

## Notice of Meeting

# Surrey Local Pension Board

**Date & time**

Thursday, 24  
October 2019 at  
10.00 am

**Place**

Ashcombe Suite,  
County Hall, Penrhyn  
Road, Kingston upon  
Thames, KT1 2DN

**Contact**

Ben Cullimore  
Room 122, County Hall  
Tel 020 8213 2782  
ben.cullimore@surreycc.gov.uk

**Chief Executive**

Joanna Killian

**If you would like a copy of this agenda or the attached papers in another format, e.g. 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 [ben.cullimore@surreycc.gov.uk](mailto:ben.cullimore@surreycc.gov.uk).**

**This meeting will be held in public. If you would like to attend and you have any special requirements, please contact Ben Cullimore on 020 8213 2782.**

### Board Members

Nick Harrison (Chairman), Graham Ellwood (Vice-Chairman), Paul Bundy (Surrey Police), Tina Matravers (Surrey LGPS Members), David Stewart (Surrey LGPS Members) and Trevor Willington (Surrey LGPS Members)

### TERMS OF REFERENCE

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

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

The Local Pension Board will ensure it effectively and efficiently complies with the Code of Practice on the governance and administration of public service pension schemes issued by the Pension Regulator.

The Local Pension Board will also help ensure that the Surrey Pension Fund is managed and administered effectively and efficiently and complies with the Code of Practice on the governance and administration of public service pension schemes issued by the Pension Regulator.

The Local Pension Board has power to do anything that is calculated to facilitate or is conducive or incidental to the discharge of any of its functions.

## **AGENDA**

### **1 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS**

To receive any apologies for absence and substitutions.

### **2 MINUTES FROM THE PREVIOUS MEETING: 18 JULY 2019**

(Pages 7  
- 26)

The Board is asked 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:**

- The deadline for Members' questions is 12.00pm four working days before the meeting (18 October 2019)
- The deadline for public questions is seven days before the meeting (17 October 2019)
- The deadline for petitions was 14 days before the meeting and none have been received

### **5 CYBER SECURITY**

The Board is to receive a presentation on the Council's implementation of cyber security.

### **6 ACTION TRACKER**

(Pages  
27 - 34)

The Board is asked to review its action tracker.

### **7 FORWARD PLAN**

(Pages  
35 - 38)

The Board is asked to review its forward plan.

- 8 SUMMARY OF THE PENSION FUND COMMITTEE MEETING OF 13 SEPTEMBER 2019** (Pages 39 - 54)
- The Board is asked to note the content of this report.
- 9 ADMINISTRATION UPDATE (1 JULY 2019 TO 30 SEPTEMBER 2019)** (Pages 55 - 128)
- The Board is asked to note the content of this report and make recommendations if any further action is required.
- 10 ADMINISTRATION PERFORMANCE REPORT (QUARTER 2)** (Pages 129 - 132)
- The Board is asked to note the content of this report and make recommendations to the Pension Fund Committee if appropriate.
- 11 RISK REGISTERS 2019 (QUARTER 2)** (Pages 133 - 142)
- The Board is asked to note the content of this report and the Fund Risk Register (shown as Annex 1) and Administration Risk Register (shown as Annex 2) and make recommendations to the Pension Fund Committee if required.
- 12 REVIEW OF INTERNAL DISPUTE RESOLUTION CASES IN 2019/20 (QUARTER 2)** (Pages 143 - 144)
- The Board is asked to note the content of this report.
- 13 COMPLIANCE WITH THE PENSIONS REGULATOR'S CODE OF PRACTICE NO. 14** (Pages 145 - 158)
- The Board is asked to note the content of this report.
- 14 DRAFT ADMINISTRATION STRATEGY** (Pages 159 - 192)
- The Board is asked to note the Draft Administration Strategy, which replaces the existing strategy.
- 15 NEW SERVICE SPECIFICATION BETWEEN THE PENSION FUND AND THE PENSION ADMINISTRATION FUNCTION** (Pages 193 - 222)
- The Board is asked to note the new Service Specification, which will be presented to the Pension Fund Committee on 13 December 2019 for approval.
- 16 RISK MANAGEMENT POLICY** (Pages 223 - 228)
- Surrey Pension Fund recognises the importance of having a robust risk management policy. This report introduces the Risk Management Policy set out in Annex 1, which is presented to the Local Pension Board for approval.
- 17 THE PENSIONS REGULATOR LGPS COHORT REPORT** (Pages 229 - 254)
- The purpose of the report is to introduce the Pensions Regulator LGPS

Cohort report. The Pensions Regulator liaised with 10 LGPS funds and the governance report is the fruit of that engagement.

- 18 INVESTMENT CONSULTANT STRATEGIC OBJECTIVES** (Pages 255 - 260)
- The Board is asked to note the Draft Strategic Objectives for Investment Consultants of the Fund in line with CMA Requirements (Annex 1).

- 19 ANNUAL REPORT/STATEMENT OF ACCOUNTS 2018/19** (Pages 261 - 490)
- The Board is asked to note the annual report and financial statements set out in Annex 1.

**20 DATE OF THE NEXT MEETING**

The next meeting of the Surrey Local Pension Board will be held on 13 February 2020.

**Joanna Killian  
Chief Executive**

Published: Wednesday, 16 October 2019

**MOBILE TECHNOLOGY AND FILMING – ACCEPTABLE USE**

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

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

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

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

*Thank you for your co-operation*

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**MINUTES** of the meeting of the **SURREY LOCAL PENSION BOARD** held at 10.00 am on 18 July 2019 at Members' Conference Room, County Hall, Kingston upon Thames, KT1 2DN.

These minutes are subject to confirmation by the Board at its meeting on Thursday, 24 October 2019.

**Members:**

- \* Paul Bundy
- \* Mr Graham Ellwood (Vice-Chairman)
- \* Mr Nick Harrison (Chairman)
- \* Tina Hood
- Katy Meakin
- \* Paresh Rajani
- \* David Stewart
- Trevor Willington

**37/19 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS [Item 1]**

Apologies were received from Trevor Willington and Katy Meakin.

**38/19 DECLARATIONS OF INTEREST [Item 2]**

None received.

**39/19 QUESTIONS AND PETITIONS [Item 3]**

None received.

**40/19 MINUTES FROM THE PREVIOUS MEETING: 25 APRIL 2019 [Item 4]**

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

**41/19 ACTION TRACKER [Item 5]**

**Witnesses:**

Ben Cullimore, Democratic Services Assistant  
Ayaz Malik, Pensions Accountant Advisor  
John Smith, Senior Advisor (Pensions)

**Key points raised during the discussion:**

1. Members were provided with an updated version of the action tracker, which is attached to these minutes as Annex 1.
2. A Member of the Board questioned whether it would be possible to receive further training on how to use the toolkit and was told by the Pensions Accountant Advisor that he would look into it.
3. The Senior Advisor provided the Board with an update to A7/19, which was concerned with the Discretions Exercise Report. He informed Members that a further mailshot would be sent out at the end of July 2019 and that the Council was to draft a policy that was expected to be published in September 2019.

4. Responding to a question about A20/19 – ‘Officers are to ensure the Surrey Pension Fund website is updated’ – the Pensions Accountant Advisor told the Chairman that a new member of staff had been hired to take the lead on this, and that the Board would be updated on the progress made at its next meeting on 24 October 2019.

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

1. The Pensions Account Advisor is to examine the possibility of further toolkit training being provided.
2. The Board is to be updated on the progress made to A20/19 at its next meeting on 24 October 2019.

**Resolved:**

The Board reviewed its action tracker.

**42/19 FORWARD PLAN [Item 6]**

**Witnesses:**

Ben Cullimore, Democratic Services Assistant

**Key points raised during the discussion:**

1. Members were provided with an updated version of the forward plan, which is attached to these minutes as Annex 2.

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

None.

**Resolved:**

The Board reviewed its forward plan.

**43/19 SUMMARY OF THE PENSION FUND COMMITTEE MEETING OF 7 JUNE 2019 [Item 7]**

**Witnesses:**

Ayaz Malik, Pensions Accountant Advisor

**Key points raised during the discussion:**

1. The Chairman introduced the report and informed the Board that he had made comments to the Surrey Pension Fund Committee about the administration risk register. He went on to explain the amendments that had been made.
2. The Pensions Accountant Advisor ran through the highlights of the report and explained that an ESG forum had been organised for 26 September 2019 and would include representatives from Border to Coast and the Local Authority Pension Fund Forum. An email would be sent out to Members asking if they would be interested in attending.

3. The Board heard that the draft accounts were presented to the Committee, and that this was the first time this had happened before being seen by external auditors. The accounts would soon be signed off by the Audit and Governance Committee and would be ready to be presented to the Board at its next meeting on 24 October 2019.

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

The Pensions Account Advisor is to email Board Members about the ESG forum taking place on 26 September 2019.

**Resolved:**

The Board noted the content of the report.

**44/19 INTERNAL AUDIT REPORT - REVIEW OF SURREY PENSION FUND ADMINISTRATION 2018/19 [Item 8]**

**Witnesses:**

David John, Audit Manager  
Andrew Marson, Pensions Lead Manager  
Adele Seex, Business Support Officer  
John Smith, Senior Advisor

**Key points raised during the discussion:**

1. The Audit Manager introduced the internal audit report and provided the Board with a background to the work that had been done. He explained that it was published in April 2019 and was based on work that had been undertaken between the end of 2018 and March 2019. The issues outlined were largely legacy issues and pre-dated the introduction of the current Pensions Lead Manager. The Audit Manager went on to say that the governance in place was different to what had come before and this had resulted in Internal Audit feeling positive about the direction of travel and the steps in place. A follow-up audit report would be completed around October or November 2019.
2. A Member of the Board questioned why the Audit Manager thought the situation was better now compared to how it had been in the past. In response, the officer explained that there was a different culture and mindset in place, as well as a greater desire to engage with audit and scrutiny.
3. As a follow-up to the Audit Manager's point, the Chairman spoke about the decision by the Chief Internal Auditor to put a report to the executive and leadership, which would be signed off by the Audit and Governance Committee and included a section on the issues being discussed by the Board. He also informed Members that he had met with the new Cabinet Member for Corporate Support and had the opportunity to discuss her key priorities, which included dealing with the pensions administration issues. The Chairman went on to propose that the Board put in writing its thoughts on the matter and raise them with the Cabinet Member, the Section 151 Officer and the Surrey Pension Fund Committee.
4. The Vice-Chairman spoke about his main concern being governance and issues surrounding the availability of extra resources. In response,

the Audit Manager said that he was encouraged by the service's prioritisation of the problems identified by the internal audit report and that an ownership of the issues meant they could be rectified without the need for further resources.

5. Speaking about measures that had already been put in place, the Pensions Lead Manager explained to Members that a project board had been established and would meet monthly. Referring to the 12 findings outlined in the internal audit report, the Pensions Lead Manager went on to inform the Board that he considered Items 2, 6, 8 and 12 to be have been completed, subject to agreement at the follow-up audit.
6. Discussion turned to the first finding outlined in the internal audit report, which was concerned with the review of key documents. The Pensions Lead Manager explained that a review of service specification was currently underway and the plan was for a report to be presented to the Surrey Pension Fund Committee at its next meeting on 13 September 2019. He went on to inform the Board that a progress meeting would take place in August and that monthly meetings involving both the pensions administration and fund teams had been scheduled. These meetings had a clearly defined agenda that included a periodic review of documents.
7. The Chairman questioned the second implementation date outlined in Finding 7 of the internal audit report, which was concerned with the data cleansing exercise, and was told by the Pensions Lead Manager that this would now take place in September 2019 in order to prioritise the Valuation and ABS exercises.
8. Discussing Finding 9, the Business Support Officer confirmed that the reconciliation of pension contributions for 2018/19 had been completed by the 31 May 2019 target implementation date.

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

The Chairman, on behalf of the Board, is to put in writing his thoughts on the pensions administration issues and raise them with the Cabinet Member for Corporate Support, the Section 151 Officer and the Surrey Pension Fund Committee.

**Resolved:**

The Board noted the content of the report.

**45/19 ADMINISTRATION UPDATE (1 APRIL 2019 TO 30 JUNE 2019) [Item 9]**

**Witnesses:**

Andrew Marson, Pensions Lead Manager

**Key points raised during the discussion:**

1. The Pensions Lead Manager introduced the report and ran through its highlights. He explained to the Board that improvement actions were being undertaken regarding complaints raised through the internal audit, GMP reconciliation was on track and there had been engagement with officers and Pension Fund representatives, the

system review was continuing, and progress to plan was being made regarding the end of year/annual benefit statements.

2. The Chairman highlighted that only 23 members out of approximately 37,000 were still required to produce end of year returns, benefit statements had been produced for 26,818 out of the 34,700 that needed them, and just 542 queries were still outstanding at this stage. He went on to congratulate the service for their work.
3. Referring to problems with addresses, the Pensions Lead Manager informed Members that statements would be generated for every member but that tracking agencies would be employed to help rectify the issue, together with a more rigorous tracing mechanism from September 2019.
4. Discussion turned to the key risks and issues outlined on page 82, with the Pensions Lead Manager explaining that the issue concerning the JLT checking bottleneck had been addressed but was being watched. He went on to say that 2,101 cases had been completed but that there were questions about the data quality, as 677 were unable to progress because of employer-related problems.
5. A Member of the Board asked if there were any performance milestones for the work being done by JLT and was told by the Pensions Lead Manager that they were only paid for successfully completed cases. There was a rate to which expectations were set but this approach ensured that JLT were incentivised to complete as many cases as possible. The Pensions Lead Manager then went on to explain that completed cases that were returned with data queries were raised with employers and follow-up pieces of work went back to JLT for completion.
6. The Pensions Lead Manager introduced the Improvement Plan (attached as Annex 3 to these minutes) and explained to the Board that it represented a big picture view of what was happening in the service. The total work outstanding was 26,559 cases, with 10,968 of those not previously appearing in any performance figures. The oldest case involving an unidentified leaver went back to 1991 and the clearance of backlog work was generating new work requests at an approximate rate of 1 in 10 members. The vast majority of the work went back approximately 10 years and was primarily related to deferred members and refunds. The Pensions Lead Manager went on to explain that most members would contact the service when they reached retirement age, which meant they were unlikely to be sitting on a significant amount of work with a financial impact and risk. However, the service still needed to keep in mind the reputational impact and risk and make sure deadlines were met.
7. The Chairman sought clarity on the work given to JLT and was told by the Pensions Lead Manager that this represented 3,232 cases relating to deferred members and leavers, all of which dated from before November 2018. He then explained that the figures outlined in the handout related to the total amount of work done no matter who had done it, and for this purpose JLT was an extension of the pensions administration team.
8. The Pensions Lead Manager went on to explain that pensions administration staff completed approximately 18,900 cases last year, which meant that there was currently over a year's worth of work that still needed to be done. The service contained a lot of experienced staff members but 25% were at or near retirement age and represented 45% of the service's LGPS knowledge, so the department

needed to make sure it was able to build on this knowledge and not go backwards.

9. Speaking about data quality, the Pensions Lead Manager explained that steps forward had been made and that the service needed a dedicated focus on it, as poor data quality was one of the main reasons why the backlog had happened in the first place. Regarding assurance, he said that his view was that the service needed to strengthen the level of its expertise amongst members of staff. The Pensions Lead Manager went on to discuss the proposed approach, which consisted of fully understanding the disclosure breach position before taking a view as to whether a report to the regulator was required, as the service needed to identify what member impact there had been before moving forward. Discussion then turned to the backlog, with the Pensions Lead Manager reiterating to the Board the fact that there was over one year's worth of work outstanding and that the contract with JLT would allow the service to generate efficiencies in-house.
10. The Board discussed the need for greater expertise in the service and the difficulty in attracting potential members of staff with LGPS expertise. The Pension Lead Manager explained that there had been success with the trainee team that had been brought in but that staff members with senior LGPS expertise were nonetheless needed. He went on to tell the Board that part of the future exercise was to capture the knowledge of experienced members of staff who were at or near to retirement age.
11. The Pensions Lead Manager outlined the next steps, which included getting the KPI reporting more robust. He explained that he was confident these were in the right orders of magnitude but they needed tightening up so that the Board could have more confidence in what it was being presented. He also spoke about the estimates of investment and informed Members that this had been done but needed to be independently looked at before it could be brought back to the Board.
12. A Member of the Board asked the Pensions Lead Manager about the use of robots and was told that two had recently gone live in the pensions administration service. One took care of helpdesk enquiries and the member service whilst the other dealt with deferred to payment processing. There were also other opportunities for future use.

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

None.

**Resolved:**

The Board noted the content of the report.

**46/19 ADMINISTRATION PERFORMANCE REPORT (QUARTER ONE) [Item 10]**

**Key points raised during the discussion:**

The Chairman agreed to consider the report as part of Item 9.

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

None.

**Resolved:**

The Board noted the content of the report.

**47/19 RISK REGISTERS 2019/20 (QUARTER ONE) [Item 11]**

**Witnesses:**

Ayaz Malik, Pensions Accountant Advisor  
Andrew Marson, Pensions Lead Manager  
John Smith, Senior Advisor (Pensions)

**Key points raised during the discussion:**

1. The Board heard from the Pensions Accountant Advisor, who explained that three risks had been added to the risk register – one in the pension fund risk register and another relating to pension administration. He also proposed to remove Risk 8 from the pension fund risk register as a permanent Section 151 Officer and new Director of Corporate Finance were now in place.
2. Referring to Risk 28 in the pension fund risk register, the Chairman recommended that the net risk score was raised from green to amber. He also noted that Risk 29 – ‘Failure to hold personal data securely’ – would be considered at the next meeting of the Board on 24 October 2019.
3. Responding to a question about Risk 33, the Pensions Lead Manager informed the Board that discussions were being had about the renewal of his work contract until March 2020. The Chairman then recommended that the net risk score was amended to amber, whilst both risk scores for Risk 34 should be amended to red.
4. Explaining the methodology behind the amendments made to the risk register, the Senior Advisor explained that in order to ensure risks were updated to either amber or red, officers were having to move individual risks into categories that were higher than they necessarily warranted. He went on to say that officers wanted to ensure there was a range of risks so that the key ones were flagged up and easy to identify.
5. Discussing inherit and reputational risks, the Senior Advisor informed the Board that officers had viewed the risks as they were at the time of formulation and scored them assuming that mitigating factors were properly applied and executed. In response, the Chairman said that until the Board had received assurances of the delivery process, risks needed to remain amber. He went on to suggest that the residual risk for A12 was amended to red.
6. It was agreed by the Board that the Chairman and Vice-Chairman would meet with officers to agree amendments to the risk register.

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

1. Risk 8 is to be removed from the fund risk register.
2. The net risk score of Risk 28 in the fund risk register is to be raised from green to amber.

3. The net risk score of Risk 33 in the fund risk register is to be raised from green to amber.
4. The total risk and net risk scores of Risk 34 in the fund risk register are to be raised from amber to red.
5. The Chairman and Vice-Chairman are to meet with officers to agree amendments to the risk register.

**Resolved:**

The Board noted the content of the report.

**48/19 SURREY LOCAL PENSION BOARD ANNUAL REPORT 2018/19 [Item 12]**

**Witnesses:**

Ayaz Malik, Pensions Accountant Advisor

**Key points raised during the discussion:**

1. The Pensions Accountant Advisor introduced the draft report and explained that it would form part of the final Surrey Local Pension Board Annual Report for 2018/19. This would then be presented to the Board at its next meeting on 24 October 2019.

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

None.

**Resolved:**

The Board noted the content of the report.

**49/19 GOVERNANCE REVIEW [Item 13]**

**Witnesses:**

Ayaz Malik, Pensions Accountant Advisor

**Key points raised during the discussion:**

1. The Pensions Accountant Advisor explained the background to the governance review report, which was presented at the last meeting of the Surrey Pension Fund Committee on 7 June 2019.
2. The Board heard that the governance review had been undertaken by Hymans Robertson and highlighted that the pension fund had strong governance in place. Officers were currently in the process of reviewing all of the nine recommendations set out in the review before presenting a report on the progress made at the next meeting of the Surrey Pension Fund Committee on 13 September 2019.

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

None.

**Resolved:**

The Board:

1. Noted the governance report and recommendations from Hymans Robertson and that the recommendations are included in the 2019/20 Business Plan.
2. Noted the mission statement for the Surrey Pension Fund.
3. Noted the objectives for the Surrey Pension Fund with regard to investments, funding, governance and delivery.
4. Noted the Business Plan for 2019/20.

