officers advised that the Service was actively encouraging returns.
5. Officers agreed to provide regular Border to Coast updates.

**Actions/ further information to be provided:**

None

**Recommendations:**

None

## **49/17 COMMITTEE VERBAL UPDATE AND INVESTMENT STRATEGY STATEMENT REPORT [Item 6]**

### **Declarations of interest:**

None

### **Witnesses:**

Neil Mason, Senior Advisor (Pension Fund), Pensions and Strategy

### **Key points raised during the discussion:**

1. Officers informed the Board that the Pension Fund Committee (Committee) received a presentation on cyber security risks and ways in which this was being dealt with at Northern Trust, the custodian to the Fund. As a result it was highlighted that the Committee plan to review Surrey County Council's own cyber security in greater depth at a future meeting.
2. It was noted that the Committee reviewed a new investment opportunity with Pantheon Infrastructure Fund and the Committee agreed to the commitment of USD60m.
3. Officers explained that there may on occasion be duplication in papers across the Board and Committee. However this was necessary for the Board to ensure compliance with the respective regulations and guidelines, and to monitor decision making by the Committee.
4. Officers highlighted that the Pension Fund investment advisor, Mercer had completed a review of the Investment Strategy and posed six questions (listed on page 21 of agenda papers) to the Committee who had responded with the following;
  - the Committee would consider a larger allocation to illiquid assets, given the Fund's position as a long term investor.
  - the Committee were comfortable maintaining the same allocation to equities as the funding position continues to improve, subject to any change reference funding the illiquid assets.
  - the Committee would consider triggers for future de-risking when the funding position had been defined.
  - the Committee would consider what alternative ways to reduce risk (e.g. equity protection strategies).
  - the Committee would consider the views of the Pension Board regarding options for further integration of ESG matters into investment decision making.
  - it was agreed that a "one size fits all" investment strategy was not appropriate for all fund employers and that this would need to be pursued as part of 2019 valuation planning.
5. Following consideration of the Mercer investment review report, the Committee resolved to undertake further work on the options below:-
  - allocation to long-term illiquid asset classes,
  - downside protection with regard to equity risk, and
  - alternative indexation for passive investments.

6. The Board supported the Committee's approach and requested officers to revert back to the Committee emphasising the importance of defining triggers for future de-risking as the funding position approves.

**Actions/ further information to be provided:**

Report back to the Pension Fund Committee on the Investment Strategy Statement report, emphasising the importance of defining triggers for de-risking as the funding position improves.

**Recommendations:**

The Board noted the verbal update and report.

**50/17 ENVIRONMENTAL, SOCIAL AND GOVERNANCE COMPLIANCE [Item 7]**

**Declarations of interest:**

None

**Witnesses:**

Neil Mason, Senior Advisor (Pension Fund) Pensions and Treasury

**Key points raised during the discussion:**

1. The Board had considered the draft report on environmental, social and governance matters and noted the draft letter addressed to the Border to Coast Pension Partnership (BCPP) (page 25 of agenda papers).
2. The Chairman had explained that before the letter had been sent a draft BCPP Responsible Investment Policy had been received. This Policy addressed all the points requested in the Fund's draft letter save for the pooled fund making arrangements to develop a specific low carbon passive investment vehicle. It was agreed that the Fund's letter would be updated to acknowledge the draft BCPP policy and the additional recommendation.
3. It was noted that the BCPP pooling arrangement provided a satisfactory approach to ESG matters.
4. The Board shared the view that it was important to strike a balance between investment risk and returns, whilst meeting liabilities. It was agreed Surrey's approach was reasonable, being mindful not to invest funds that bring the Fund into disrepute.
5. The Board were informed how, in 2013, Surrey's Pension Fund declined to disinvest in the tobacco industry as the Committee did not want to introduce negative screening of stocks.
6. Officers indicated that the South Yorkshire Pension Authority climate change policy sought to establish exposure to climate change and carbon risk. The Board agreed to recommend to the Committee that a carbon audit of the Fund's portfolios be commissioned.