**50/19 ADDITIONAL VOLUNTARY CONTRIBUTIONS GOVERNANCE REVIEW (INTERIM) REPORT [Item 14]**

**Witnesses:**

John Smith, Senior Advisor (Pensions)

**Key points raised during the discussion:**

1. The Senior Advisor explained to the Board that Barnett Waddingham (BW) had been commissioned to undertake a comprehensive additional voluntary contributions (AVC) review and that there were two highlights outlined in the interim report. The first concerned Equitable Life, which was in the process of being acquired by Utmost Life. A report was to be prepared to consider whether the proposal was in the best interests of members. The report would then be presented to the High Court, which would determine whether the acquisition could go ahead. The Senior Advisor explained that, as a policy holder, the pension fund would have a vote on whether to approve the acquisition.
2. In response to a question from the Chairman about the number of members who could be affected, the Senior Advisor said that the acquisition would be a positive development for most members in the with-profit fund but that some may be disadvantaged. The recommendations were scheduled to be published around October 2019 and implementation would take place towards the end of the year.
3. Turning to the issues surrounding Prudential, the Senior Advisor explained that it had effectively closed the two funds that make up the Surrey Pension Fund's life styling option by abruptly switching off the transitioning between them. It had been agreed that the Fund would transition all of the funds and alert members to what had happened and what other funds were available. The Prudential had offered alternative life style funds with different characteristics and slightly higher charges, and although BW advised the pension fund to continue to offer one, they recommended drawing members' attention to the option to transfer to other funds free of charge.
4. The Chairman requested that the Board was presented with a draft version of the letter that would be sent to members to alert them of the aforementioned changes.

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

The Board is to be presented with a draft version of the letter that will be sent to members to alert them of the AVC changes.

**Resolved:**

The Board noted the content of the report.

**51/19 REVIEW OF INTERNAL DISPUTE RESOLUTION CASES IN 2019/20 (QUARTER ONE) [Item 15]**

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

None.

**Resolved:**

The Board noted the content of the report.

**52/19 RECENT DEVELOPMENTS IN THE LGPS [Item 16]**

**Witnesses:**

John Smith, Senior Advisor (Pensions)

**Key points raised during the discussion:**

1. Discussing post-2014 refunds, the Chairman explained to the Board that there may have been a breach of law if any had not been paid within the required timeframe but that more facts were needed before a final determination could be made.
2. The Senior Advisor informed the Board that it had been announced that the McCloud Judgement would be rolled out across the whole of the public sector but the cost may not be as great as had been initially feared.

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

None.

**Resolved:**

The Board noted the content of the report.

**53/19 EXCLUSION OF THE PUBLIC [Item 17]**

**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 the relevant paragraphs of Part 1 of Schedule 12A of the Act.

**54/19 BREACH OF LAW REPORT (1 APRIL 2019 TO 30 JUNE 2019) [Item 18]**

**Witnesses:**

John Smith, Senior Advisor

**Key points raised during the discussion:**

1. The Chairman questioned whether the breach of law should be reported to the regulator. The Senior Advisor commented that the breach only needed to be reported if it was material, and as there would be no material harm to members and the pension fund could recover any costs, this was unlikely to be the case.
2. Responding to a question about whether the Fund would be disadvantaged and was planning on charging interest, the Senior Advisor informed the Board that it would be possible to charge interest for late payments and that any other costs could be recovered from the employer under the terms of the admission agreement.
3. The Chairman recommended that the breach of law was not reported as long as the Fund and its members were not disadvantaged in any way.

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

None.

**Resolved:**

The Board noted the content of the report.

**55/19 BORDER TO COAST UPDATE [Item 19]**

**Witnesses:**

Ayaz Malik, Pensions Accountant Advisor

**Key points raised during the discussion:**

1. The Pensions Accountant Advisor introduced the report and ran through the key points, which included legal advice being sought for a conflict of interest relating to a non-executive director. He informed the Board of what was agreed at the last meeting of Border to Coast Pension Partnership Joint Committee and the financial commitments that had been made.
2. The Board also heard that investment training would be held on 6 August 2019 and that Members would be notified by email.

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

The Pensions Accountant Advisor is to notify Members about the investment training taking place on 6 August 2019.

**Resolved:**

The Board noted the content of the report.

**56/19 PUBLICITY OF PART 2 ITEMS [Item 20]**

The Board agreed that the Part 2 items remain confidential and restricted from the public.

**57/19 DATE OF THE NEXT MEETING [Item 21]**

The next meeting of the Surrey Local Pension Board will be held on 24 October 2019.

Meeting ended at: 12:41 pm

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**Chairman**

## SURREY LOCAL PENSION BOARD ACTIONS AND RECOMMENDATIONS TRACKER

The actions and recommendations tracker allows Board Members to monitor responses, actions and outcomes against their recommendations or requests for further actions. The tracker is updated following each Board. Once an action has been completed, it will be shaded green to indicate that it will be removed from the tracker at the next meeting. The next progress check will highlight to members where actions have not been dealt with.

|            |                      |                    |                  |
|------------|----------------------|--------------------|------------------|
| <b>KEY</b> |                      |                    |                  |
|            | No Progress Reported | Action In Progress | Action Completed |

| Date of meeting and reference | Item                        | Recommendations/Actions   | To                          | Response  | Progress |
|-------------------------------|-----------------------------|---|-----------------------------|---|----------|
| 27 July 2015<br>A1/15         | Knowledge and Understanding | Board Members to advise the Board's scrutiny officer when training is completed.  | Board Members               | There are notifications of completed training outstanding, and the Board are asked to advise the Democratic Services Assistant once completed. The training log has been included on the annual report. | Ongoing  |
| 25 July 2018<br>A4/18         | Cyber Security              | The Board to receive a presentation from the IMT Manager on the Council's implementation of cyber security.                                       | Pensions Accountant Advisor | Presentation will be provided by Network and Security team. To be presented at the 24 October 2019 meeting.   | Complete |
| 23 October 2018<br>A6/18      | Action Tracker              | The Board asked the Lead Pensions Manager to provide bar charts to illustrate progress against agreed milestones in the service improvement plan. | Lead Pensions Manager       | The Lead Pensions Manager recommends that this action be carried forward and incorporated into the SIP2 consultation in order to agree ongoing reporting format to LPB.                                 | Ongoing  |

| Date of meeting and reference | Item                                    | Recommendations/Actions  | To                                       | Response  | Progress |
|-------------------------------|---|--|--|---|----------|
| 23 October 2018<br><br>A11/18 | Annual Benefit Statements Exercise 2018 | Officers to develop an approach to obtain missing addresses, with a priority for members approaching or past their retirement dates. | Pensions Support and Development Manager | <ul style="list-style-type: none"> <li>• Chloe Painter has taken the lead on this project as project manager. There are approx. 14,000 “gone aways”. After looking into various companies and receiving quotes, the company chosen to carry out the tracing exercise is ITM, who specialise in data cleansing and have experience with the pensions industry going back to 2003.</li> <li>• An options paper has been sent to the funds to decide what route to take on this, for example do they want an electronic trace or a full trace, which is more costly and will take longer to provide the results. Once the approach has been agreed by funds, a contract will be drawn up and work will begin. Once ITM receive the data on “gone aways” it generally takes between 7 – 10 days to do the electronic trace, which may improve data quality on addresses by 70-80%.</li> </ul> | Ongoing  |

| Date of meeting and reference | Item                                | Recommendations/Actions   | To                               | Response   | Progress |
|-------------------------------|-------------------------------------|---|----------------------------------|--|----------|
| 17 January 2019<br>A1/19      | Actions and Recommendations Tracker | Officers are to organise another workshop to discuss and improve the set of Key Performance Indicators. These would be presented at the next Board meeting. | Pensions Accountant Advisor      | The new KPIs was presented at the 18 July 2019 meeting.  | Complete |
| 17 January 2019<br>A2/19      | Governance Review                   | Board Members are to engage with the Governance Review.   | Board Members                    | The governance review will be presented to the Board at the 18 July 2019 meeting.  | Complete |
| 18 July 2019<br>A7/19         | Discretions Exercise Report         | The Board requested an update at July's meeting.  | Pension Senior Advisor           | The Pension Fund Team launched a further exercise and we currently have almost 90 policies. Officers will follow up with further mail shots from time to time.   | Ongoing  |
| 17 January 2019<br>A8/19      | Recent Developments in the LGPS     | Officers are to advise the Board if there need to be any changes to process regarding annual benefit statements.  | Pension Service Delivery Manager | <ul style="list-style-type: none"> <li>• Annual Benefit Statements have been completed to the 31st August deadline.</li> <li>• 31,416 active statements have been created for Surrey members.</li> <li>• In instances where data is not correct, an ABS has been sent with a disclaimer that this is based on incorrect data. The view is that this is a good exercise in data control and cleansing as this disclaimer may prompt the member to take action to resolve their own data issues through their employer.</li> </ul> | Complete |

| Date of meeting and reference | Item   | Recommendations/Actions  | To                                | Response  | Progress |
|-------------------------------|--|--|-----------------------------------|---|----------|
| 17 January 2019<br>A9/19      | Recent Developments in the LGPS                                  | Officers are to report back on the results of the tracking agency service for deferred members.  | Pensions Service Delivery Manager | Update has been provided in action A8/19.   | Complete |
| 25 April 2019<br>A13/19       | Administration Update (1 January 2019 – 31 March 2019)           | An executive summary from the Pensions Lead Manager on the data improvement plan is to be added to the forward plan for presentation at a meeting later in the year. | Pensions Lead Manager             | Data Improvement is part of the Service Improvement Plan, which included recruiting a Data Quality team who will take ownership and accountability of maintaining and improving data. This is subject to approval of the Service Improvement Plan | Ongoing  |
| 25 April 2019<br>A18/19       | Compliance With the Pensions Regulator's Code of Practice No. 14 | Members are to complete the pensions regulator's toolkit.  | Board Members                     | Members continue to complete regulator's toolkit training.  | Ongoing  |
| 25 April 2019<br>A20/19       | Compliance With the Pensions Regulator's Code of Practice No. 14 | Officers are to ensure the Surrey Pension Fund website is updated.   | Pensions Accountant Advisor       | Updated Compliance with TPR paper will be presented to the Board at the 24 October 2019 meeting.  | Complete |
| 25 April 2019<br>A21/19       | Compliance With the Pensions Regulator's Code of Practice No. 14 | Officers are to update the relevant item so that the ongoing communications strategy is noted.   | Pensions Accountant Advisor       | Updated Compliance with TPR paper will be presented to the Board at the 24 October 2019 meeting.  | Complete |
| 18 July 2019<br>A22/19        | Action Tracker   | The Pensions Accountant Advisor is to examine the possibility of further toolkit training being provided.  | Pensions Accountant Advisor       | The Pensions Regulator have developed online resources to help members with the toolkit.  | Complete |
| 18 July 2019<br>A23/19        | Action Tracker   | The Board is to be updated on the progress made to A20/19 at its next meeting on 24 October 2019.  | Pensions Accountant Advisor       | Updated Compliance with TPR paper will be presented to the  | Complete |

| Date of meeting and reference | Item   | Recommendations/Actions  | To  | Response  | Progress |
|-------------------------------|--|--|---|---|----------|
|                               |  |  |   | Board at the 24 October 2019 meeting.   |          |
| 18 July 2019<br>A24/19        | Summary of the Pension Fund Committee Meeting of 7 June 2019                 | An officer from the Pension Fund team is to email Board Members about the ESG forum taking place on 26 September 2019.   | Pension Fund officers                             | Invitation was sent to all Board members.   | Complete |
| 18 July 2019<br>A25/19        | Internal Audit Report – Review of Surrey Pension Fund Administration 2018/19 | The Chairman, on behalf of the Board, is to put in writing his thoughts on the pensions administration issues and raise them with the Cabinet Member for Corporate Support, the Section 151 Officer and the Surrey Pension Fund Committee. | Chairman of the Surrey Local Pension Board        | The Cabinet Member for Corporate Support, Section 151 Officer and Surrey Pension Fund Committee were written to and details were circulated to Board Members. | Complete |
| 18 July 2019<br>A26/19        | Risk Registers 2019/20 (Quarter One)   | Risk 8 is to be removed from the fund risk register.   | Pensions Accountant Advisor                       | Risk 8 has been removed from the risk register.   | Complete |
| 18 July 2019<br>A27/19        | Risk Registers 2019/20 (Quarter One)   | The net risk score of Risk 28 in the fund risk register is to be raised from green to amber.   | Pensions Accountant Advisor                       | Risk has been amended.  | Complete |
| 18 July 2019<br>A28/19        | Risk Registers 2019/20 (Quarter One)   | The net risk score of Risk 33 in the fund risk register is to be raised from green to amber.   | Pensions Accountant Advisor                       | Risk has been amended.  | Complete |
| 18 July 2019<br>A29/19        | Risk Registers 2019/20 (Quarter One)   | The total risk and net risk scores of Risk 34 in the fund risk register are to be raised from amber to red.  | Pensions Accountant Advisor                       | Risk has been amended.  | Complete |
| 18 July 2019<br>A30/19        | Risk Registers 2019/20 (Quarter One)   | The Chairman and Vice-Chairman are to meet with officers to agree amendments to the risk register.   | Chairman, Vice-Chairman and Pension Fund officers | The Chairman and Vice-Chairman met with officers and amendments to the risk register were agreed.   | Complete |

| Date of meeting and reference | Item  | Recommendations/Actions  | To                        | Response  | Progress |
|-------------------------------|---|--|---------------------------|---|----------|
| 18 July 2019<br>A31/19        | Surrey Local Pension Board Annual Report 2018/19                                    | Board Members are to review the Register of Interest and update officers of any amendments that need to be made. | Board Members             | Board Members reviewed and updated officers of changes. The updated Register of Interest is included in Annual Report 2018-19 paper.  | Complete |
| 18 July 2019<br>A32/19        | Additional Voluntary Contributions Governance Report produced by Barnett Waddingham | The Board is asked to note the key findings.   | Senior Advisor (Pensions) | <p>The Pension Fund instructed Barnett Waddingham to produce an AVC review in order to comply with tPR 13 (money purchase [AVCs]), tPR 14 (public sector governance) and wider governance considerations and it was delivered on 1 October 2019.</p> <p><b>Equitable Life</b><br/>Surrey County Council is the policy holder for all Equitable Life AVC policies.</p> <p>It is the opinion of both Equitable Life's independent advisor and Barnett Waddingham that the value of the policies transferred to Utmost Life are likely to be higher after ten years using reasonable assumptions. However, nearly all of Surrey's members benefit from a guarantee and some of them are more than ten years from retirement.</p> | Complete |

| Date of meeting and reference | Item | Recommendations/Actions | To | Response   | Progress |
|-------------------------------|------|-------------------------|----|--|----------|
|                               |      |                         |    | <p>There is a danger that this relatively small group could be worse off, in comparison to the status quo, when they eventually retire if they do not transfer in the meantime. Nonetheless, Surrey has up to ten votes at its disposal and the Board could consider casting them proportionately so that no particular group is unfairly disadvantaged.</p> <p>The paper goes on to consider a variety of options assuming that the transfer goes ahead including consolidating all the AVCs with a single provider, waiting to see how Utmost Life performs, transferring former Equitable Life policies to a completely new provider (possibly Aviva) or a combination of strategies.</p> <p><b>Prudential</b><br/>There are very few group AVC providers in the market and the pool is dwindling. Barnett Waddingham considers the Prudential to be one the best providers in terms of governance, investment choice, investment</p> |          |

| Date of meeting and reference | Item                   | Recommendations/Actions   | To                    | Response   | Progress |
|-------------------------------|------------------------|---|-----------------------|--|----------|
|                               |                        |   |                       | <p>performance and fees, albeit that service seems to have been impacted by cost cutting.</p> <p><b>Governance</b><br/>The report only identifies one public sector code risk ragged amber, which is risk management of AVCs. The Board could consider adding select risks to the AVC administration risk register and review them periodically.</p> <p>The report also identifies three risks concerning the defined contribution code that are ragged amber; appointing and managing relations with service providers, understanding AVC administration and monitoring and reviewing pension standards and performance. The Board is invited to consider these topics and to review them periodically.</p> |          |
| 18 July 2019<br>A33/19        | Border to Coast Update | An officer from the Pension Fund team is to notify Members about the investment training taking place on 6 August 2019. | Pension Fund officers | Invitation was sent to all Board members.  | Complete |

# Surrey Local Pension Board: Forward Plan

| Date              | Standing items  | New items  |
|-------------------|---|--|
|                   | <ul style="list-style-type: none"> <li>• Pension Committee Update (Summary paper)</li> <li>• Risk Registers</li> <li>• Administration performance report</li> <li>• Administration update report</li> <li>• Quarterly Internal Dispute Resolution Procedure (IDRP)</li> <li>• Border to Coast update</li> <li>• Freedom of Information requests – Included in Annex 1.</li> </ul> |  |
| <b>24/10/2019</b> |   | <ul style="list-style-type: none"> <li>• Annual report (including financial statements)</li> <li>• tPR return</li> <li>• Risk Management Policy</li> <li>• Cyber security training</li> <li>• Compliance with TPR</li> <li>• Service Specification</li> <li>• Administration strategy</li> <li>• AVC Report</li> <li>• Investment Consultant Strategic Objectives</li> </ul> |
| <b>13/02/2020</b> |   | <ul style="list-style-type: none"> <li>• Recent development in the LGPS</li> </ul>   |
| <b>28/05/2020</b> |   | <ul style="list-style-type: none"> <li>• Compliance with TPR</li> <li>• Training policy</li> </ul>   |
| <b>23/07/2020</b> |   | <ul style="list-style-type: none"> <li>• Annual Benefit statement update</li> <li>• Annual report</li> </ul>   |

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## Annex 1 – Freedom of Information Requests

The table below summarises the Freedom of Information request responses provided by the Fund during Quarter 2.

| <b>Date of Response</b> | <b>Organisation</b> | <b>Request</b>  | <b>Response</b>                                      |
|-------------------------|---------------------|---|--|
| 18/07/2019              | Pei Media           | Information concerning alternative assets of the pension fund                                       | Summary of private equity portfolio as at 31/12/2018 |
| 29/07/2019              | Proxy Insight       | Proxy voting  | Proxy Voting 1 January 2019 - 30 June 2019           |
| 03/08/2019              | Bloomberg LP        | Information concerning alternative assets of the pension fund                                       | Summary of private equity portfolio as at 31/12/2018 |
| 12/08/2019              | Pageant Media       | Information concerning Pension Fund's assets and Investment in Border to Coast Pension Partnership. | Information provided as requested.                   |
| 13/08/2019              | Private Individual  | Communication between Surrey Pension Fund and a MAT.  | Information provided as requested.                   |
| 12/09/2019              | Preqin Ltd          | Information concerning alternative assets of the pension fund                                       | Summary of private equity portfolio as at 31/03/2019 |
| 18/09/2019              | Pitchbook           | Information concerning alternative assets of the pension fund                                       | Summary of private equity portfolio as at 31/03/2019 |

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## **Surrey Local Pension Board 24 October 2019**

### **Summary of the Pension Fund Committee meeting of 13 September 2019**

#### **Recommendations:**

The Board is asked to **note** the content of this report.

#### **Detail:**

##### **Introduction**

1. The Pension Fund Committee met on 13 September 2019. This report provides a summary of this meeting and any resolutions made.

##### **Forward Plan**

2. The latest approved Pension Fund Committee Forward Plan is shown as Annex 1.

##### **Local Pension Board report**

3. The Pension Fund Committee (Committee) received the report from the Local Pension Board (shown as Annex 2).
4. The Chairman of the Surrey Local Pension Board introduced the report and explained to the Committee that one of the Board's main concerns over the previous year had been the key performance indicators (KPIs). The Board, alongside the pensions administration and pensions fund teams, were in the process of refining those.
5. The Chairman went on to discuss the backlog of work that currently existed and told the Committee that it amounted to more than one years' worth. He informed the Committee that a letter had been written to the Cabinet member responsible for Orbis and the Section 151 Officer outlining concerns. The Section 151 officer had issued a response, who committed to remedying those issues in his response, and a project had been put in place by the pensions administration department.

6. The Committee also heard about the work the Board had done on the risk register. The Chairman noted that, given the scale of the issues, risk ratings for administration matters are high and will remain so until evidence was received of implementation of improvements.
7. The Pensions Lead Manager endorsed the Chairman of the Surrey Local Pension Board's summary and explained to the Committee that they were in a healthy position now the size of the task was known. It was acknowledged that it would take time to deal with the issues but officers were optimistic.
8. Responding to a question from a Member of the Committee about future changes would be made to the administration of pensions, the Pensions Lead Manager explained that a significant part of the plan was to not only address the legacy issues but to make sure the administration service was fit for purpose, ready for the future and resilient.
9. A Member of the Committee questioned whether the 31 August 2019 deadline for benefit statements had been met and was told by the Pensions Lead Manager that it had.
10. The Committee resolved the following:
  - Approved the following governance steps in order to expedite progress of the Administration Service Improvement Plan and provide appropriate assurance:
    - i) Pension Administration officers are to provide cost estimates to Pension Fund officers for each project in the Administration Service Improvement Plan.
    - ii) Pension Fund officers are to set out and agree with Pension Administration officers the appropriate assurances in support of the projects in the Administration Service Improvement Plan.
    - iii) The Business Case for the Administration Service Improvement Plan is to be written and agreed by the Pension Administration officers and Pension Fund officers.
    - iv) Authorisation of the Business Case is to be delegated to officers (including the Director of Corporate Finance) in consultation with the Chairman of the Surrey Pension Fund Committee and the Chairman of the Surrey Local Pension Board.
  - Approved proposed changes to the risk register, as noted in the Risk Register section of the report.

### **Company engagement and voting**

11. The Strategic Finance Manager informed the Committee that the Climate Change Working Party had met that week and had engaged with the Head of Pensions for the Church of England. The Fund's approach to ESG is broadly consistent with that of the Church of England. Officers were in the process of drawing conclusions from these sessions, and these would be brought to the Committee in December 2019. This would include a re-drafting of the BCPP responsibility policy.

12. The Committee resolved the following:

- The Surrey Pension Fund Committee reaffirmed that ESG factors are fundamental to the Fund's approach, consistent with the Mission Statement through:
  - Becoming a supporter of the Taskforce for Climate Related Financial Disclosures (TCFD) with the objective to begin to report against its disclosures for the 2019/20 Annual Report
  - Commending the outcomes achieved for the quarter ending 30 June 2019 by Robeco in their Active Ownership approach and the LAPFF in its engagement with multinational companies as at 31 March 2019
  - Noting the positive results achieved in relation to ESG issues, through the Fund's share voting for the quarter ending 30 June 2019
  - Supporting the work carried out by BCPP as well as its Climate Change Working Party in understanding climate change risk, and the outcomes achieved by Fund managers during the quarter ending 30 June 2019

#### **Draft annual report and audited statement of accounts**

13. The Senior Accountant introduced this report.

14. The Committee heard from the Chairman of the Surrey Local Pension Board, who explained that his statement had been sent to officers and would be shared with Members after the meeting.

15. The Committee resolved the following:

- To note and approved the Draft Annual Report with the Audit Pension Fund Accounts for publication, subject to audit approval and any recommended alterations.
- To note the content of the 'External Audit Findings for Surrey Pension Fund' report, which reviewed the Surrey Pension Fund Statement of Accounts 2018/19.
- To note the Letter of Representation with regards to the Surrey Pension Fund Statement of Accounts.

#### **Governance compliance statement**

16. The Surrey Pension Fund Committee noted the amendments to the Compliance to Statutory Guidance Statement and the Governance Policy Statement. These were concerned with a change in description of the S101 committee from the Pension Fund Board to the Pension Fund Committee.

#### **Ministry of Housing, Communities and Local Government (MHCLG) – Consultation on changes to the local valuation cycle and the management of employer risk**

17. The Committee heard from the Strategic Finance Manager, who ran through the MHCLG consultation (available at <https://www.gov.uk/government/consultations/local-government-pension-scheme->

[changes-to-the-local-valuation-cycle-and-management-of-employer-risk?=7](#)), which proposed amendments to the local fund valuations from the current three-year cycle to a four-year cycle. The Fund did not believe that a persuasive business case had been set out by the Government regarding these proposed changes.

18. The Strategic Finance Manager went on to explain that the second area of proposed amendments was concerned with flexibility on exit payments. The proposals would allow the Fund to have more flexibility on how these payments were received and, from the view of the Fund, this is a positive develop for scheme employers and the Fund.
19. Discussing the proposals for policy changes to employers required to offer LGPS membership, the Strategic Finance Manager outlined the changes being considered and explained that the Fund had responded to the consultation noting that cash flows may end up being reduced and that the affected employers, by ending their intake of new members, would be accelerating their point of maturity. The Fund was wary this could bring about a situation where there were separate pension rights for the same set of employees.

#### **Scheme Advisory Board review of governance**

20. The report on governance from Hymans Robertson noted that the consensus from survey responses was that existing structures were satisfactory provided the Fund was ring-fenced from the wider Council, provided that the Section 151 Officer was given the necessary support and ongoing training to understand their role as lead officer of the Fund.
21. The Scheme Advisory Board has invited the Hymans Robertson project team to assist the Secretariat in taking forward the next stage of the good governance project. Two working groups will be established, one to focus on defining good governance outcomes and the guidance needed to clearly set them out and the other to focus on options for the independent assessment of outcomes and mechanisms to improve the delivery of those outcomes. Both groups will comprise a wide range of scheme stakeholders to ensure a full range of views and options are considered. The aim is for an options report to be ready for the Board's consideration when it meets in November.

#### **New Surrey Pension Fund logo**

22. The Pension Fund Committee approved the new Surrey Pension Fund logo and its alignment with the Fund's Mission Statement, approved on 7 June 2019 and shown below:



# Surrey Pension Fund

- > Oak leaves represent growth, Surrey's nature
- > Two leaves overlaid to represent partnership
- > Blue gives corporate and traditionally 'financial' feel, green represents Surrey – brighter shades give more modern feel
- > Slab-serif font to feel strong, solid, reliable and traditional yet fresh
- > **Fresh**
- > **Modern**
- > **Growth**
- > **Partnership**

## **2019 Valuation update**

23. The Committee heard from the Fund actuary, who provided an update on the delivery of the 2019 actuarial valuation and highlighted the next stages.
24. The Fund actuary explained that the Fund was 96% funded, with much of that being as a result of asset returns.
25. The Committee heard that conversations would be had with employers about multiple investment strategies and that the intention would be that no one would be moved without their understanding. There was a need to be pragmatic and proportionate to make sure everything had an appropriate award for employers and that different funding objectives were kept in mind.
26. In response to a query from the Committee regarding the experience of other LGPS Funds who had employed similar strategies, the Strategic Finance Manager agreed to include case studies in the funding strategy statement paper.
27. The Pension Fund Committee resolved to:
  - Note the progress on the delivery of the 2019 actuarial valuation of the Pension Fund.
  - Approve for officers to work with the investment consultant and the actuary to implement multiple investment strategies for employers.

## **Cashflow analysis**

28. The Committee noted the cash-flow position for quarters four and one and determined that no change was required to the investment or funding strategy as a result of the current cash-flow position.

## **Investment strategy review**

29. The Strategic Finance Manager explained that the investment strategy review built on the draft report that had been brought to the last meeting regarding changes in the asset allocation. The investment consultant, Mercer, noted the further work being done with Border to Coast regarding the development of a regional global equity fund.
30. The Committee were asked to consider the future of the equity protection strategy. The Strategic Finance Manager explained that the issue being considered was an extremely complex one and that the establishment of a working group was recommended due to the limited time available for discussion in a formal Committee meeting.
31. The Pension Fund Committee resolved to:
- Approve the proposed changes to the asset allocation.
  - Authorise officers to work with the independent advisor, investment consultant and Border to Coast to explore a solution incorporating a regional/GDP based approach to global equities including additional allocation to emerging market equities.
  - Approve the convening of and delegation of authority to an investment sub-committee in respect of the decisions regarding the continuation of the equity protection strategy. This sub-committee will include members, officers and advisors and will consider options regarding the equity protection strategy, including:
    - Renew the entirety of the protection
    - Renew a portion of the protection
    - Cease equity protection when the current contract expires

#### **National Pooling Update**

32. The Committee were provided with details of the meetings and calls with BCPP, since the last Committee meeting. These included the Climate Change Workshops and Joint Committee meeting of 7 June 2019.
33. The Chairman of the Surrey Pension Fund Committee was congratulated on his re-election as the vice chairman of the BCPP Joint Committee.
34. The Committee were given information on the progress towards compliance with the “necessary conditions” of governance for transition to the BCPP Global Alpha fund, which had now largely been met. This included a letter of suitability from the investment consultant, Mercer, who have provided a detailed Investment Due Diligence paper.
35. In accordance with recommendations in the Investment Strategy Review papers, the Committee were asked to approve for officers to work with the investment consultant, independent advisor, partner funds and BCPP to develop a global equity sub-fund based on regional allocations and with an additional allocation to emerging market equity.

36. A BCPP Regional fund in combination with BCPP's Global Equity Alpha fund seeks to serve the dual purpose of producing an equity allocation that is more in-line with the sources of global growth than a purely market cap weighted global equity fund. The allocation will seek to reduce the overall exposure to the expensive US market and increases exposure to faster growing Asian and Emerging markets.
37. The Committee were given information on the compliance with the "necessary conditions" of governance for Infrastructure within the BCPP Alternatives investment proposition and that a commitment consistent with the Surrey Pension Fund target asset allocation (c£100m) to Infrastructure can commence.
38. The Committee we given information of the Private Credit alternatives sleeve designed within the BCPP Alternatives investment proposition and were asked to approve (subject to meeting necessary conditions prior to launch) a 2019 commitment consistent with the Surrey Pension Fund target asset allocation (c£100m).
39. The Pension Fund Committee resolved to:
- Approve for officers to work with the investment consultant, independent advisor, partner funds and BCPP to develop a global equity sub-fund based on regional allocations and with an additional allocation to emerging market equity, consistent with the revised investment strategy.
  - Approve (subject to meeting necessary conditions prior to launch) a 2019 commitment consistent with the Surrey Pension Fund target asset allocation (c£100m) to Private Credit within the BCPP Alternatives investment proposition.

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**Report contact:** Neil Mason, Strategic Finance Manager (Pensions)

**Contact details:** T: 020 8213 2739 E: [neil.mason@surreycc.gov.uk](mailto:neil.mason@surreycc.gov.uk)

**Annexes:**

Annex 1 – Pension Fund Committee forward plan

Annex 2 – Local Pension Board committee report

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# Surrey Pension Fund Committee Forward Plan

| Date              | Standing items  | New items   |   |  |   |
|-------------------|---|---|---|--|---|
|                   |   | Funding   | Investment  | Governance   | Delivery  |
|                   | <ul style="list-style-type: none"> <li>• National pooling update</li> <li>• Investment Manager Issues</li> <li>• Local board update</li> <li>• Cash-flow analysis</li> <li>• Voting and class action update</li> <li>• Engagement update</li> <li>• Business plan update</li> </ul> |   |   |  |   |
| <b>13/09/2019</b> |   | <ul style="list-style-type: none"> <li>• Draft valuation (whole of fund)</li> </ul> | <ul style="list-style-type: none"> <li>• Downside protection update</li> <li>• Draft Investment strategy review</li> <li>• Tailored investment strategies update</li> </ul> | <ul style="list-style-type: none"> <li>• Governance compliance statement review</li> <li>• Annual report</li> <li>• New Fund logo</li> </ul> | <ul style="list-style-type: none"> <li>•</li> </ul>                               |
| <b>13/12/2019</b> |   | <ul style="list-style-type: none"> <li>• Final valuation result</li> </ul>          | <ul style="list-style-type: none"> <li>• Final tailored</li> </ul>  | <ul style="list-style-type: none"> <li>• Risk management policy</li> </ul>   | <ul style="list-style-type: none"> <li>• Draft communications strategy</li> </ul> |

# Surrey Pension Fund Committee Forward Plan

|  |  |  |                     |  |   |
|--|--|--|---------------------|--|---|
|  |  | <ul style="list-style-type: none"><li>• Draft funding strategy statement</li><li>• CEM performance analysis report</li><li>• Responsible investment policy</li></ul> | investment strategy |  | <ul style="list-style-type: none"><li>• Draft service specification</li><li>• Draft pension administration strategy</li></ul> |
|--|--|--|---------------------|--|---|

**SURREY COUNTY COUNCIL**

**PENSION FUND COMMITTEE**

**DATE: 13 SEPTEMBER 2019**

**LEAD OFFICER: ANNA D'ALESSANDRO, DIRECTOR OF CORPORATE FINANCE**

**SUBJECT: LOCAL BOARD REPORT**



**SUMMARY OF ISSUE:**

This report is a summary of administration and governance issues reviewed by the Local Pension Board at its meeting of 18 July 2019 that need to be brought to the attention of the Pension Fund Committee.

**RECOMMENDATIONS:**

It is recommended that the Pension Fund Committee:

1. Approves the following governance steps in order to expedite progress of the administration service improvement plan and provide appropriate assurance:
  - Pension Administration Officers to provide cost estimates to Pension Fund Officers for each project in the Service Improvement Plan.
  - Fund Officers set out and agree with Pensions Administration Officers the appropriate assurances in support of the projects in the Service Improvement Plan.
  - The Business Case for the Service Improvement Plan is written and agreed by the Pension Administration Officers and Fund Officers.
  - Authorisation of the Business Case to be delegated to officers (including the Director of Corporate Finance) in consultation with the Chairman of the Pension Fund Committee and the Chairman of the Local Pension Board.
2. Approve proposed changes to the risk register, as noted in the Risk Register section of this report.

**REASONS FOR RECOMMENDATIONS:**

The Public Sector Pensions Act 2013, requires for Local Pension Boards to assist the Scheme Manager in securing compliance with the LGPS Regulations and requirements imposed by the Pensions Regulator. This report provides the Pension Fund Committee with insight in to the activities of the Local Board and furthers the successful collaboration of the Committee and Board in managing risk and compliance and promoting effective governance.

This meets the Fund's strategic governance objectives.

**DETAILS:**

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## Internal audit and pension administration report

1. In the light of the significant issues reported, the Chairman, on behalf of the Board, was delegated to put in writing his thoughts on the pensions administration issues and raise them with the Cabinet Member for Corporate Support, the Section 151 Officer and the Surrey Pension Fund Committee.
2. The Chairman reported on 22<sup>nd</sup> July as follows;

*“ At the meeting of the Surrey Local Pension Board last Thursday we spent the majority of our time on the administration of the Fund. This included a review of the internal audit report, scrutiny of the many and varied projects as well as performance against the new set of KPI’s. We were also able to look at the high level improvement plan prepared by the Service and the backlog of cases – please see the attached annexe 2.*

*The current backlog equates to more than one year’s worth of work, and even for the last month reported, the work completed was less than the new work arriving in the department. The Board has asked that the Service determines if there are deadlines missed which would amount to breaches which should be reported to the Pensions Regulator. Some of the delays may also mean that scheme members are being disadvantaged financially.*

*Some work has been put out to an external provider, and it is clear that more should be dealt with in this fashion if serious inroads are going to be made into the backlog in a reasonable period of time.*

*We also point out that one quarter of the current team is at or nearing retirement age. A deficit in knowledge and experience will develop unless radical steps are taken to address this.*

*The role of the Pensions Board is to advise and assist the County Council in its role as the Administering Authority of the Surrey LGPS. We ask that the Service, officers and cabinet members, address the issues identified, provide the resources and commit to their resolution in a reasonable period. We ask that a response to this email and the Improvement Plan is provided to the Board.”*

3. The service improvement plan as referred to by the Chairman of the Local Board is attached as Annexe 1.
4. The Section 151 Officer responded on 2<sup>nd</sup> August 2019 as follows;

*“The Service Improvement Plan has been established as a programme of work being delivered by the Pensions Administration Team with support from across Surrey CC where needed. There is clear project governance led by diverse and senior representation and the LPB receives highlight reports as part of meeting papers. Progress is good, particularly with:*

*BAU stabilised as a result of 3 key leadership appointments, the recruitment of 9 trainees and the restructure to specialist teams.*

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*First stage of backlog clearance progressing to plan with 3,232 Surrey cases sent for processing by JLT.*

*A successful end of year exercise and the delivery of Valuation data to the actuary on 26<sup>th</sup> July.*

*Benefit Statements being generated and on plan to complete ahead of the 31 August deadline.*

*The milestone actions in response to the findings of the Internal Audit are being delivered to agreed times, with a follow up audit being planned for October 2019.*

*As discussed at the Service Improvement workshop, there are also many opportunities to improve the efficiency and effectiveness of the service in the next phase, which are being assessed as business cases and planned in for the coming months.*

*As the Service Improvement Plan has developed, further analysis shows the additional projects to be done in order to complete the backlog at pace and build a service which is resilient for the future.*

*The additional projects were introduced in the Improvement Plan discussed at the LPB and is attached to my response so everyone has sight of it. In particular, the recommendations of greater use of external resource to address the backlog, service resilience by growing expertise and key technical appointments, and robust reporting. With staged delivery, our target, subject to planning, is to complete the new projects within 2 years from commencement.*

*We are committed to working through the proposed next actions urgently in order to verify the analysis, and agree what assurances are appropriate in support of the work by 9<sup>th</sup> August. The due governance process will be followed for full visibility and approval of the funding needed. The Pensions Administration Team will complete the work and have a detailed plan in good time for the LPB meeting on 24<sup>th</sup> October with support from Fund and Surrey CC Officers. The second attachment shows the current programme plan on a page and continues with a timeline of how we will progress with the additional projects to form and set the new Service Improvement Plan.*

*I'm aware that Andrew Marson has organised two update sessions to keep you and the LPB involved and informed of our progress, the first on 4<sup>th</sup> September, aligned to PFC on 13 September and the second on 9<sup>th</sup> October, aligned to LPB on 24 October.*

*I hope that my response provides you with the necessary reassurances of our commitment to Surrey Pension Fund and the provision of a highly valued pension administration service."*

5. An update meeting between officers and the Chairman and Vice Chairman of the Local Board is scheduled for the 4<sup>th</sup> September 2019.
6. The following governance steps are proposed order to expedite progress of the administration service improvement plan and provide appropriate assurance:
  - Pension Administration Officers to provide cost estimates to Pension Fund Officers for each project in the Service Improvement Plan Stage 2 (SIP2).
  - Fund Officers set out and agree with Pensions Administration Officers the appropriate assurances in support of the projects in the SIP2.

- 
- The Business Case for the SIP2 is written and agreed by the Pension Administration Officers and Fund Officers.
7. It is recommended that the Pension Fund Committee delegates authorisation of the Business Case to officers in consultation with the Chairman of the Pension Fund Committee and the Chairman of the Local Pension Board

### **Risk register**

8. A change of Section 151 Officer (risk 8 in the fund risk register, investment section) is to be removed from the fund risk register.
9. The net risk score of too much knowledge concentrated in a small number of officers (risk 28 in the fund risk register, delivery section) is to be raised from green to amber.
10. The net risk score of the Lead Pension Manager leaving (risk 33 in the fund risk register, delivery section) is to be raised from green to amber.
11. The total risk and net risk scores of the failure to provide an accurate and efficient pension administration service (risk 34 in the fund risk register, delivery section) are to be raised from amber to red.
12. In addition to the above specific changes, the Chairman and Vice-Chairman met with officers, and the results of their review are included in the revised risk registers.

### **AVC review**

13. Based on advice from Barnett Waddingham, the Board recommended allowing the Prudential to transfer members from the closing life-style funds to the ones suggested, provided that members are alerted to their option to transfer to any other funds in Surrey's portfolio free of charge.
14. The Chairman requested that the Board was presented with a draft version of the letter that would be sent to members to alert them of the aforementioned changes.

### **Breach of law report**

15. The Board agreed that a breach of law should not be reported to the Pension Regulator, unless it is considered material and provided that the Fund and/or members are not disadvantaged.

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### **Action tracker**

16. The Chairman has set out the actions required to comply with the Pension Regulator's code of practice No 14 and recommended the actions required in order to comply.
17. The Pension Account Advisor is to investigate further toolkit training for members of the Board.

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18. Officers are to keep the Surrey Pension website up-to-date and a new member of staff has been recruited to lead on this. The Board is to be updated on progress at October's meeting.

### **Pension administration report**

19. There was a lengthy discussion about pension administration and it was noted that the backlog amounted to more than a year's output for the whole section. The Chairman has set out his thoughts in writing for submission to key stakeholders and the Pension Fund Committee.

#### **CONSULTATION:**

20. Chairman of the Pension Fund Committee has been consulted on this report.

#### **RISK MANAGEMENT AND IMPLICATIONS:**

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

#### **FINANCIAL AND VALUE FOR MONEY IMPLICATIONS**

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

#### **DIRECTOR OF CORPORATE FINANCE COMMENTARY**

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

#### **LEGAL IMPLICATIONS – MONITORING OFFICER**

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

#### **EQUALITIES AND DIVERSITY**

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

#### **OTHER IMPLICATIONS**

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

#### **WHAT HAPPENS NEXT**

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

**Contact Officer:**

John Smith, Senior Advisor

**Consulted:**

Pension Fund Committee Chairman.

**Annexes:**

1. The Service Improvement Plan.

**Sources/background papers:**

1. The Local Pension Board minutes
2. Barnett Waddingham's Interim Report on Equitable Life
3. Barnett Waddingham's Interim Report on The Prudential
4. The pension fund risk registers



## **Surrey Local Pension Board**

### **24 October 2019**

## **Administration Update (1 July 2019 to 30 September 2019)**

### **Recommendations:**

The Board is asked to **note** the content of this report and make recommendations if any further action is required.

### **Background**

1. Surrey County Council (the Council) is the Administering Authority for the Local Government Pension Scheme (LGPS) on behalf of the employers participating in the LGPS through the Surrey Pension Fund (the Fund). The LGPS is governed by statutory regulation.
2. The Pensions Administration Team (PAT) based within Orbis Business Services carries out the operational, day-to-day tasks on behalf of the members and employers of the Fund and for the Council. They also lead on topical administration activities, projects and improvements that may have an impact on members of the LGPS.
3. The Board has previously requested to be kept updated on progress relating to a number of key administration projects and planned improvements which may have an impact on members of the pension fund and the purpose of this report is to provide an update on the current status and progress against any specific target dates.

### **Service Improvement Plan**

4. Following the last LBP, the Chair and the Executive Director for Resources for Surrey County Council exchanged correspondence on the plans for service improvement. The Pensions Administration Team has produced a detailed plan to address the legacy and transform the service for future growth.
5. This proposal is now in a consultation period with Officers and Stakeholders. The Pension Fund Committee agreed at their meeting on 13 September to delegate authority for assurance and approval of the plan to the Chair of the PFC and the Chair of the LPB.