**Actions/ further information to be provided:**

The Local Pension Board recommends that the Pension Fund Committee seeks to establish the Fund's exposure to climate change and carbon risk

through the commissioning of a carbon audit of the Fund's portfolios. Results may then be reviewed and used to focus engagement and strategy going forward.

**Recommendations:**

The Board agreed that the draft letter on ESG would be updated to acknowledge the draft BCPP Responsible Investment Policy.

**51/17 ADMINISTRATION AUDIT PROGRESS REPORT [Item 8]**

**Declarations of interest:**

None

**Witnesses:**

Neil Mason, Senior Advisor (Pension Fund) Pensions and Treasury  
Jason Bailey, Pensions Lead Manager

**Key points raised during the discussion:**

1. Officers introduced the report by highlighting the chart on page 83 of the agenda papers which sets out a range of improvement initiatives within the Pension Service and timescales.
2. It was noted that the Pensions Service were looking into individual staff performance, setting up a new development skills matrix to monitor this on a daily and monthly basis. The Pensions Lead Manager welcomed the Board to observe the change in the Service's approach when the Board planned to visit the operation.
3. Officers provided a further backlog work plan in the meeting (attached as annex 1), quantifying the volume of work in relation to transfers in and out.
4. There was a discussion around the member self-service portal and the positive feedback received on the online system. Officers informed the Board that functionality would be improved with an upgrade planned at the end of the month. Officers intend to promote the online portal more effectively.
5. The improvement plan also included the migration of the pension payroll to the Altair system which would allow users to view payslips, P60's, change of address and bank details. The service were piloting i-Connect which would allow a secure way for employers to submit changes to payroll data which will then be automatically updated within the Altair system.
6. The Lead Pension Manager briefed the Board on the department management restructure, outlining that plans were designed to improve service delivery and not related to saving costs. The Board noted more information would be provided once the consultation launched in November.
7. The Chairman welcomed comments from the Internal Audit Officer in attendance who advised the Board the administration update was

encouraging and that a follow up report would be provided in the New Year.

8. The Board noted the Pension Administration Internal Audit Report 2016/17 and were advised that updates would be provided at a future meeting on the recommendations. The Chairman agreed to provide the Committee with an update on 10 November 2017.

**Actions/ further information to be provided:**

Officers to provide the Chairman with a summary of the Local Pension Board progress report to share with the Pension Fund Committee on 10 November 2017.

**Recommendations:**

1. The Board noted the contents of the report.
2. The Board recommended that the Pension Administration team produce a further update report for the next Local Pension Board meeting.
3. Internal Audit to be invited to a meeting of the Board once the follow up report was available.

**52/17 KEY PERFORMANCE INDICATORS (QUARTER ONE) [Item 9]**

**Declarations of interest:**

None

**Witnesses:**

Neil Mason, Senior Advisor (Pension Fund), Pensions and Strategy  
Jason Bailey, Pensions Lead Manager

**Key points raised during the discussion:**

1. Despite the poor performance in a number of areas officers advised that improvements were expected for the second quarter and gave assurances that the Service has identified the key matters for attention.
2. The most concerning item was advising members on their retirement options that had been impacted by the significant volumes linked to care home closures.
3. The Board raised expressed their concerns and disappointment in the level of service. Officers repeated their assurance that they anticipated quarter two reports would show some improvement.

**Actions/ further information to be provided:**

None

**Recommendations:**

The Board noted the content of the report and annexes.

## **53/17 ANNUAL BENEFIT STATEMENT 2017 [Item 10]**

### **Declarations of interest:**

None

### **Witnesses:**

Neil Mason, Senior Advisor (Pension Fund), Pensions and Treasury  
Jason Bailey, Pensions Lead Manager

### **Key points raised during the discussion:**

1. Officers were pleased to report that the vast majority (94%) of active members were issued with annual benefit statements by the statutory deadline of 31 August 2017. It was noted that 1,381 statements were late due to the failure of scheme employers to provide annual data returns.
2. The Board noted that these delays would be reported to the Pension Regulator.
3. The Board suggested that the employers be notified that their delays had caused the breach to be reported to the regulator.
4. Officers advised a second run of statements would be produced late October.
5. Due to problems with the external print house, statements to deferred members were issued 13 days late.
6. The breach report to the Pension Regulator would reflect the planned improvement to on-line reporting of annual benefit statements.