6. Two workshops have taken place, 4 September and 9 October, in order to keep the LPB updated with progress.
7. Relevant correspondence and attachments relating to Service Improvement Plan are attached as **Annex 1**.

### **Internal Audit**

8. A project board meets monthly to manage the progress of agreed actions resulting from the Internal Audit report. The board is made up of senior representatives from Internal Audit, Pensions Administration, and Corporate Finance Officers.
9. The actions within the report have been incorporated into the next stage of the Service Improvement Plan. The most recent highlight report is attached as **Annex 2**.

### **KPI Performance**

10. KPI results for the period 1 July to 30 September can be found at **Admin Performance Report**. The average time from start to finish (column I) has been calculated from the date the case was first created to the date it was fully completed. The timings do not take into account any periods when a case is placed on third party hold whilst additional information is outstanding.
11. In the majority of areas, the number of cases completed in the period was greater than the number of cases received.
12. The average performance score across all case types for the period was 82.35%.
13. Performance on payment of retirement benefits (standard and ill health), plus payment of survivor pensions were above target for the period.
14. The priority areas that require some attention going forward to improve performance are initial death correspondence and payment of death grants.
15. Performance on refund cases is currently below target but there is positive news behind it because the increased number of refund cases is due to progress of the backlog of unknown leavers (status 2s) being moved to the correct status (refund) for processing. The team are currently working with the Robotics Lab to build an automated process for accelerating the productivity.
16. Clearance of the backlog of New Starter cases has increased the volume of Transfer In cases being received, however a recent change to the initial part of the process will improve the customer journey in this area (more information can be found under the Service Improvements section).
17. As the backlog of Leaver cases is being progressed the volume of Transfer Out cases is increasing. Dedicated resource within the Administration Team has been assigned to work on transfer cases.

## Staffing and Training Update

18. The new Communications Officer (promoted from the Pensions Helpdesk) is due to start in post on 21 October. This role will focus on the delivery of the items within the Communications Strategy which is currently in draft format. **See Annex 3.**
19. This new member of the team has already attended a recent member presentation as part of his transition to the Engagement & Education Team.
20. The new Engagement & Education Lead is due to start a CIPP Foundation Degree in Pensions Administration and Management. This will help strengthen the knowledge and experience within the team, and ensure the postholder is qualified to deliver the education required for members and employers.
21. The Engagement and Education Lead has provided a number of very well received member presentations recently, and further sessions have been booked well into January.
22. A member of the Trainee Team has been successfully promoted to a position within the Pensions Helpdesk. This will help increase her knowledge of the scheme and expose her to frontline member enquiries.
23. Following the retirement of a Senior Pensions Officer, one of the Pensions Officers has successfully been promoted within the team.

## Customer Complaints Report

24. Complaints received for this quarter have increased slightly in comparison to last quarter, with a total of 18 received. This equates to 0.21% of the total work completed in the period. Initial acknowledgement of all but 1 of the 18 complaints have been carried out within the turnaround time of 5 working days.
25. It is noted that Quality of Service has been the highest subject of complaints received with 50%. It is also noted that two complaints are still to be resolved and are therefore outstanding. The team have ensured that any customers with complaints that cannot be answered within the turnaround time of 10 working days are contacted regularly to keep them informed of the delay.
26. As a result of a recommendation within the latest Internal Audit report, the Pensions Team have adopted the Corporate Complaints reporting system.
27. The change of system would allow for better management information allowing for improved analysis of trends which would feed into service improvement plans.
28. The Customer Complaints Table can be found at **Annex 4.**

## Service Improvements

29. Various changes have been implemented over the last few months to improve the service provided to scheme members or to ensure processes are as efficient and effective as possible.
30. All New Starters now receive an e-mail welcoming them to the LGPS within the first 1-2 months of joining (for those whom we don't hold an e-mail address, a letter is sent instead). This has been made possible by the use of a bulk e-mail facility within Altair so that multiple members can be contacted in one communication. This has also been used to clear the backlog of new starters that hadn't been written to. The New Starter Welcome Pack provides more information on the scheme, how to register for MSS and how to investigate a transfer of previous pension benefits.
31. Members are now responsible for initiating their own transfer of previous pension benefits. The New Starter Welcome Pack directs them to a form to complete which is then sent to their previous scheme requesting details of the Transfer Value. By removing this part of the process from the Administration Team it releases the resource to focus on the next stage of the process so that the customer journey is improved and members are not having to chase to find out what is happening with their transfer.
32. All employer related functions that were previously being carried out by the Pensions Team have now transitioned to their correct place in the Employer Payroll Team. This has resulted in resource within the Pensions Team being released to focus on Pensions related work. One of the functions transferred is the provision of pensionable pay when a member leaves or requests an estimate of their benefits if they were to leave. The Pensions Team were calculating these figures, however the recent development of a SAP extract means that the Payroll Team will now be responsible for producing this data and this can also be fed directly into the automated process by the Deferred robot (Chewie).
33. The process for dealing with Ill Health Retirement applications has moved to HR and the Pensions Team are now only involved in the process once the employer's decision has been made. This has streamlined the process as there are now fewer hand offs throughout the process.

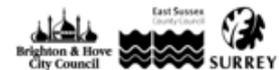
### **Pensions Helpdesk**

34. For the period July to September the Pensions Helpdesk handled 7,973 calls, of which 5,455 were Surrey Pension Fund related calls. The team also responded to 9,436 email enquiries, of which 5,307 related to Surrey.
35. With support from the robotics lab, MACK has been created to clear any member self-service keys that come through the helpdesk. When a member signs up to the portal using a different e-mail to the one held on record, an e-mail notification is sent to the helpdesk. When the portal was first in use, the helpdesk would send a letter to the member, this was then improved to an e-mail and now MACK the robot runs every day.

36. This is a significant win for the helpdesk as it's both cost and time saving, and has improved the customer journey. Since August the robot has sent 1,336 MSS activation keys.

37. The Pensions Helpdesk receives more feedback than any other Helpdesk teams through the customer thermometer tool. The graph below shows the feedback for August.

### MHD Pensions



|           |                    |   |
|-----------|--------------------|---|
| Gold Star | 31 Aug 19<br>14:14 | This was made easy for me, thank you to Kacey Watson.   |
| Gold Star | 30 Aug 19<br>22:03 | Kacey gave very quick and accurate responses - I am very grateful that such service still exists!   |
| Gold Star | 30 Aug 19<br>16:11 | Very efficient  |
| Gold Star | 29 Aug 19<br>15:44 | Millie was patient when I called to say that the previous evening I had not been able to log in after registering. She confirmed my details and stayed around ( on the line) while I checked all was well today in case I needed to change anything. Courteous and cheerful throughout.   |
| Gold Star | 28 Aug 19<br>22:54 | So pleasant, helpful and responsive - especially with old crusties like me  |
| Gold Star | 28 Aug 19<br>16:57 | Very helpful, talked me through everything and gave me contact info if I had any problems.  |
| Gold Star | 28 Aug 19<br>12:56 | Natalie was really helpful today and is always very polite  |
| Gold Star | 28 Aug 19<br>11:30 | Prompt, helpful and clear advise.<br>I thought my enquiry was going to be complicated but it wasn't.<br>Thanks :)   |
| Gold Star | 27 Aug 19<br>16:23 | Very efficient and fast response to my enquiry. I appreciate it very much. Thank you very much.   |
| Gold Star | 27 Aug 19<br>15:52 | Excellent service! I have called before and was despairing in making this phone call based on my past experiences, but the lady I spoke today was amazing and helped me more than anyone has in our 5 minutes conversations, than me trying to get any information for ages in the past.<br>Please pass my gratitude to: Millie Porter (just got the email she promised! with her name), she was amazingly helpful! |

38. The helpdesk supported with the ABS launch this year by lining up with the administration team to deliver a workshop on how to read an Annual Benefit Statement.

39. These drop in sessions, ran by the Engagement and Education lead, were held at County Hall, Surrey and were very well attended. Staff had to book a slot to speak with one of the pensions team that were in attendance.

40. The helpdesk also created a how to read your ABS video which is published on the MSS Portal, Snet and YouTube, and encourages members to self-serve. There have been 728 views since this went live in August.

### Member Self Service

41. The Pensions Team are currently reviewing the Member Self Service portal which will involve highlighting key areas for improvement, implementing these changes and also promoting MSS to the wider audience through different media sources.

42. Surveys are being issued to members to gather feedback on the functionality of MSS to help inform any improvements that are needed.

### Annual Benefit Statements

43. The ABS work in general is complete, with all statements being published/sent to members where possible.

44. More detail can be found in the summary report of the 2019 ABS exercise at **Annex 5**.

### Annual Allowance

45. A total of 202 member records were reviewed as part of the Annual Allowance checks with 96 Pension Saving Statements being issued. The majority were issued during July and August, with the final 4 being sent at the end of September. The statutory deadline for issuing these statement is 6 October.
46. In future years the plan will be to produce a High Earner pack including the Annual Benefit Statement, Pension Saving Statement and explanatory notes all in one place. The aim is to provide information on how the two statements relate to each other and provide guidance and support to this cohort of members as to what actions, if any, they need to take.

### Data Quality

47. Heywood's were recently commissioned to carry out the testing on Common and Scheme Specific Data which have to be reported to the Pensions Regulator as part of the annual Scheme Return.
48. The results show a significant improvement in the quality of the data, which is a result of the efforts of the data cleanse leading up to the submission of the Triennial Valuation data.
49. The scores for 2018 and 2019 can be found below:

|   | 2018   | 2019   |
|---|--------|--------|
| <b>Common Data</b>                        | 85.60% | 90.10% |
| <b>Scheme Specific (Conditional) Data</b> | 73.80% | 97.00% |

50. A full report will be produced by Heywood's detailing the areas that require improvement which will then be fed into the Data Improvement Plan.

### Robotics

51. The process for producing Deferred into Payment quotations, for members who have either requested this information or have reached their Normal Pension Age, has been automated by a robot named Dippy.
52. A robot named Chewie is being developed to automate the Deferred Benefit process. This will have a significant impact on the Pensions Administration Team as well as the customer experience. Whilst no payment of benefits is due, Deferred Benefit cases are the highest volume of work.
53. The next area of focus for automation will be Refund of Contributions as this is another high volume area and is a simple process to automate, allowing the resource within the team to focus on more complex cases.

### GMP Reconciliation

54. The work on the GMP Reconciliation has been progressing well and is close to understanding the liability costs. JLT have now matched over 99% of membership for all Funds and will implement the decisions on the stalemate cases once received by the Pension Fund.
55. HMRC will be sending the final SRS data cut from November onwards. JLT will then complete the final reconciliation.
56. JLT have also been working with HMRC to review all CEP payments to ascertain whether HMRC have allocated them correctly or whether they are still a liability held against the Fund.
57. This has now been completed and e-mails were sent to all Funds recently to confirm the status.

### **Valuation**

58. The data cleanse and valuation work was completed on time and delivered to Hymans by 19 July as agreed with the Pension Fund.
59. This project is now closed down for Orbis Admin Services.

### **System Review**

60. Having undertaken a detailed analysis and having now explored this further with SCC Procurement, the Pension Admin Service will need to undertake a full procurement process to explore all other system providers in the market.
61. The first step in this process will be to agree a short term extension with the current supplier, Heywood, to enable the Project Team sufficient time to carry out the full review and tender process.
62. Once this has been agreed, engagement with procurement will begin in full, along with other key services such as IMT to begin working on creating a fully functional specification document.
63. Based on timeframes, it is anticipated the full review will begin in January 2020.
64. Further information on current projects can be found at **Annex 6**.

### **Legacy Cases**

65. As at 8 October 2019, 5,001 legacy cases have been completed by JLT.
66. The quality assurance has been signed off and JLT are preparing their first bill.

67. As previously mentioned, the SAP extract is now live so leaver data can be extracted which allows for more cases to be sent to JLT to clear without any input from the Pensions Team.

68. A Highlight Report containing more information on current status, next steps and key risks/issues can be found at **Annex 7**.

### **Next steps**

69. The Board are asked to note the updates and agree on the form of any future updates that are required.

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**Report contact:** Clare Chambers, Pensions Service Delivery Manager

**Contact details:** T: 020 8213 2566 E: [clare.chambers@surreycc.gov.uk](mailto:clare.chambers@surreycc.gov.uk)

### **Annexes:**

Annex 1 – Service Improvement Plan

Annex 2 – Internal Audit Update

Annex 3 – Draft Communications Strategy

Annex 4 – Customer Complaints Table

Annex 5 – Annual Benefit Statement Summary Report

Annex 6 – Project Highlight Report

Annex 7 – Backlog Highlight Report

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**Annex 1a – Email from Chairman of the Surrey Local Pension Board to the Section  
151 Officer**

At the meeting of the Surrey Local Pension Board last Thursday we spent the majority of our time on the administration of the Fund. This included a review of the internal audit report, scrutiny of the many and varied projects as well as performance against the new set of KPI's. We were also able to look at the high level improvement plan prepared by the Service and the backlog of cases.

The current backlog equates to more than one year's worth of work, and even for the last month reported, the work completed was less than the new work arriving in the department. The Board has asked that the Service determines if there are deadlines missed which would amount to breaches which should be reported to the Pensions Regulator. Some of the delays may also mean that scheme members are being disadvantaged financially.

Some work has been put out to an external provider, and it is clear that more should be dealt with in this fashion if serious inroads are going to be made into the backlog in a reasonable period of time.

We also point out that one quarter of the current team is at or nearing retirement age. A deficit in knowledge and experience will develop unless radical steps are taken to address this.

The role of the Pensions Board is to advise and assist the County Council in its role as the Administering Authority of the Surrey LGPS. We ask that the Service, officers and cabinet members, address the issues identified, provide the resources and commit to their resolution in a reasonable period. We ask that a response to this email and the Improvement Plan is provided to the Board.

**Nick Harrison**  
**Chairman of the Surrey Local Pension Board**

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**Annex 1b – Response from the Section 151 Officer to the Chairman of the Surrey  
Local Pension Board**

Dear Nick

Thank you for your email of 22 July 2019 on behalf of the Surrey Local Pension Board, and apologies for the delay in sharing this response. I am grateful for your collaborative approach and the positive support being shown to address the current pensions administration issues and transform the service into one which demonstrates assurance, resilience and excellence.

The Service Improvement Plan has been established as a programme of work being delivered by the Pensions Administration Team with support from across Surrey CC where needed. There is clear project governance led by diverse and senior representation and the LPB receives highlight reports as part of meeting papers. Progress is good, particularly with:

- BAU stabilised as a result of 3 key leadership appointments, the recruitment of 9 trainees and the restructure to specialist teams.
- First stage of backlog clearance progressing to plan with 3,232 Surrey cases sent for processing by JLT.
- A successful end of year exercise and the delivery of Valuation data to the actuary on 26 July.
- Benefit Statements being generated and on plan to complete ahead of the 31 August deadline.
- The milestone actions in response to the findings of the Internal Audit are being delivered to agreed times, with a follow up audit being planned for October 2019.

As discussed at the Service Improvement workshop, there are also many opportunities to improve the efficiency and effectiveness of the service in the next phase, which are being assessed as business cases and planned in for the coming months.

As the Service Improvement Plan has developed, further analysis shows the additional projects to be done in order to complete the backlog at pace and build a service which is resilient for the future.

The additional projects were introduced in the Improvement Plan discussed at the LPB and is attached to my response so everyone has sight of it. In particular, the recommendations of greater use of external resource to address the backlog, service resilience by growing expertise and key technical appointments, and robust reporting. With staged delivery, our target, subject to planning, is to complete the new projects within 2 years from commencement.

We are committed to working through the proposed next actions urgently in order to verify the analysis, and agree what assurances are appropriate in support of the work by 9<sup>th</sup> August. The due governance process will be followed for full visibility and approval of the funding needed. The Pensions Administration Team will complete the work and have a detailed plan in good time for the LPB meeting on 24 October with support from Fund and Surrey CC Officers. The second attachment shows the current programme plan on a page and continues with a timeline of how we will progress with the additional projects to form and set the new Service Improvement Plan.

I'm aware that Andrew Marson has organised two update sessions to keep you and the LPB involved and informed of our progress, the first on 4 September, aligned to PFC on 13 September and the second on 9 October, aligned to LPB on 24 October.

I hope that my response provides you with the necessary reassurances of our commitment to Surrey Pension Fund and the provision of a highly valued pensions administration service.

**Leigh Whitehouse**  
**Section 151 Officer**



# Surrey Pension Fund Pension Administration Improvement Plan

Surrey Pension Fund is a circa £4 billion fund with some 95,000 members. Pensions Administration Service has the following main operational challenges:

- Work outstanding of 26,600 cases. Made up of:

| Type of work                                | Volume        |
|---|---------------|
| Deferred leavers                            | 5,331         |
| Transfer In                                 | 1,097         |
| Refunds                                     | 2,990         |
| Transfer In                                 | 1,097         |
| Other KPI work                              | 1,402         |
| <b>KPI sub total</b>                        | <b>10,820</b> |
| Plus,                                       |               |
| Unidentified leavers without tasks assigned | 10,968        |
| Non KPI outstanding work                    | 4,771         |
| <b>Total work outstanding</b>               | <b>26,559</b> |

- 18,900 BAU cases done in 2018/19 so over a years' worth of work. Membership and demand is growing.
- Service Resilience
  - LGPS experience risk – 25% of the team are at or near retirement age, equating to 45% of LGPS knowledge.
  - Performance impact of Employer activity such as admissions, cessations and restructures. Ad-hoc and unplanned events directly impact BAU.
- Data Quality
  - tPR requirements are increasingly demanding.
  - End of Year, ABS, Valuation. The main reason backlog happened.
  - Legacy queries need resolving. High risk of error and inefficient processing.
- Assurance
  - Compliance. LGPS is complex and always changing. We must have technical expertise to manage change into the service.
  - Controls are needed to evidence quality.

Approach to addressing the challenges:



- ✓ Understand the Disclosure breach position, Regulator reporting and member impact.
- ✓ Clear the backlog using an external provider

Backlog is significant but temporary. Resolving at pace requires prompt access to expertise which can also be flexed following efficiency improvements.

- ✓ Resilient BAU

Grow LGPS expertise now to mitigate future loss. Increase capacity to satisfy growing demand of members and employers.

- ✓ Data Quality

Create a dedicated data quality improvement team.

- ✓ Service Improvement Plan

Technology and process efficiency to generate BAU capacity.

- ✓ Operational Assurance and Quality

4

Procedures and Controls to evidence compliance and performance





Next steps:

- ✓ Refine the KPI reporting process so it is robust and accurate.
- ✓ Estimates of investment required have been completed but requires independent checking.
- ✓ The estimates also set out a timeline to address the historic problems and transform the service so it is future-proofed.
- ✓ Work with the Fund Officers to review the estimates in detail and agree assurances.
- ✓ Follow robust governance to achieve agreement of Officers, PFC and LPB.

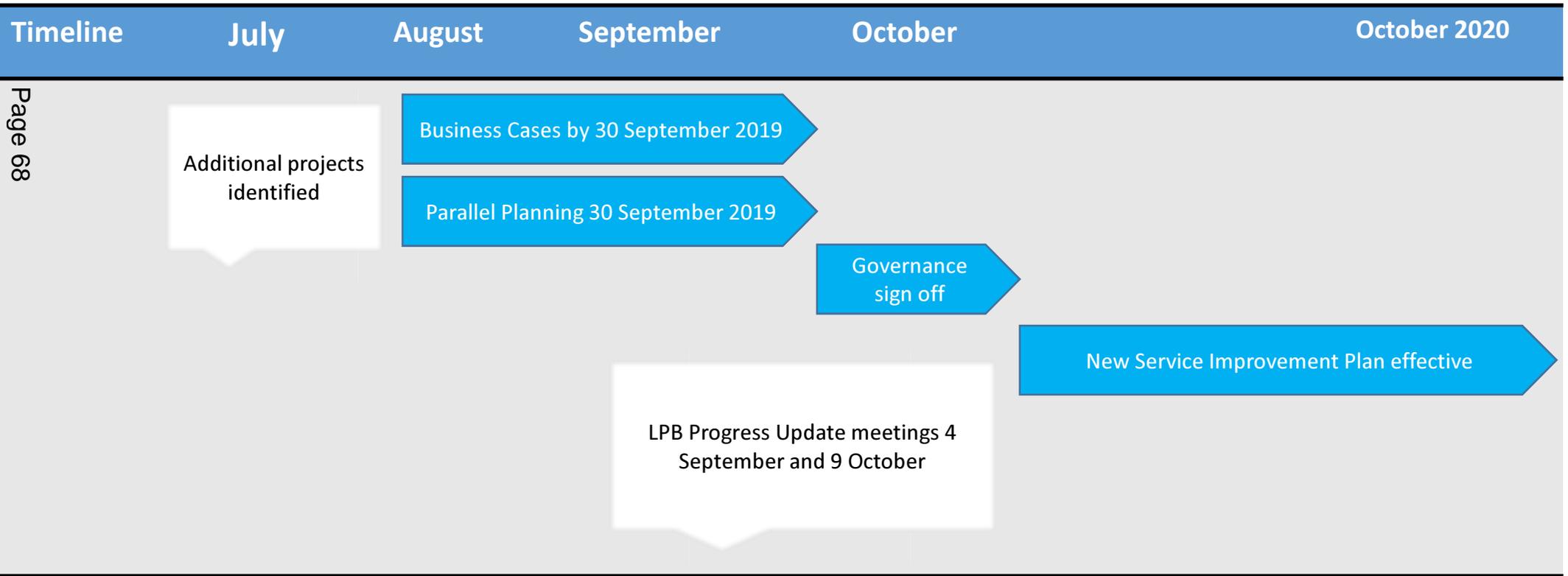
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Current Service Improvement Plan

| Project                           | Q1 19   | Q2 19                | Q3 19                            | Q4 19               | Q1 20 | Q2 20 | Q3 20 | Q4 20 | Planned Completion     | Project Lead   |                   |
|-----------------------------------|---|----------------------|----------------------------------|---------------------|-------|-------|-------|-------|------------------------|----------------|-------------------|
| Log stage 1                       | Supplier Appointed  | First 5,000 cases QA | Next 5,000 QA                    | Remaining 10,000 QA |       |       |       |       | 30 September 2020      | Mark Spiller   |                   |
| Stabilisation                     | Stabilisation of BAU  |                      |                                  |                     |       |       |       |       |                        | 30 June 2019   | Clare Chamberlain |
| For Scheme Events                 | EoY; Valuation; ABS   |                      |                                  |                     |       |       |       |       |                        | 31 August 2019 | Tom Lewis         |
| Final Audit Actions               | Actions on Findings   | Audit                | Final Actions completed          |                     |       |       |       |       |                        | 31 March 2020  | Andrew Marsden    |
| GMP Reconciliation                | GMP Reconciliation  |                      | Fund Decisions and Rectification |                     |       |       |       |       |                        | 31 March 2020  | Amy Wallace       |
| System Improvement                | Iconnect roll out, Immediate Payments, Pensions Admin/Payroll interface |                      |                                  |                     |       |       |       |       |                        | 30 June 2020   | Amy Wallace       |
| Process and Procedure Improvement | Process and Procedure improvements                                      |                      |                                  |                     |       |       |       |       | Continuous Improvement | Gorana Sinik   |                   |

### 3 Additional Projects identified 17 July 2019:

1. Backlog stage 2
2. Service Resilience
3. KPI Reporting



## Service Improvement Plan Workshop Meeting Outcome

**Date:** 04/09/2019  
**Location:** CH Members Conference Room  
**Attendees:** Andrew Marson, Nick Harrison, Neil Mason, Ben Cullimore, Chloe Painter  
**Apologies:** Graham Ellwood, Mike Lea

### Objective(s)

*The purpose of the Service Improvement Plan Workshop (SIP) was to review the current plan and to provide an update on the activity that has been progressing within the plan.*

### Key points of discussion

- Andrew Marson (AM) gave an overview of the purpose of the workshop and confirmed that the service is moving towards a Service Improvement Plan 2, however the scope of the initial SIP is still covered in SIP 2. The future plan is to merge both plans into one, however the initial plan is the one being taken to Committee.
- The original vision and mission is still valid and so there is no need to reshape this for SIP 2
- The four pillars remain the same: data, system, process and people improvement
- AM talked the group through the initial SIP
- Backlog – The backlog project is still underway with good progress being made. Currently 5355 cases have been sent to JLT and 3785 have been completed as of 30<sup>th</sup> August. Within SIP 2 there will be some changes to timescales and providers.
- Within the current backlog work is being done to identify the type of cases being sent to make for ease of processing for JLT and to ensure that the cases are being handled by the correct staff.
- On the forward plan for the September procurement Cabinet is the Pensions Consultancy work, which once approved will allow the procurement of an alternative provider to help clear the backlog. A meeting with ITM planned.
- Procurement of alternative provider to take place in January with contract start being end of January.
- End of Year is 100% complete however there are some queries that are still unresolved and are being resolved
- In instances where data is not correct, an Annual Benefit Statement (ABS) is still being sent with a disclaimer that this is based on incorrect data. Neil's teams view is that this is a good exercise in data control and cleansing as this disclaimer may prompt the member to take action to resolve their own data issues through their employer.
- ABS has completed to the 31<sup>st</sup> August deadline, 31,416 active statements have been created for Surrey members.

- All active ABS statements have been electronic and this year is the last year that deferred statements will be paper. From next year onwards these will also be electronic.
- A number of members have opted out of online statements and for these cases paper statements have been sent
- There are approx. 14,000 “gone aways”. From September onwards work will begin to trace these deferred members. The contract for this work can be procured through a framework and the scale of cost means this should be a straightforward process.
- GMP – 97% matched, which is where we have reconciled our membership and figures with HMRC figures. Updates on this work are due at the October LPB with a view to gain approval at the December PFC on the route to rectify this issue. Rectification work to be completed by April 2020.
- Neil updated that in other GMP recons if there has been historic overpayment this has not been paid back but the future payments are rectified
- Payroll to pension interface is now live – this provides the ability to extract information from SAP (payroll system) to use in Altair. This has allowed us to progress with ongoing backlog cases (for Surrey and employers on Surrey payroll) and going forward it allows efficiency in current data as it comes straight from the system.
- Robotics are now being used with the Pension Administration Service, with 3 active robots to date.
  1. Deferred into payments
  2. one on helpdesk which has taken away a portion of queries on MSS
  3. leaver processing which is still in testing
- Throughout Orbis the use of robots is seen as a success story and pioneering for robots in back office work
- Breaches – John Smith (?) has previously raised as a query if we are breached in regards to short services refunds. Within the backlog some identification work needs to be carried out to identify these cases and resolve them.
- Nicks view is that this is a reportable breach
- AM overseeing analysis of backlog cases to identify which cases are the short service refunds / case types within the backlog. Deadline for this is mid-September
- The service specification document which is currently being worked on will include the strategy, business plan and SLA and will go to SLPB on 24<sup>th</sup> October 2019. This will then be on the SPFC in December 2019 for approval. Following consultation with employers participating in the fund it will become effective from 1<sup>st</sup> April 2020

September is a planning month (including below)

- SIP2 business case and detailed planning has started – due 30<sup>th</sup> September
- KPI reporting in development
- Governance process proposed

### Next steps and actions

**Action 1:** oversee analysis of backlog cases to identify which cases are the short service refunds / case types within the backlog.

**Action Owner:** Andrew Marson

**Action deadline:** 30.09.2019

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**Pension Administration  
Service Improvement Plan 2 (SIP2)  
Workshop update 4<sup>th</sup> September 2019**



## Vision

*The outstanding provider of exceptional LGPS Administration*

## Mission

*Excellent service from expert people and an engaging self-service which our members and client partners value.*

## Vision Goals

- ✓ Improve customer satisfaction with engaging self service and helpful pensions experts
- ✓ Efficiency of service to drive response times and cost effectiveness
- ✓ Scalable service for growth

## Service Improvement Plan

Four pillars underpinning the Strategy:

- ✓ Data Improvement – accuracy
- ✓ System Improvement - efficiency
- ✓ Process Improvement - effectiveness
- ✓ People Improvement - performance

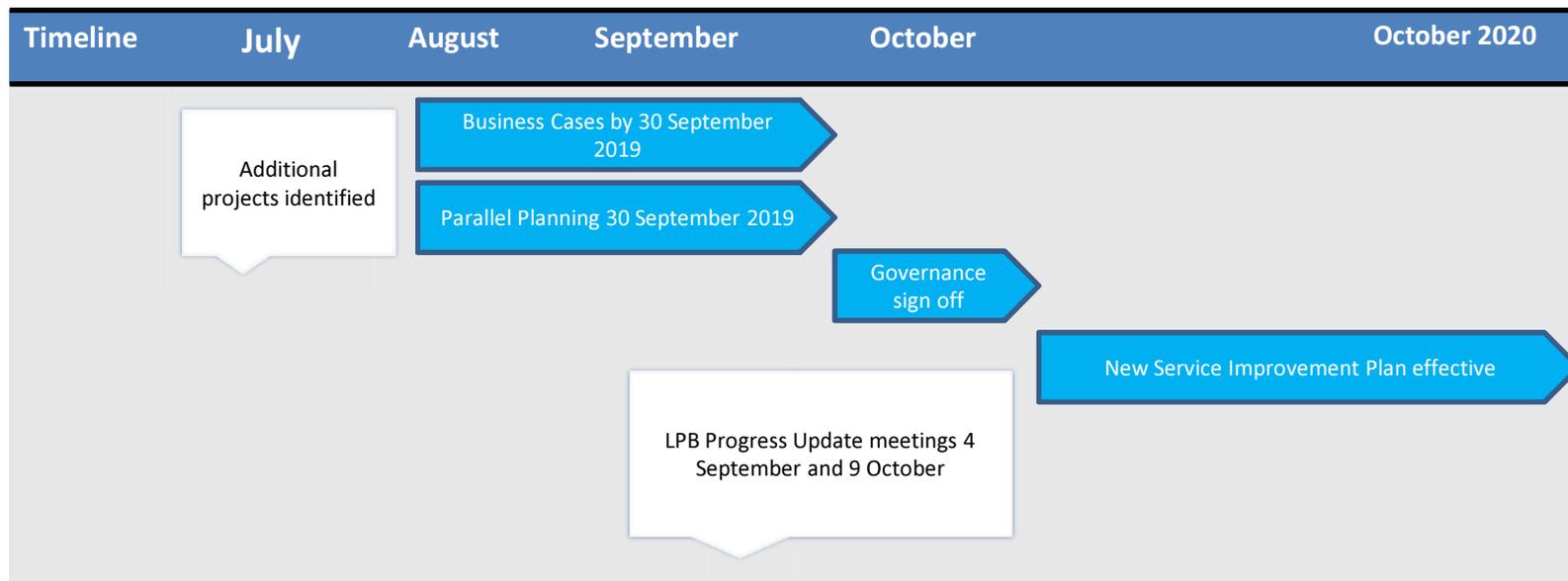
Delivered in three stages:

1. Stabilise – lead, support, plan, correct, deliver, control
2. Enhance – protect, prevent, improve
3. Optimise – value, engagement, scale

| Current Service Improvement Plan  |   |                      |                                  |                     |       |       |       |       |                        |
|-----------------------------------|---|----------------------|----------------------------------|---------------------|-------|-------|-------|-------|------------------------|
| Project                           | Q1 19   | Q2 19                | Q3 19                            | Q4 19               | Q1 20 | Q2 20 | Q3 20 | Q4 20 | Planned Completion     |
| Backlog stage 1                   | Supplier Appointed  | First 5,000 cases QA | Next 5,000 QA                    | Remaining 10,000 QA |       |       |       |       | 30 September 2020      |
| BAU Stabilisation                 | Stabilisation of BAU  |                      |                                  |                     |       |       |       |       | 30 June 2019           |
| Major Scheme Events               | EoY; Valuation; ABS   |                      |                                  |                     |       |       |       |       | 31 August 2019         |
| Internal Audit Actions            | Actions on Findings   | Audit                | Final Actions completed          |                     |       |       |       |       | 31 March 2020          |
| GMP Reconciliation                | GMP Reconciliation  |                      | Fund Decisions and Rectification |                     |       |       |       |       | 31 March 2020          |
| System Improvement                | Iconnect roll out, Immediate Payments, Pensions Admin/Payroll interface |                      |                                  |                     |       |       |       |       | 30 June 2020           |
| Process and Procedure Improvement | Process and Procedure improvements                                      |                      |                                  |                     |       |       |       |       | Continuous Improvement |

**3 Additional Projects identified 17 July 2019:**

1. Backlog stage 2
2. Service Resilience
3. KPI Reporting



**It is recommended that the Pension Fund Committee:**

**Approves the following governance steps in order to expedite progress of the administration service improvement plan and provide appropriate assurance:**

**Pension Administration Officers to provide cost estimates to Pension Fund Officers for each project in the Service Improvement Plan Stage 2 (SIP2).**

**Fund Officers set out and agree with Pensions Administration Officers the appropriate assurances in support of the projects in the SIP2.**

**The Business Case for the SIP2 is written and agreed by the Pension Administration Officers and Fund Officers.**

**Authorisation of the Business Case to be delegated to officers (including the Director of Corporate Finance) in consultation with the Chairman of the Pension Fund Committee and the Chairman of the Local Pension Board.**

## Service Improvement Plan Progress

- ✓ Backlog clearance progressing
  - ✓ 5,355 sent, 3,785 completed by 30<sup>th</sup> August
- ✓ End of Year completed 16<sup>th</sup> August
- ✓ Valuation data completed 19<sup>th</sup> July
- ✓ Annual Benefit Statements delivered by 30<sup>th</sup> August
  - ✓ Actives 31,416, Deferreds 19,723 (14,097 gone aways)
- ✓ GMP 97% matched 91,927 records
- ✓ Payroll to Pensions Interface now live – a game changer
- ✓ 3 Robots processing
- ✓ SIP2 detailed planning has started – due 30<sup>th</sup> September

## Service Improvement Plan Progress

- ✓ Governance process proposed
- ✓ KPI Reporting in development – due for October LPB
- ✓ SIP2 business cases and detailed planning has started – due 30<sup>th</sup> September



## Service Improvement Plan Workshop Meeting Outcome

**Date:** 09/10/2019  
**Location:** CH Members Conference Room  
**Attendees:** Mike Lea, Andrew Marson, Tom Lewis, Nick Harrison, Neil Mason, Ben Cullimore, Chloe Painter  
**Apologies:** Graham Ellwood, Anna D'Alessandro

### Objective(s)

*The purpose of this workshop was to provide an introduction and overview on the Service Improvement Plan that has been finalised throughout September.*

### Next steps and actions

**Action 1:** Present the Service Improvement Plan to internal audit

**Action Owner:** Andrew Marson

**Action deadline:** 15.10.2019

**Action 2:** Andrew and Neil to meet to discuss figures

**Action Owner:** Andrew Marson

**Action deadline:** 18.10.2019

**Action 3:** Meet with Anna D'Alessandro to discuss the cost estimates

**Action Owner:** Neil Mason

**Action deadline:** 18.10.2019

**Action 4:** Add slides as annex to LPB papers to present SIP on 24<sup>th</sup> October

**Action Owner:** Andrew Marson

**Action deadline:** 24.10.2019

**Action 5:** Include external risk factors such as McCloud case in SIP document

**Action Owner:** Tom Lewis

**Action deadline:** 18.10.2019

### Key points of discussion

- Andrew Marson (AM) opened the workshop by outlining the objectives for the outcome of today's meeting, which is to provide an introduction to the Service Improvement Plan and agree on next steps, including positioning with the Local Pension Board (LPB).
- Tom Lewis (TL) handed out the Service Improvement Plan document, while AM explained that the pensions team have been busy working on the details of the scope of activities that need to be carried out, drafting outline business cases and cost estimates to bring together a cohesive programme of works plan. The Service Improvement Plan created is not only about resolving legacy issues but aims at making

the service fit for the future and growth. AM also explained to the group that the plan is not only Surrey specific but relates to all funds.

- The presentation gave an overview of the successes the pension service have achieved over the last 9 months, which includes making progress with the legacy backlog, the implementation of 3 robots to automate processes, and annual events such as Annual Benefit Statements and Valuation being completed.
- AM gave a recap on the vision and mission:
  - Vision** – The outstanding provider of exceptional LGPS Administration
  - Mission** – Excellent service from expert people and an engaging self-service which our members and client partners value
- There are 3 strategic goals:
  1. Resolve the legacy of backlog and data quality
  2. Create a control framework for service assurance and regulatory compliance
  3. A high value target operating model
- The target operating model aims to create a single digital platform for members to self-serve, with plans for this to be mobile friendly. Nick Harrison (NH) expressed that retirement is a complex process and queried if it is realistic to say this will be able to do done on an app or phone, to which AM responded that he believes it is, and will in fact make it easier for members.
- The Service Improvement Plan has been structured into 5 pillars:
  1. Digital Platform
  2. Data Excellence
  3. Operational Efficiency
  4. Customer Engagement
  5. Expert People
- These 5 pillars are made up of 18 business cases, which have been grouped together into work streams, creating each pillar.
- The programme of works structure was outlined, with there being a programme level and a governance level. The governance model will consist of reps from both Surrey and East Sussex, and will act as an escalation point for any issues that cannot be resolved at project level.
- The Service Improvement Plan is a 2 year programme that includes audit findings and delivers on the actions and recommendations set out in the internal audit report. The projects within the programme are largely interlinked, so if there is a choice not to take on one project, this could have implications on other projects and the overall results on bringing the service into a more digital and future proof state.
- The funding for this will come from each fund and estimates have been made. These estimates include one off incremental costs such as the legacy backlog and an annual incremental costs.
- For Surrey the one-off incremental costs are estimated to be £823,000 and the annual incremental costs are estimated at £304,000.
- AM and Neil Mason (NM) agreed to have a meeting to go over the figures and discuss.
- A large part of the work will require external contractors and companies. NM queried how the service expect to deal with these contracts. TL confirmed that, going forward, and within SIP, there is a plan to recruit a contract manager which will allow the

project managers to focus on the day to day project management while giving the companies a direct point of contact.

- NM confirmed support of the proposed Service Improvement Plan, and will look at the cost estimates. If there are any questions raised then AM and TL will be on hand to resolve.
- The consultation period for SIP begins week commencing 11<sup>th</sup> October, with sign off by 31<sup>st</sup> October. AM will use this consultation period to ensure that everyone understands the vision and that there is a clear understanding of how this will work.
- This will be presented at the Local Pension Board (LPB) on 24<sup>th</sup> October. NH confirmed to AM that the best way to present this at the LPB is with the slides used in this workshop.
- NM recommends this also be presented to internal audit. There is a meeting being held on 15<sup>th</sup> August where this will be done.
- AM queried timing and engagement with the Chairman of the Pension Fund Committee, Tim Evans – NH and NM will be with him in Leeds for 2 days and will use this opportunity to show the document and bring him up to date. AM is to send slides from presentation to NH and NM.
- There are also some external risk factors which may impact on the pensions service, such as the McCloud case, and these should be noted in the LPB papers and the SIP document.