*The meeting was recessed at 2.30pm for a training session.*

### **Actions/ further information to be provided:**

None

### **Recommendations:**

- a) The Board noted the content of this report.
- b) The Board noted that a breach would be reported to the Pensions Regulator.
- c) The Board recommended that a project report on the production of annual benefit statements for 2017/18 be brought to the Board at its next meeting.

**TRAINING SESSION 14.30 - 15.30**

## **54/17 NEW PERFORMANCE METRICS [Item 11]**

### **Declaration of interest:**

None

### **Witnesses:**

Neil Mason, Senior Advisor (Pension Fund), Pensions and Treasury  
Jason Bailey, Pensions Lead Manager

### **Key points raised during the discussion:**

*The meeting resumed at 3.35pm*

1. Officers informed the Board that the new performance metrics would replace the existing key performance from quarter three.
2. The Board requested that the new performance metrics include the use of colour to be able to differentiate between the levels of performance.
3. It was noted that the new format would give a broader perspective of the administrative function, providing an overview of workflow, customer feedback and project plans.

### **Actions/ further information to be provided:**

None

### **Recommendations:**

The Board noted the new performance metrics

## **55/17 NEW SERVICE SPECIFICATION BETWEEN THE PENSION FUND AND THE PENSION ADMINISTRATION FUNCTION [Item 12]**

### **Declaration of interest:**

None

### **Witnesses:**

Neil Mason, Senior Advisor (Pension Fund), Pensions and Treasury  
Jason Bailey, Pensions Lead Manager

### **Key points raised during the discussion:**

1. The Board was advised that the new service specification had replaced the Service Level Agreement (SLA) with effect from 15 September 2017.
2. It reflected the change in the relationship between the Fund and the Orbis Pension Service team which had developed since the previous SLA was approved in 2014. The intention was define the level of service which the Fund should expect.
3. It was noted that the service specification had been was approved by the Pension Fund Committee at its meeting on 15 September 2017.

### **Actions/ further information to be provided:**

None

**Recommendations:**

The Board noted the new service specification.

**56/17 DRAFT ADMINISTRATION STRATEGY [Item 13]**

**Declarations of interest:**

None

**Witnesses:**

Neil Mason, Senior Advisor (Pension Fund), Pensions and Treasury  
Jason Bailey, Pensions Lead Manager

**Key Points raised during the discussion:**

1. The Board was informed that the purpose of the draft Administration Strategy was to define and regulate the relationship between the scheme employers and the Pension Fund. It reflected the substantial increase in the number of employers, now more than 200.
2. A new aspect of the draft Administration Strategy was employers' levels of expectation and the consequences of the failure to meet those expectations, together with the obligations on employers.
3. The draft strategy would allow the Fund to make supplementary charges for services outside the norm (such as internal dispute resolution) or not used by all employers. It also set out penalties should employers not meet their obligations.
4. The Board noted concerns with the administration charge which had remained the same despite an increase of active employers. Officers explained a consultation is in progress, closing on 23 October 2017.

**Actions/ further information to be provided:**

None

**Recommendations:**

The Local Pension Board noted the draft Administration Strategy.

**57/17 ADMINISTRATION RISK REGISTER [Item 14]**

**Declarations of interest:**

None

**Witnesses:**

Neil Mason, Senior Advisor (Pension Fund), Pensions and Treasury  
Jason Bailey, Pensions Lead Manager

**Key Points raised during the discussion:**

1. The Board was informed that the new administration risk register includes an inherent risk score and a residual risk score as a result of control processes in place.