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**Pension Administration Update  
Service Improvement Plan 2 (SIP2)  
9<sup>th</sup> October 2019**

## Pensions Administration

- *Over 500,000 members across 6 LGPS Funds*
- *100m+ data items and 10m+ electronic documents*
- *300,000 life events and £500m in cash payments each year*

Legacy cumulated for over 10 years! Meaning there is:

- *Significant backlog to resolve – fulfil duties*
- *Improve Data Quality – for assurance and automation*
- *Rewrite procedures – for control and efficient running*
- *Future proof the service and grow – for resilience and customer excellence*

## Pensions Administration

Successes in 9 months (there are more!) :

- *Backlog reduced by 6,500 , 10,000 in the pipeline*
- *Data quality improved by 9%*
- *High profile Statutory events delivered on time*
- *3 active working robots and improved member self service*
- *Batch processing and auto work allocation*
- *Clear segregation of duties and responsibilities*
- *Established formal Governance model*
- *GMP reconciliation on track*
- *Operational restructure improving ownership and productivity*



## Pensions Administration

### Vision

*The outstanding provider of exceptional LGPS Administration*

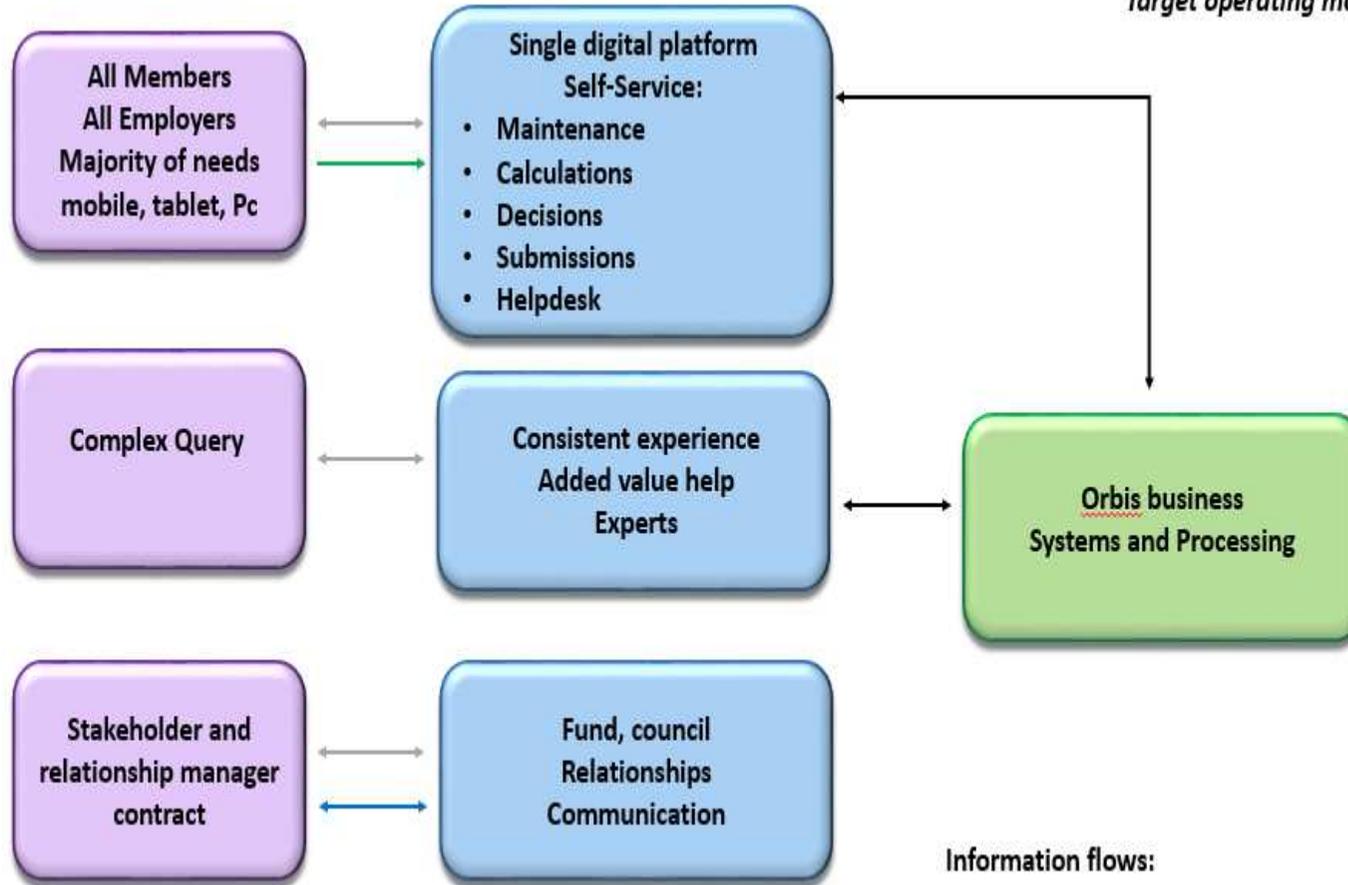
### Mission

*Excellent service from expert people and an engaging self-service which our members and client partners value.*

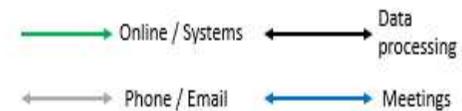
### Three strategic goals:

1. Resolve the legacy of backlog and data quality
2. Create a control framework for service assurance and regulatory compliance
3. A high value target operating model

*Target operating model*

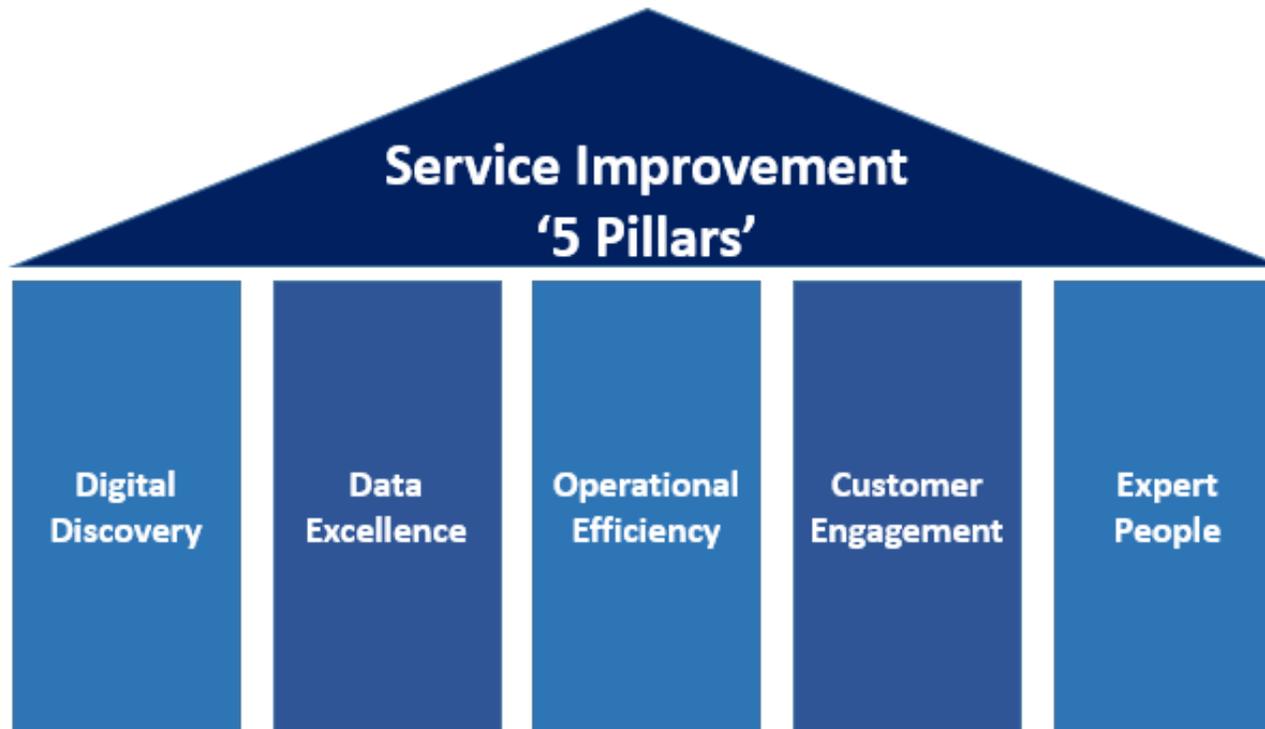


**Information flows:**

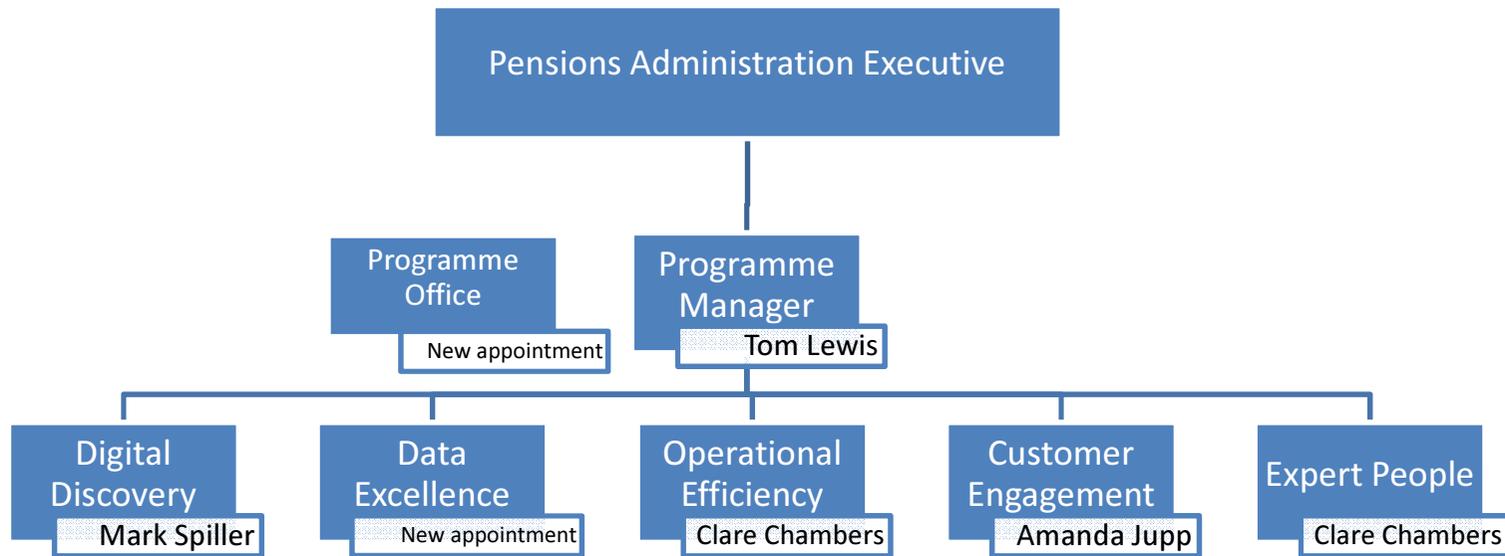


## Service Improvement Plan 2 - building on the success

Programme Workstreams:



## Governance Model



| Project / Work Stream                      | Qtr 3<br>2019/20                 | Qtr 4<br>2019/20   | Qtr 1<br>2020/21  | Qtr 2<br>2020/21   |  |
|--|----------------------------------|--|---|--|--|
| Digital Discovery<br>(Mark Spiller)        | Altair Enhancements              | Scoping & Mapping   System Development   Technical Testing   Pilot launch   Pilot review   Full roll out | Altair 10 upgrade, server migration & Windows 10 upgrade                    |  |  |
|  | i-Connect                        | Scoping & Mapping   Testing & connectivity   Pilot launch  | Roll out to major payroll providers   | Assess System Review   |  |
|  | System review                    | Heywood contract extensions & alignment  | Procurement & contract  |  | Design & Migration                     |
| Data Excellence<br>(New Appointment)       | Legacy Phase 1                   | Continuation of removal for first 20k cases with JLT   |   |  |  |
|  | Phase 2                          | Analysis work   Procurement & Contract for undecided leavers & amalgamations                             | Package up & process undecided leavers and amalgamations                    |  |  |
|  | Other                            | Procurement for Frozen refunds   Write to members with frozen refunds                                    | Supplier to process & actively pursue frozen refund cases                   |  |  |
|  |                                  | Remove known data where possible – St.B's (internally)   Remove expired tasks                            |   |  |  |
|  | Data Improvement                 | Address Tracing   Identify data improvement areas  | Establish work allocation   | Job profiles   Recruit Data Improvement Team                                 | Train and develop                      |
|  | GMP Reconciliation               | HMRC Reconcile   Liability calcs   Altair data updates   | Write to members  |  |  |
| Operational Efficiency<br>(Clare Chambers) | Building excellent processes     |  | Recruit Process Analysts  | Internal Process analysis (DMAIC)   SOPs: Guidance and implementation        |  |
|  | RPA                              | Identify suitable processes  | Recruit developer   | Produce 6 robots   |  |
|  | Self Service Review              | Review MISS Portal   Plan & engage with supplier   | Implement initial self service changes                                      |  | Implement Altair 10 MSS Upgrades       |
|  |                                  |  | Review current websites   | Develop outline design for new website                                       | Develop, design and launch new website |
| Customer Engagement<br>(Amanda Jupp)       | Comms and Education              | Design communications strategy with funds   Gather intel on demographic                                  | Develop template publications   Send and analyse survey responses           | Comms events and engagement publication   Arrange and advertise comms events |  |
|  | Client Management                | Create job specs   Advertise vacancy   Shortlist & interview   |   | Appointments start   |  |
|  | Quality Assurance and Compliance | Create job specs   Advertise vacancy   Shortlist & interview   | Review and update processes (Industry Standard approach)                    |  |  |
|  |                                  |  | Review information and update existing documentation for members on website |  | Review and update website content      |
|  |                                  | Review and update existing employer procedures   Develop bulletin & newsletters templates                |   |  |  |

| Cont....                             | Project / Work Stream          | Qtr 3<br>2019/20  | Qtr 4<br>2019/20   | Qtr 1<br>2020/21  | Qtr 2<br>2020/21  |
|--------------------------------------|--------------------------------|---|--|---|---|
| Customer Engagement<br>(Amanda Jupp) | Reporting & Dashboards         | Build KPI Report  | Design & build of 10 dashboard reports to support funds<br>House keeping and indexing of reports in Altair | Design & build of 10 Altair data range reports  |   |
| Expert People<br>(Clare Chambers)    | Culture                        | Recruit Change Manager<br>Comms platform design and creation<br>Morale survey 1 | Revised working environment  | Revised working practices   | Create and launch cultural leadership training program<br>Morale survey 2 |
|                                      | Training                       |   | Review staff training matrix<br>Promote professional courses to team                                       | Develop training plan for each role<br>Develop training course for each process<br>Arrange training courses (internal and external) | Team training sessions  |
|                                      | Structure, growth & resilience | Design & Implement New Team Structure   |  | Design TOM  |   |

|  | Project / Work Stream            | Qtr 3<br>2020/21   | Qtr 4<br>2020/21               | Qtr 1<br>2021/22         | Qtr 2<br>2021/22 |
|--|----------------------------------|--|--------------------------------|--------------------------|------------------|
| Digital Discovery<br>(Mark Spiller)        | Altair Enhancements              |  |                                |                          |                  |
|  | i-Connect                        | Continue roll out if required  |                                |                          |                  |
|  | System review                    | Design & Migration   |                                | Implementation & Go Live |                  |
| Data Excellence<br>(New Appointment)       | Legacy Phase 1                   | Package up & process undecided leavers and amalgamations                           |                                |                          |                  |
|  | Phase 2                          | Supplier to process & actively pursue frozen refund cases                          |                                |                          |                  |
|  | Other                            |  |                                |                          |                  |
|  | Data Improvement                 | Train and develop team   | Convert to BAU                 |                          |                  |
| Operational Efficiency<br>(Clare Chambers) | Building excellent processes     | Internal Process analysis (DMAIC)  | Workflow Management Relocation |                          |                  |
|  | RPA                              | Produce 6 robots   | Review RPA                     | Produce 6 robots         | Review RPA       |
|  | Self Service Review              | Develop, design and launch new website   |                                |                          |                  |
|  |                                  |  |                                |                          |                  |
| Customer Engagement<br>(Amanda Jupp)       | Comms and Education              | Continue Engagement with employers of changes                                      |                                |                          |                  |
|  | Client Management                |  |                                |                          |                  |
|  | Quality Assurance and Compliance | Install reviewing of website, content and process for regulation compliance as BAU |                                |                          |                  |
| Digital Discovery<br>(Mark Spiller)        | Culture                          | Create and launch staff culture training   | Monitor survey 3               |                          |                  |
|  | Training                         | Team training sessions   |                                |                          |                  |
|  | Structure                        | Refine TOM   |                                |                          |                  |

## Funding Summary – one off incremental costs

| Workstream             | Surrey | East Sussex | KCHF | H'don | W'minster | Total (£k) |
|------------------------|--------|-------------|------|-------|-----------|------------|
| Digital Discovery      | 162    | 102         | 61   | 41    | 41        | 407        |
| Data Excellence        | 410    | 72          | 80   | 83    | 50        | 695        |
| Operational Efficiency | 95     | 59          | 36   | 24    | 24        | 238        |
| Customer Engagement    | 10     | 6           | 4    | 3     | 3         | 26         |
| Expert People          | 146    | 92          | 55   | 37    | 37        | 367        |
| Total (£k)             | 823    | 331         | 236  | 188   | 155       | 1,733      |

## Funding Summary – annual incremental costs

| Wor stream             | Surrey | East Sussex | KCHF | H'don | W'minster | Total (£k pa) |
|------------------------|--------|-------------|------|-------|-----------|---------------|
| Digital Discovery      | 62     | 42          | 18   | 20    | 9         | 151           |
| Data Excellence        | 72     | 45          | 27   | 18    | 18        | 180           |
| Operational Efficiency | 22     | 14          | 8    | 6     | 6         | 56            |
| Customer Engagement    | 105    | 88          | 37   | 31    | 31        | 292           |
| Expert People          | 43     | 27          | 16   | 11    | 11        | 108           |
| Total (£k pa)          | 304    | 216         | 106  | 86    | 75        | 587           |

## Next Steps

- Consultation with Council and Fund Officers w/e 11<sup>th</sup> Oct
- Consultation with LPB and PFC (Nick and Tim delegated) w/e 11<sup>th</sup> Oct
- Updated Proposal 16<sup>th</sup> Oct
- LPB Update for 24<sup>th</sup> Oct
- Sign off by 31<sup>st</sup> Oct

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## Highlight Report – Internal Audit Actions– Project Phase: In Delivery – Annex 2

| Date of Report:  |               | 10/10/2019              |          | Upcoming Milestones                                    |                          |        |
|--|---------------|-------------------------|----------|--|--------------------------|--------|
| Period Covered   |               | 01/09/2019 – 10/10/2019 |          | Item   | Due                      | Status |
| Prepared by:   |               | Chloe Painter           |          | Address tracing exercise to begin                      | 1 <sup>st</sup> November | Green  |
| Sponsor  | Andrew Marson | Customer                | Pensions |  |                          |        |
| Project RAG Status   | <b>Green</b>  |                         |          | Service Improvement Plan approval and funding          | 31 <sup>st</sup> October | Amber  |
| Projected Costs  | N/A           | Actual Cost             | N/A      |  |                          |        |
| Commentary:  |               |                         |          | Decision on rectification approach for Modified Scheme | 4 <sup>th</sup> October  | Green  |
| <p>The first governance board meeting for the internal audit recommendations took place in June, and since then there has been a monthly meeting to update internal audit on the progress being made to progress and implement the actions outlined in the report. The actions are being treated as high priority by the service.</p> <p>The service has created and submitted a Service Improvement Plan and this has gone to senior stakeholders and cabinet for review. The service improvement plan has been designed to support the delivery of a transformation programme within the Pension Service. The programme has been created with the aim of delivering a more modern and digital service, with more efficient systems and processes to support the vision of being ‘The outstanding provider of exceptional LGPS administration’. The Service Improvement Plan includes audit findings and delivers actions in internal audit report.</p> <p>Work also continues with the actions in the audit report. Historic complaints have been reviewed and updated, with a new complaints procedure being implemented by the service. The Service Specification document being presented includes strategy, business plan and SLA and is expected to become effective from 1<sup>st</sup> April 2020, and changes to PAS procedures is also expected to be in place by April 2020.</p> |               |                         |          | SAP payroll extract for backlog work                   | 18 <sup>th</sup> October | Green  |

## Board Actions

### Up-Coming:

**Action:** Investigate and engage with ISAE providers to report on service and highlight key areas

**Action Owner:** Andrew Marson

**Action deadline:** 25.09.2019

### Key Risks and Issues in this period.

| Item                                     | Detail  | Action/Update  |
|--|---|--|
| <b>Service Improvement Plan Approval</b> | As SIP covers the issues raised in the audit report, and all projects within SIP have interdependencies, if SIP is not approved or only some aspects do get approved, this may have an domino effect on the work. | Support from the Surrey Pension Fund, Nick Harrison, Mike Lea and Zully Grant Duff has been confirmed, which is a good sign for this to be approved. |

### **Draft Communications Strategy 2019/2020 – Annex 3**

This strategy details how Orbis will communicate with scheme members and employers, and is to be used in conjunction with each Fund’s Communication Policy Statement.

For any queries relating to this strategy please contact the Pensions Manager at Surrey County Council, County Hall, Kingston Upon Thames, KT1 2DN or at [myhelpdeskpensions@surreycc.gov.uk](mailto:myhelpdeskpensions@surreycc.gov.uk)

#### **Vision**

*The outstanding provider of exceptional LGPS administration*

#### **Mission**

*Excellent service from expert people and an engaging self-service which our members and client partners value*

#### **Objective**

*To educate our customers to a level where they become self-sufficient and can access the information they require or know where the information can be obtained. Engagement with the operational team would therefore be restricted to the more complex queries, and life changing events which requires expert knowledge*

| <b>Method of Communication</b>  | <b>Media</b>                         | <b>Frequency of Issue</b>                | <b>Method of Distribution</b>       | <b>Audience Group</b>      |
|---|--------------------------------------|--|-------------------------------------|----------------------------|
| New Starter Welcome Letter – Contractual Enrolment (Legislative)            | Electronic                           | 2 months from date of joining the scheme | E-mail                              | New Members                |
| New Starter Welcome Letter – Automatic Enrolment/Re-Enrolment (Legislative) | Various                              | 1 month from notification                | Employer                            | New Members                |
| Member Scheme Guide   | Electronic or Paper Based by Request | Always Available Online                  | Fund Website or Member Self Service | All Members                |
| Leaver Rights and Options (Legislative)                                     | Electronic                           | 2 months from date of notification       | E-mail                              | Members leaving the scheme |

|   |                                      |   |  |                            |
|---|--------------------------------------|---|--|----------------------------|
| Transfer In Quotation (Legislative)     | Paper Based or Electronic            | 2 months from date of request   | Letter to Home Address or Member Self Service      | Active Member              |
| Transfer Out Value (Legislative)        | Paper Based or Electronic            | 3 months from date of request   | Letter to Home Address, Member Self Service or IFA | Deferred Member            |
| Retirement Quotation (Legislative)      | Paper Based or Electronic            | 2 months from date of request   | Letter to Home Address or Member Self Service      | Active and Deferred Member |
| Retirement Benefits (Legislative)       | Paper Based or Electronic            | 1 month from date of retirement if on or after NPA, or 2 months from date of retirement if before NPA | Letter to Home Address or Member Self Service      | Active and Deferred Member |
| Dependants Benefits (Legislative)       | Paper Based                          | 2 months from date of notification of death   | Letter to Dependants Home Address                  | Dependant Member           |
| Annual Benefit Statement (Legislative)  | Electronic or Paper Based            | By 31 August each year  | Member Self Service or Statement to Home Address   | Active and Deferred Member |
| Pension Saving Statements (Legislative) | Paper Based or Electronic            | By 6 October each year  | Letter to Home Address or Member Self Service      | Active Member              |
| Pensions Increase Letters               | Electronic or Paper Based on Request | By 30 April each year   | Member Self Service or Letter to Home Address      | Pensioner Member           |
| Pensioner P60s                          | Electronic or Paper Based on Request | By 31 May each year   | Member Self Service or Letter to Home Address      | Pensioner Member           |
| Active Member Newsletters               | Electronic or Paper Based on Request | By 31 August in line with ABS   | Member Self Service or Letter to Home Address      | Active Member              |

|   |                                      |   |   |                  |
|---|--------------------------------------|---|---|------------------|
| Deferred Member Newsletters             | Electronic or Paper Based on Request | By 31 August in line with ABS                       | Member Self Service or Letter to Home Address | Deferred Member  |
| Pensioner Member Newsletters            | Electronic or Paper Based on Request | By 30 April in line with Pension Increase Letter    | Member Self Service or Letter to Home Address | Pensioner Member |
| Presentations/Roadshows                 | Face to Face                         | Twice per year per Fund                             | Via Fund                                      | Active Member    |
| Drop In Sessions                        | Face to Face                         | As Requested up to a maximum of 2 per year per Fund | Via Fund                                      | Active Member    |
| Customer Satisfaction Survey – Member   | Electronic                           | Annually  | E-mail  | All Members      |
| Changes in Legislation                  | Electronic                           | Within 10 working days of notification of change    | E-mail to Fund                                | Pension Fund     |
|   |                                      |   |   |                  |
| Employer Training                       | Face to Face                         | As requested or arranged by Orbis                   | Via Fund                                      | Scheme Employer  |
| Employer Guides                         | Electronic                           | Always Available Online                             | LGPS Regs Website                             | Scheme Employer  |
| Employer Newsletters                    | Electronic or Paper Based on Request | Monthly Updates/April and September Newsletters     | E-mail to Fund Contacts                       | Scheme Employer  |
| Customer Satisfaction Survey - Employer | Electronic                           | Annually  | E-mail  | Scheme Employer  |

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### Annex 4 – Q3 Initial Complaints Update – 2019/2020

| Total Volume of Complaints Q3 |          |                                     |                              |                              |                   |
|-------------------------------|----------|-------------------------------------|------------------------------|------------------------------|-------------------|
| Quarter                       | Received | Acknowledgement provided within SLA | Response provided within SLA | Response provided out of SLA | Awaiting Response |
| Q3                            | 18       | 100% (18/18)                        | 83.33% (15/18)               | 5.56% (1/18)                 | 11.11% (2/18)     |

| Breakdown by Type – Jul to Sep 2019 |            |                                     |                              |                              |                   |
|-------------------------------------|------------|-------------------------------------|------------------------------|------------------------------|-------------------|
| Complaint by Type                   | Received   | Acknowledgement provided within SLA | Response provided within SLA | Response provided out of SLA | Awaiting Response |
| Service Delay                       | 7 (38.89%) | 7 (100%)                            | 4 (57.14%)                   | 1 (14.29%)                   | 2 (28.57%)        |
| Data Breach                         | -          | -                                   | -                            | -                            | -                 |
| Lack of Communication               | 2 (11.11%) | 2 (100%)                            | 2 (100%)                     | -                            | -                 |
| Legislative Provisions              | -          | -                                   | -                            | -                            | -                 |
| Quality of Service                  | 9 (50%)    | 9 (100%)                            | 8 (88.89%)                   | 1 (11.11%)                   | -                 |
| Technology Issues                   | -          | -                                   | -                            | -                            | -                 |

| Breakdown by Resolution – Jul to Sep 2019 * |            |
|---|------------|
| Resolution Method                           | Percentage |
| Explanation                                 | 5 (31.25%) |
| Apology                                     | 9 (56.25%) |
| Complaint Closed/Withdrawn                  | 1 (6.25%)  |
| Other                                       | 1 (6.25%)  |

\*Two complaints outstanding

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# **Surrey Pension Fund**

## **End of Year and Annual Benefit Statement**

### **Review– 2019 – Annex 5**

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## Glossary

| Abbreviation | Name                       |
|--------------|----------------------------|
| PAS          | Pension Admin Team         |
| ABS          | Annual Benefit Statement   |
| EOY          | End of Year                |
| Status 2     | Undecided leaver on Altair |
| MSS          | Member Self Service Portal |
|              |                            |
|              |                            |



## 1. Purpose

This review is to present a holistic overview of the 2018 – 19 end of year (EOY) and Annual Benefit Statement (ABS) delivery. The aim is to provide the Surrey Pension fund with a clear summary of what has been done to date, the current state of affairs and future actions to be taken.

## 2. Communications

The communication plan with employers was part of the overall delivery plan, which was presented to the Fund Officers early in 2019. The communications were sent via email to the employers at various points between Jan – May, explaining the importance of providing this information as early as possible due to the valuation year. The distribution dates of these comms were as follows:

- 15<sup>th</sup> January
- 15<sup>th</sup> February
- 4<sup>th</sup> & 21<sup>st</sup> March
- 8<sup>th</sup> and 24<sup>th</sup> April

These communications were sent within 2 day tolerance, either +/- of this date as per the plan by the PAS Team.

In addition to these communications between the months of June and August, a number of phone calls and email exchanges took place between the PAS Team and specific employers to overcome and queries or difficulties that were being had with providing the EOY information.

In the months between May and July any problematic employers where information was not forthcoming, were escalated to the Fund Officers to provide additional support in making contact with representatives of these employers.

## 3. End of Year

### 3.1 Outstanding Returns and Queries

Whilst employers may provide data, the data provided may not always be of sufficient quality or may fall outside of certain tolerances and will need clarification. There are still some employers who have not provided adequate data, or adequate responses which can be seen in the table below.

| Employer                      | No of Queries |
|-------------------------------|---------------|
| Hanover Housing Association   | 7             |
| Reigate Grammar School        | 29            |
| Moor House School and College | 3             |
| Tomlinscote School (Acad)     | 31            |
| The Beacon School {Academy}   | 20            |



|  |            |
|--|------------|
| Fullbrook School {Academy}                           | 11         |
| Blenheim High School (Academy)<br>1 Mar 2012         | 32         |
| Hinchley Wood School {Academy}<br>(Dataplan Payroll) | 29         |
| Cobham Free School {Academy}<br>1 September 2012     | 8          |
| Surrey Heath Borough Council                         | 40         |
| Tandridge District Council<br>(MHR Payroll)          | 56         |
| Achieve Lifestyle                                    | 9          |
| Compass (GLF Schools)                                | 4          |
| Hawkedale School<br>(Capita Payroll)                 | 10         |
| N.E.S.C.O.T  | 78         |
| Farnham Town Council                                 | 3          |
| St Mary's C of E Junior School                       | 56         |
| <b>Total</b>   | <b>426</b> |

The PAS Team have worked extremely hard to obtain this information and will continue to do so with these employers to secure the required information needed. The data missing will not always affect the production of an annual benefit statement. The employer lists for those provided a statement using 2017/18 data can be found further down in this document.

## 4. Annual Benefit Statements

### 4.1 Production and Statistics

The delivery of ABS this year for Active members has seen a success rate of 100% which is an excellent return, even more so when taking into consideration this has been achieved in parallel to the valuation work throughout the summer. Of this 100%, 0.45% have been produced using 2017/18 data (more detail can be found further down in this report).

The deferred numbers are much lower at just under 56% which was anticipated due to the high number of suppressed records caused by inconclusive confirmation of the members last known address. Please see the summary below for the detailed numbers.

| Status | Total Member Count | Produced | Produced using 17/18 data | Suppressed | Digital Opt Outs | Percentage Produced |
|--------|--------------------|----------|---------------------------|------------|------------------|---------------------|
|--------|--------------------|----------|---------------------------|------------|------------------|---------------------|



|          |       |       |    |       |     |         |
|----------|-------|-------|----|-------|-----|---------|
| Active   | 31416 | 31416 | 44 | 0     | 141 | 100.00% |
| Deferred | 35578 | 19723 | 0  | 14097 |     | 55.44%  |

There are some exclusions in place where deferred ABS are not produced due to data quality issues. Some of these exclusions include examples such as pension increase has not been applied, pension or care pot showing negative values.

In addition to the above all councillor statements were successfully sent by the end of June and, for those who members who have opted out of digital, these have also been sent out by 31 August 2019.

#### 4.2 Employer Details for ABS Production using 2017/18 data

The list below provides detailed numbers of the employer's names and the numbers of employees who have received an ABS for 2019 using 2017/18 data.

| Surrey C C Fund                | Total     |
|--------------------------------|-----------|
| Elmbridge Borough Council      | 2         |
| Mole Valley District Council   | 5         |
| The Beacon School {Acad}       | 4         |
| Fullbrook School {Acad}        | 1         |
| St Lawrence Primary Sch (Acad) | 1         |
| Hinchley Wood School {Acad}    | 4         |
| Cobham Free School {Acad}      | 1         |
| Wishmore Cross Academy         | 1         |
| Warlingham School (Acad)       | 1         |
| Eastwick Schools (Acad)        | 1         |
| Woking High School (Acad)      | 1         |
| Surrey Heath Borough Council   | 2         |
| Tandridge District Council     | 2         |
| Achieve Lifestyle              | 2         |
| Freedom Leisure (Guildford)    | 2         |
| Ability Housing Association    | 3         |
| Hawkedale School               | 2         |
| N.E.S.C.O.T                    | 7         |
| St Mary's C of E Junior Schl   | 2         |
| <b>Total</b>                   | <b>44</b> |

#### 4.3 Status 2 – Undecided Leavers

At this stage the Surrey Pension fund currently has 16265 records marked as undecided leavers. These are records by which the PAS Team has been advised or made historic assumptions that member has left



their employment due to the end of year information not having been supplied for 2 or more years and, the correct paperwork has not been provided to confirm the member's status.

The list below shows those employers where 50+ members are affected by this.

| <b>Surrey CC Fund</b>          | <b>Total</b> |
|--------------------------------|--------------|
| Surrey County Council          | 10397        |
| U.C.A.-Univ.Creative Arts      | 322          |
| Surrey Police (LGPS)           | 141          |
| Activate - Guildford College   | 136          |
| Reigate and Banstead B.C.      | 91           |
| Sythwood Primary School (Acad) | 90           |
| N.E.S.C.O.T                    | 84           |
| Glyn School (Acad)             | 81           |
| Boxgrove Primary School (Acad) | 79           |
| Reigate College (Academy)      | 78           |
| Guildford Borough Council      | 76           |
| Eastwick Schools (Acad)        | 75           |
| Waverley Borough Council       | 72           |
| Brooklands College             | 69           |
| Elmbridge Borough Council      | 68           |
| South Farnham School (Acad)    | 68           |
| Collingwood College (Acad)     | 63           |
| Esher High School (Acad)       | 63           |
| Blenheim High School (Acad)    | 61           |
| George Abbot School (Acad)     | 61           |
| New Haw Junior Sch (Acad)      | 61           |
| Beaufort Primary School (Acad) | 60           |
| Goldsworth Primary Sch (Acad)  | 60           |
| Epsom and Ewell B C            | 57           |
| Pond Meadow School (Acad)      | 57           |
| University of Surrey           | 56           |
| Hamsey Green Primary (Acad)    | 53           |
| Woking Borough Council         | 52           |
| Ashley CoE Primary Sch (Acad)  | 50           |
| Waverley Abbey CofE Jnr (Acad) | 50           |
| <b>Total</b>                   | <b>16265</b> |

Please be aware that these members will not have received an ABS and will only do so once the status has been confirmed.



## 5. Future Actions

Below is a summary of actions that will and need to be carried out as part of the EOY and ABS process for 2019.

| Action and Owner  | Description  | Proposed Deadline                            |
|---|--|--|
| Employer engagement for Missing EOY Data – PAS Employer Engagement Team | Where the employer has not provided sufficient end of year data, the Engagement Team will make contact with those employers to obtain any missing information where possible. This will not include the known status 2 members as this will require more resource and form part of data quality/backlog plans. | Comms sent by 20 <sup>th</sup> September     |
| Further ABS Run – PAS Technical Team                                    | The Technical Team in PAS will perform another extract and run for any members by which employers have provided the required data.   | Published to MSS by 8 <sup>th</sup> November |
| Address Tracing – PAS Project Team                                      | An exercise is recommended to take place by which an external supplier is contracted to undertake the tracing. More information will be provided with costs later this month.  | Proposal provided by the end of September    |
| Status 2 Records  | Work will continue with JLT to reduce this number  | Ongoing                                      |

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## Highlight Report – GMP – Project Phase: In delivery – Annex 6

|  |                          |   |                                  |               |
|--|--------------------------|---|----------------------------------|---------------|
| <b>Date of Report:</b>   | 8 <sup>th</sup> Oct 2019 | <b>Upcoming Milestones</b>                  |                                  |               |
| <b>Project Lead</b>  | Amy Wallace              | <b>Item</b>                                 | <b>Due</b><br>(* = estimated)    | <b>Status</b> |
| <b>Prepared by:</b>  | Tom Lewis                | Stalemate decision from Surrey Pension Fund | Expected by 11 <sup>th</sup> Oct | Complete      |
| <b>Project RAG Status</b>  | <b>Green</b>             |   |                                  |               |
| <b>Project Scope</b>   |                          | Reconciliation process                      | Nov / Dec                        | On schedule   |
| This project seeks to complete a GMP Reconciliation between the data held by the SCC Fund and HMRC records from the point ITM (phase 1 contracted supplier) completed the initial bulk analysis and raised queries with HMRC. Phase 2 work will include Data gathering, member reconciliation and rectification work to be undertaken by the contracted supplier JLT up until 100% completion. |                          | Member rectification on admin system        | Jan / Feb                        | On schedule   |
|  |                          | Communicate with affected members           | Feb / Mar                        | On schedule   |

### Project Summary

The guaranteed minimum pension reconciliation work has been in the delivery phase since September 2018 after it was contracted out to a chosen supplier, JLT. This supplier has taken on 100% of the work with a designated team based both in the UK and India, with only minimal support required from the administration team should information be unavailable on the administration system, Altair.

The work has been progressing well and we are moving close to begin the reconciliation work and understanding the liability costs. The next steps are:

- JLT have matched over 99% of membership for all Funds. They will implement the decisions made on the stalemate cases once received by the Surrey Pension Fund.
- HMRC will be sending the final SRS cut of data from November onwards, so JLT will then complete the final reconciliation reports and send these out to Funds.
- JLT has also been working with HMRC to review all CEP payments to see if HMRC had allocated them correctly or whether they were still a liability held against the Fund. This has now been completed and emails were sent a couple of weeks ago to all Funds to confirm the current status.

### Key Risks & Issues

| Item | RAG | Detail | Action/Update |
|------|-----|--------|---------------|
|      |     |        |               |

## Highlight Report – Data Cleanse & Valuation– Project Phase: Close Down

|   |                    |  |                               |               |
|---|--------------------|--|-------------------------------|---------------|
| <b>Date of Report:</b>  | 8 Oct 2019         | <b>Upcoming Milestones</b>                                 |                               |               |
| <b>Project Lead</b>   | Tom Lewis          | <b>Item</b>  | <b>Due</b><br>(* = estimated) | <b>Status</b> |
| <b>Prepared by:</b>   | Tom Lewis          | Compass modelling  | 30 <sup>th</sup> April        | Complete      |
| <b>Project RAG Status</b>   | <b>Closed Down</b> |  |                               |               |
| <b>Project Scope</b>  |                    | End of year data checking / processing (completed returns) | 30 <sup>th</sup> June         | Complete      |
| With the valuation taking place in July 2019 this project is to clean fund data held in the administration system, Altair, to ensure the contribution rates for the next 3 – 4 years can be set with the highest level of accuracy. |                    | Review load data with the fund                             | 15 <sup>th</sup> July         | Complete      |
|   |                    | Final data load for Hymans                                 | 19 <sup>th</sup> July         | Complete      |

### Project Summary

|   |
|---|
| <p>The data cleanse and valuation work was completed on time and delivered to Hymans by the 19<sup>th</sup> July as agreed with the fund.</p> <p>The project is now closed down for Orbis Admin Services.</p> |
|---|

### Key Risks & Issues

| Item | RAG | Detail | Action/Update |
|------|-----|--------|---------------|
|      |     |        |               |
|      |     |        |               |

## Highlight Report – System Review – Project Phase: In discovery

|  |                          |                                 |                               |               |
|--|--------------------------|---------------------------------|-------------------------------|---------------|
| <b>Date of Report:</b>   | 8 <sup>th</sup> Oct 2019 | <b>Upcoming Milestones</b>      |                               |               |
| <b>Project Lead</b>  | Mark Spiller             | <b>Item</b>                     | <b>Due</b><br>(* = estimated) | <b>Status</b> |
| <b>Prepared by:</b>  | Tom Lewis                | Contract alignment with Heywood | 29 <sup>th</sup> Nov          | On schedule   |
| <b>Project RAG Status</b>  | <b>Green</b>             |                                 |                               |               |
| <b>Project Scope</b>   |                          |                                 |                               |               |
| Review the market and the available pension administration systems to ensure the system in use for the Orbis Pension Administration service continues to meet the necessary requirements for all members within the partnership. |                          |                                 |                               |               |
|  |                          | Full review kick off            | 13 <sup>th</sup> Jan          | On schedule   |

### Project Summary

Having undertaken a detailed analysis and having now explored this further with SCC Procurement, the Pension Admin Service will need to undertake a full procurement process to explore all other system providers in the market.

The first step in this process will be to agree a short term extension with our current supplier Heywood to give the Project Team the sufficient time period to carry out this full review and tender process. Once this has been agreed, engagement with procurement will begin in full, along with other key services such as IMT to begin working on creating a full functional specification document.

Based on time frames, it is anticipated the full review will begin in January 2020.

### Key Risks & Issues

| Item | RAG | Detail | Action/Update |
|------|-----|--------|---------------|
|      |     |        |               |

## Highlight Report – EOY & Annual Benefit Statements – Project Phase: In delivery

|  |                          |  |                               |                    |
|--|--------------------------|--|-------------------------------|--------------------|
| <b>Date of Report:</b>   | 8 <sup>th</sup> Oct 2019 | <b>Upcoming Milestones</b>                     |                               |                    |
| <b>Project Lead</b>  | Tom Lewis                | <b>Item</b>                                    | <b>Due</b><br>(* = estimated) | <b>Status</b>      |
| <b>Prepared by:</b>  | Tom Lewis                | Chasers sent for missing EOY data to employers | 20 <sup>th</sup> Sep          | <b>Complete</b>    |
| <b>Project RAG Status</b>  | <b>Green</b>             |  |                               |                    |
| <b>Project Scope</b>   |                          | EOY Data load in admin system                  | Beginning of Nov              | <b>On schedule</b> |
| To actively manage and monitor all employers associated with the SCC fund to submit their organisations end of year pay information by the set deadline of 30 <sup>th</sup> April 2019 as part of the LGPS pension scheme. As part of the end of year process, the annual benefit statements are to be produced by the regulatory deadline of August 31 <sup>st</sup> 2019 |                          | Final ABS run                                  | 8 <sup>th</sup> Nov           | <b>On schedule</b> |

### Project Summary

|  |
|--|
| <p>The ABS work in general is complete, with all statements being sent to members where possible. The summary of statements is as follows:</p> <p>Active ABS produced: 31,416 (44 of these used 2017/18 data)<br/>         Deferred ABS produced: 19,723 (14,097 suppressed and require address tracing exercise)</p> <p>More detail can be found in the full summary report</p> |
|--|

### Key Risks & Issues

| Item            | RAG | Detail  | Action/Update  |
|-----------------|-----|---|--|
| <b>EOY Data</b> |     | For those employers where EOY data is still missing, they have been given until the end of October to produce this information. Should this still not be received, the 44 cases using 2017/18 data will not be updated. | Deadline is the end of October. There has been a few instances where the last known email contact for these employers has bounced back as left, this will be raised with the fund. |

# Highlight Report – \*\*Backlog Project A: Reduction\*\* – Project Phase Delivery – Annex 7

|  |   |                    |                             |                            |            |               |
|--|---|--------------------|-----------------------------|----------------------------|------------|---------------|
| <b>Date of Report:</b>   | 06/8/19   |                    |                             | <b>Upcoming Milestones</b> |            |               |
| <b>Period Covered</b>  | 19/8/19 to 6/9/19                                 |                    |                             | <b>Item</b>                | <b>Due</b> | <b>Status</b> |
| <b>Prepared by:</b>  | Mark Spiller                                      |                    |                             | Billing                    | 27/9/2019  | Green         |
| <b>Sponsor</b>   | Mike Lea  | <b>Customer</b>    | Pensions                    | Outstanding Work Report    | 12/09/2019 | Green         |
| <b>Project RAG Status</b>  | <b>Amber</b>                                      |                    |                             | Outstanding Work Analysis  | 16/9/2019  | Green         |
| <b>Projected Costs</b>   | <b>Contract 450 est</b><br>Plus additional costs* | <b>Actual Cost</b> | In line with contract costs |                            |            |               |
| <b>Commentary :</b>  |   |                    |                             |                            |            |               |
| <p>We have reached the end of August with 6066 Cases completed.</p> <ul style="list-style-type: none"> <li>- Westminster, Hillingdon and Bi Boroughs have finished sending cases to JLT.</li> <li>-The QA for JLT has been signed off.</li> <li>- JLT are preparing the first billing.</li> <li>-Linda Whiteman’s team of SAP developers have built the SAP extract which is now live. This breakthrough allows the creation of leaving data without requiring Staff Input which at present is considerable. This means much faster processing of Surry Leavers and the ability to use automation and robotics to process leavers. It will also allow us to continue sending work to JLT for clearance without requiring resource to create the leaver forms manually.</li> <li>-Chewie the Deferred Robot has successfully run test cases on using the Hampshire Leaver report.</li> <li>-Amy Wallace has used the leavers report to answer outstanding JLT queries.</li> <li>-Outstanding Work and Tasks. The report detailing all outstanding work and tasks in the system has been scoped out and Matthew Trembley is engaged in producing the analysis of remaining legacy work in the system for review at the next backlog meeting.</li> <li>-We have a supplier meeting with ITM on 11/9/19 to review their options for assisting with legacy work.</li> </ul> |   |                    |                             |                            |            |               |

## Board Actions

**Up-Coming:**

**Tom.** Report to be run once Tom's team are through Valuation. Records which will require amalgamation following Deferred.