2. Items on the administration risk register were agreed through consultation between the Pension Fund and the Administration Service, and was overseen by the Risk & Governance Manager.
3. The Board drew particular interest to risk A8, A11, A14 and A18 which remained amber. Officers assured that these were actively monitored and options were being explored to treat and mitigate further. It was agreed that the inherent risk in A4 should be better defined.

**Actions/ further information to be provided:**

None

**Recommendations:**

The Local Pension Board noted the new administration risk register.

**58/17 REVIEW OF INTERNAL DISPUTE RESOLUTION CASES IN 2017/18 (QUARTER ONE) [Item 15]**

**Declarations of interest:**

None

**Witnesses:**

Neil Mason, Senior Advisor (Pension Fund), Pensions and Treasury

**Key points raised during the discussion:**

1. It was noted that one first stage appeal was submitted and responded to in the first quarter of 2017/18.
2. Officers explained that the adjudicator in this instance asked the employer to review their decision as there were systemic issues.
3. Surrey's HR Service has recently reviewed its ill health retirement process and this addressed the systemic issues identified by the adjudicator's advice in the matter.

**Actions/ further information to be provided:**

None

**Recommendations:**

The Board noted the content of the report.

**59/17 BREACHES LOG [Item 16]**

**Declarations of interest:**

None

**Witnesses:**

Neil Mason, Senior Advisor (Pension Fund), Pensions and Treasury

**Key points raised during the discussion:**

1. Officers reported the breach at Item 10 and informed members that in accordance with the Surrey Pension Fund breaches policy the

Chairman of the Pension Fund Committee and the Chairman of the Local Pension Board were informed that the late issuance of annual benefit statements would be reported to the Pension Regulator.

**Actions/ further information to be provided:**

None

**Recommendations:**

The Local Pension Board noted the verbal update.

**60/17 GUARANTEED MINIMUM PENSION RECONCILIATION UPDATE [Item 17]**

**Declarations of interest:**

None

**Witnesses:**

Neil Mason, Senior Advisor (Pension Fund), Pensions and Treasury  
Jason Bailey, Pensions Lead Manager

**Key points raised during the discussion:**

1. Officers introduced the report by informing members that the Committee agreed for the Administration Service to engage with an external provider who had specialist expertise.
2. The project would take two months and progress was reported on a fortnightly basis.
3. The baseline position in the report did indicate significant work requirements and a better picture would be available by 31 October 2017.
4. Officers reported that the Committee were not in a position to decide the provisional tolerance levels in the reconciliation until the volume of cases was established.

**Actions/ further information to be provided:**

None

**Recommendations:**

The Local Pension Board noted the content of this report.

**61/17 LOCAL PENSION BOARD ANNUAL REPORT 2016/17 [Item 18]**

**Declarations of interest:**

None

**Witnesses:**

Neil Mason, Senior Advisor (Pension Fund) Pensions and Treasury

**Key points raised during the discussion:**

1. The Board made reference to the attendance and training log in the Annual report and requested revisions against members where appropriate.

**Actions/ further information to be provided:**

Officers to update the Local Pension Board attendance and training log 2016/17.

**Recommendations:**

The Board reviewed and noted the Local Pension Board Annual Report 2016/17.

**62/17 ANNUAL ACCOUNTS 2016/17 [Item 19]**

**Declarations of interest:**

None

**Witnesses:**

Neil Mason, Senior Advisor (Pension Fund) Pensions and Treasury  
Jennifer Sambell, Senior Accountant (Pension Fund) Pensions and Treasury

**Key points raised during the discussion:**

1. It was noted that the Annual Accounts 2016/17 were reviewed and considered by both the Pension Fund Committee and the Audit and Governance Committee.

**Actions/ further information to be provided:**

None

**Recommendations:**

The Local Pension Board noted the following,

- a) The financial statements set out in Annex 1
- b) The letter of representation and
- c) The external auditor's report

**63/17 DATE OF THE NEXT MEETING [Item 20]**

The Board agreed the next meeting to be held on 18 January 2018 at 10.00am in County Hall, Kingston upon Thames, Surrey KT1 2DN.

Meeting ended at: 4.24 pm

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**Chairman**