**Key Risks and Issues in this period.**

| Item   | RAG | Detail  | Action/Update   |
|--|-----|---|---|
| <b>SCC Deferred Cases require SAP calculations</b> |     | See separate doc SCC Backlog Issue1.doc   | See above.  |
| <b>Amalgamation Records</b>                        |     | We do not have sight yet of those records which will require amalgamation following Deferred. | Report to be run once Tom's team are through Valuation. |
| <b>Auto Amalgamation</b>                           |     | Still need to agree with JLT the actions on records which require auto amalgamation.          | JLT will process. Instructions supplied.                |



## Surrey Local Pension Board 24 October 2019

### Administration Performance Report (Quarter 2)

#### Recommendations:

The Board is asked to **note** the content of this report and **make recommendations** to the Pension Fund Committee if appropriate.

#### Background

1. The key performance indicators have been remodelled in order to capture the volume of work received and completed more accurately.
2. Metrics are the key to effective pension administration and accurate figures will give the Local Pension Board a better idea of where we are now and help them to identify the areas that need to be addressed in order to improve performance..
3. The Orbis Pension Administration Team has experienced difficulties in collating the information and reporting it in the new format and the Pension Fund Team has tried to help by agreeing to fund a new report writer.

#### Detail

4. The figures reported are uneven and, therefore, difficult to interpret.
5. Some of the figures are skewed by significant numbers of backlog cases being carried over from the previous quarter (column "F" flagged bright yellow).
6. A change in the method of reporting the figures flattered the completion rates of some of the case types relative to the amount of work received (column "E" flagged pink).
7. This quarter the percentage of cases completed within SLA has been calculated by dividing the number of cases completed within SLA (column "G") by the number of cases completed (column "F").

8. It is very difficult to establish any clear trend in the figures, partly because the volume of work received and completed varies considerably from quarter to quarter and partly because the Pension Section has been unable to produce statistics on a regular basis,.

9. The figures reported this quarter allow room for improvement.

---

**Report contact:** John Smith, Senior Advisor (Investments, Funding & Governance)

**Contact details:** T: 020 8213 2700 E: john.smith@surreycc.gov.uk

**Annexes:**

Annex 1 – 2019/20 Quarter 2 APR Report

## ADMINISTRATION PERFORMANCE REPORT (2)

### ADMINISTRATION - GENERAL PERFORMANCE STANDARDS

| <u>No</u>   | <u>Description</u>           | <u>Target</u>  | <u>Tolerable performance*</u>                            | <u>Lead Officer</u> | <u>Performance (and RAG)</u> | <u>Assurance</u>                | <u>Reporting Period</u> | <u>Previous target</u>                               | <u>Date Last Reported</u> | <u>Improvement/Deterioration</u> | <u>Commentary</u>                |
|-------------|------------------------------|--|--|---------------------|------------------------------|---------------------------------|-------------------------|--|---------------------------|----------------------------------|----------------------------------|
| <b>PS 1</b> | <b>SCRUTINY</b>              |  |  |                     |                              |                                 |                         |  |                           |                                  |                                  |
| PS 1.1      | AUDIT (1) - External         | Receive an unqualified audit report from the auditor   | Receive an unqualified audit report from the auditor     | AM/NM               | Completed                    | Audit report                    | 2018/19                 | Receive an unqualified audit report from the auditor |                           |                                  |                                  |
| PS 1.2      | AUDIT (2) - Internal         | Annual audit returns no significant findings   | Annual audit returns no significant findings             | AM                  | Completed                    | Audit report                    | 2018/19                 |  |                           |                                  |                                  |
| PS 1.3      | tPR ANNUAL RETURN            | Within 6 weeks of tPR notice   | Within 6 weeks of tPR notice                             | NM                  | Completed                    |                                 |                         |  |                           |                                  |                                  |
| <b>PS 2</b> | <b>DATA QUALITY</b>          |  |  |                     |                              |                                 |                         |  |                           |                                  |                                  |
| PS 2.1      | COMMON DATA                  | 100% accuracy  | 95% accuracy   | AM                  | 86.30%                       | Independent report commissioned |                         |  |                           |                                  |                                  |
| PS 2.2      | CONDITIONAL DATA             | 100% accuracy  | 80% accuracy   | AM                  | 89.30%                       | Independent report commissioned |                         |  |                           |                                  |                                  |
| PS 2.3      | DATA PROTECTION (GDPR)       | Fully compliant with legislation by 01 May 2018  | Fully compliant with legislation by 01 May 2018          | AM                  | Completed                    | Information Governance team     |                         |  |                           |                                  |                                  |
| <b>PS 3</b> | <b>COMMUNICATIONS</b>        |  |  |                     |                              |                                 |                         |  |                           |                                  |                                  |
| PS 3.1      | ANNUAL BENEFIT STATEMENTS    | Issued by 31 August following scheme year end (31 March)   | Issued by 31 August following scheme year end (31 March) | AM                  | Completed                    |                                 |                         |  |                           |                                  |                                  |
| PS 3.2      | EMPLOYER SATISFACTION/SURVEY | Overall satisfaction score for employers to be 100%  | Overall satisfaction score for employers to be 80%       | AM / NM             | Due July 2018                | Online survey results           |                         |  |                           |                                  |                                  |
| PS 3.3      | MEMBER SATISFACTION/SURVEY   | Overall satisfaction score for members to be 100%  | Overall satisfaction score for members to be 80%         | AM                  | 87%                          | Online survey results           | July-Sept 18            |  |                           |                                  | Quarterly survey issued in April |
| PS 3.4      | WEBSITE MAINTENANCE          | 100% of relevant communications material will be posted onto website within one week of being signed off |  |                     | 100%                         | Public website                  | Q3                      |  |                           |                                  |                                  |
| PS 3.5      | MEMBER NEWSLETTER            | By 31 March annually   |  | AM                  | Completed                    | Copy published                  |                         |  |                           |                                  |                                  |
| PS 3.6      | PENSIONER NEWSLETTER         | By 30 April annually   |  | AM                  | Completed                    | Copy published                  |                         |  |                           |                                  |                                  |

|             |                        |   |  |         |   |                                  |                |  |  |  |  |
|-------------|------------------------|---|--|---------|---|----------------------------------|----------------|--|--|--|--|
| PS 3.7      | EMPLOYER FORUM(S)      | By 31 December annually   |  | AM / NM | <b>Due December</b>   |                                  |                |  |  |  |  |
| PS 3.8      | PENSION FUND AGM       | By 30 November annually   |  | NM      | <b>Due November</b>   |                                  |                |  |  |  |  |
| <b>PS 4</b> | <b>VALUE FOR MONEY</b> |   |  |         |   |                                  |                |  |  |  |  |
| PS 4.1      | CIPFA BENCHMARK        | VFM of pensions administration should be in the highest quartile (as measured by the CIPFA benchmark) |  | AM / NM | <b>Completed</b>  | <b>CIPFA Benchmarking report</b> | <b>2018/19</b> |  |  |  | <b>Included in Admin Update report</b> |
| <b>PS 5</b> | <b>PROJECTS</b>        |   |  |         |   |                                  |                |  |  |  |  |
| PS 5.1      | GMP RECONCILIATION     | By end of December 2018   |  | AM      | <b>See update report</b>  |                                  |                |  |  |  |  |
| PS 5.2      | EMPLOYER SELF SERVICE  | End of October 2017   |  | AM      | <b>Achieved - system live and issued to 5 employers pending full roll-out</b> | <b>Licences issued</b>           |                |  |  |  |  |
| PS 5.3      | ON-LINE ABS            | By 31 August 2017   |  | AM      | <b>Achieved</b>   | <b>Online access</b>             |                |  |  |  |  |



## Surrey Local Pension Board 24 October 2019

### Risk Registers 2019/20 (Quarter 2)

#### Recommendations:

The Board is asked to **note** the content of this report and the Fund Risk Register (shown as Annex 1) and Administration Risk Register (shown as Annex 2) and **make recommendations** to the Pension Fund Committee (Committee) if required.

#### Background

1. A quarterly assessment of the Pension Fund and Pensions Administration risk registers will give the Board the opportunity to influence and drive the risk management process during 2019/20.
2. In a meeting of 9 February 2018 the Committee determined that future risk registers be initially reviewed by the Board and contained within the quarterly Board Report to the Committee.

#### The 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. Each of the risk areas in each register 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 Fund Committee and Surrey County Council as the administering authority. Assessment has also been given as to the likelihood of the risk.
5. Each of the three areas of impact identified above is assessed on a scale of one to four, with four implying the highest level of impact. The likelihood of the risk description (between one and five) is then applied to the combined impact score, which produces an overall risk score. Depending on the score, the risks are then identified as Red, Amber or Green.

6. To comply with best practice, a scoring process has been implemented, which will reassess the risk scores after the mitigating action taken to control and reduce the risks. The risk register includes a revised impact score and net risk score as a result of those mitigating actions.
7. Within the residual red risks, cost ranges are provided on the implications where possible.
8. In a meeting of 9 February 2018 the Pension Fund Committee requested that the Board add to their forward plan consideration of how the risks are measured and whether the weighting is appropriate.

### **Changes to existing risks**

9. The Fund and Administration risk register has been updated, after consultation with the Chairman and Vice-Chairman. Both registers were reviewed and approved by the Pension Fund committee on 13 September 2019.

### **Additional risks**

10. The Local Pensions Board should recommend to the Pension Fund Committee, the addition of the following risk:
  - Move out of County Hall be included as risk A22, with total risk of 32 (Red) and net risk of 16 (Amber) in Annex 2.

### **Next steps**

11. The Board is asked to **note** the content of this report, the Fund Risk Register (shown as Annex 1, the Administration Risk Register (shown as Annex 2) and **make recommendations** to the Committee if required as part of the quarterly Board Report to the Committee.

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**Report contacts:** John Smith (Senior Advisor) / Ayaz Malik (Advisor/Accountant)

**Contact details:** T: 020 8213 2700 E: john.smith@surreycc.gov.uk / T. 020 8541 9705 E: ayaz.malik@surreycc.gov.uk

### **Annexes:**

Annex 1 – 2019/20 Quarter 2 Fund Risk Register

Annex 2 – 2019/20 Quarter 2 Administration Risk Register

| Risk Group | Risk Ref. | Risk Description  | Impact |           |            |       | Likelihood | Total risk score | Mitigation actions  | Revised Likelihood | Net risk score | Reviewed on | Changes made during review |
|------------|-----------|---|--------|-----------|------------|-------|------------|------------------|---|--------------------|----------------|-------------|----------------------------|
|            |           |   | Fund   | Employers | Reputation | Total |            |                  |   |                    |                |             |                            |
| Funding    | 1         | Price inflation is significantly more or less than anticipated: an increase in CPI inflation by 0.1% would increase the liability valuation by 1.4%   | 4      | 4         | 4          | 12    | 4          | 48               | TOLERATE- 1) The discount rate used for the 2019 actuarial valuation is derived from CPI inflation, so the value of Fund liabilities will be calculated with reference to CPI.<br>2) The assumptions of the Fund actuary are prudent and allow for variations in inflation and interest rate fluctuations   | 4                  | 48             | Oct-19      |                            |
| Funding    | 2         | Members living longer: adding one year to life expectancy would approximately increase the liability by 3-5%.   | 4      | 4         | 1          | 9     | 5          | 45               | TOLERATE- 1) The Fund Actuary uses long term longevity projections in the actuarial valuation process. 2) SCC has joined Club Vita, which would allow to monitor mortality rates that are employer and postcode specific.   | 5                  | 45             | Oct-19      |                            |
| Funding    | 3         | Pay increases are significantly more than anticipated for employers within the Fund.  | 4      | 4         | 3          | 11    | 3          | 33               | TREAT/TOLERATE- 1) Fund employers should monitor own experience. 2) Assumptions made on pay and price inflation (for the purposes of IAS19/FRS102 and actuarial valuations) should be long term assumptions, any employer specific assumptions above the actuaries long term assumption would lead to further review. 3) Employers to be made aware of generic impact that salary increases can have upon final salary linked elements of LGPS benefits.                                    | 3                  | 33             | Oct-19      |                            |
| Funding    | 4         | Mismatching of assets and liabilities, inappropriate long-term asset allocation or investment strategy, mistiming of investment strategy  | 4      | 3         | 3          | 10    | 4          | 40               | TREAT- 1) Active investment strategy and asset allocation monitoring from Committee officers and consultants. 2) 2018/19 Investment strategy review is current. 3) Separate source of advice from Fund's independent advisor. 4) Setting of Fund specific benchmark relevant to the current position of fund liabilities. 5) Fund manager targets set and based on market benchmarks or absolute return measures. Overall investment benchmark and out-performance target is fund specific. | 3                  | 30             | Oct-19      |                            |
| Funding    | 5         | 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             | Oct-19      |                            |
| Funding    | 6         | Impact of government policy on the employer workforce   | 3      | 2         | 1          | 6     | 3          | 18               | TREAT/TOLERATE- 1) The Fund actuary uses prudent assumptions on future of workforce. The fund has regular communications with employer to allow them to flag up major changes in workforce. 2) Need to make worst case assumptions about diminishing workforce when carrying out the actuarial valuation.   | 2                  | 12             | Oct-19      |                            |
| Funding    | 7         | HM Treasury and Scheme Advisory Board cost management process has a implied increase in employer contributions.   | 2      | 2         | 2          | 6     | 4          | 24               | TOLERATE / TREAT - 1) The Fund actuary stabilises employer contribution, which reduces the impact of conditions which could otherwise produce spikes in contribution rates<br>2) Communicate with employers and explore the opportunity for the strengthening of their covenant by the provision of additional security to the Fund.  | 2                  | 12             | Oct-19      |                            |
| Funding    | 8         | Additional costs as a result of the McCloud judgement.  | 3      | 3         | 1          | 7     | 4          | 28               | TOLERATE / TREAT - Depending on MHCLG's response to the ruling, the actuary may reconsider the funding position, the investment advisers may reposition assets to compensate and the Administration Team may need more resource but, ultimately, it is likely to have an impact on employer's contribution rates.   | 3                  | 21             | Oct-19      |                            |
| Investment | 9         | Increased risk to global financial stability. Outlook deteriorates in advanced economies because of heightened uncertainty and setbacks to growth and confidence. Leading to tightened financial conditions, reduced risk appetite and raised credit risks. | 4      | 3         | 3          | 10    | 4          | 40               | TREAT/TOLERATE- 1) Increased vigilance and continued dialogue with managers as to events on and over the horizon.<br>2) Continued investment strategy involving portfolio diversification and risk control. 3) Investment strategy review will accompany the 2019 actuarial valuation.  | 3                  | 30             | Oct-19      |                            |

| Risk Group | Risk Ref. | Risk Description  | Impact |           |            |       | Likelihood | Total risk score | Mitigation actions   | Revised Likelihood | Net risk score | Reviewed on | Changes made during review |
|------------|-----------|---|--------|-----------|------------|-------|------------|------------------|--|--------------------|----------------|-------------|----------------------------|
|            |           |   | Fund   | Employers | Reputation | Total |            |                  |  |                    |                |             |                            |
| Investment | 10        | 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 £4.3m.        | 4      | 4         | 4          | 12    | 3          | 36               | TREAT- 1) The Investment Management Agreements clearly state SCC's expectations in terms of performance targets. 2) Investment manager performance is reviewed on a quarterly basis. 3) The Pension Fund Committee should be positioned to move quickly if it is felt that targets will not be met. 4) Having- Border to Coast Pensions Partnership (BCPP) as an external manager facilitates a smooth transition of assets into the pool. 5) The Fund's investment management structure is highly diversified, which lessens the impact of manager risk compared with less diversified structures.  | 2                  | 24             | Oct-19      |                            |
| Investment | 11        | Investment markets fail to perform in line with expectations leading to deterioration in funding levels and increased contribution requirements from employers              | 4      | 3         | 3          | 10    | 3          | 30               | TOLERATE- 1) Proportion of asset allocation made up of equities, bonds, property and alternatives, 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 atleast 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 is a measure of CPI over gilts, which is regarded as achievable over the long term when compared with historical data.   | 2                  | 20             | Oct-19      |                            |
| Investment | 12        | Volatility caused by uncertainty with regard to the withdrawal of the UK from the European Union and its after effects  | 3      | 3         | 2          | 8     | 3          | 24               | TOLERATE- 1) Officers to consult and engage with advisors. 2) Future possibility of looking at move from UK to Global benchmarks on UK Equities and UK Property. 3) Possibility of further hedging of currency movements against Sterling.   | 2                  | 16             | Oct-19      |                            |
| Investment | 13        | Risk of loses through the transiton of assets to BCPP.  | 2      | 3         | 2          | 7     | 4          | 28               | TREAT/TOLERATE- 1) Independent Transition manager appointed by BCPP 2) Independent transition advice appointed by Partner funds . 3) Market fluctuations between original and new portfolio are impossible to predict.   | 3                  | 21             | Oct-19      |                            |
| Investment | 14        | Financial loss of cash investments from fraudulent activity   | 4      | 4         | 4          | 12    | 3          | 36               | TREAT and TOLERATE - 1) Policies and procedures are in place which are regularly reviewed to ensure risk of investment loss is minimised. Governance arrangements are in place in respect of the Pension Fund. External advisors assist in the development of the Investment Strategy. Fund Managers/BCPP have to provide SAS70 or similar (statement of internal controls).   | 2                  | 24             | Oct-19      |                            |
| Investment | 15        | 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 the scale and risk management opportunity offered by BCPP.   | 2                  | 22             | Oct-19      |                            |
| Investment | 16        | Insufficient attention to environmental, social and governance (ESG) factors leads to underperformance and reputational damage  | 1      | 1         | 3          | 5     | 4          | 20               | TREAT-1) Review ISS in relation to published best practice (e.g. Stewardship Code) 2) Ensure fund managers are encouraged to engage and to follow the requirements of the BCPP Responsible Investment Policy. 3) The Fund is a member of the Local Authority Pension Fund Forum (LAPFF) and all assets held with BCPP are monitored by Robeco, this raises awareness of ESG issues and facilitates engagement with fund managers. 4) The Fund has approved a Stewardship Code and a share voting policy which provides specific guidance in the voting of company resolutions. (5) The Fund complies with the BCPP Responsible Investment Policy   | 3                  | 15             | Oct-19      |                            |
| Investment | 17        | Impact of Climate Change risk on value of Fund's investments as a result of failing to adapt to a low carbon economy, in light of IPCC's Oct 2018 report on Climate Change. | 2      | 1         | 3          | 6     | 4          | 24               | TREAT-1) Ensure fund managers are encouraged to engage and to follow the requirements of the BCPP Responsible Investment Policy, more specifically its Climate Change Engagement Policy. 3) The Fund is a member of the Local Authority Pension Fund Forum (LAPFF) and all assets held within BCPP are monitored by Robeco, this facilitates engagement with companies who operate in carbon intensive industries. 3) The Fund is also part of the BCPP Climate Change Working Group; which aims to measure climate change risk to portfolio returns, scenario planning on how 1-2 degree increase can affect funding levels, understanding decision making in relation to engagement vs divestment, and how to collaborate to increase influence where possible. 4) Continued review of carbon exposure within current portfolio; holding c£350m in a Passive Low Carbon fund, as well as making regular investments into Infrastructure assets | 3                  | 18             | Oct-19      |                            |
| Investment | 18        | Counterparty risk within the SCC treasury management operation  | 2      | 2         | 2          | 6     | 2          | 12               | TOLERATE - 1) Lending limits with approved banks and other counterparties are set at prudent levels 2) The pension fund treasury management strategy is based on that of SCC.  | 1                  | 6              | Oct-19      |                            |
| Investment | 19        | 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/TREAT- 1) Borrowing limits with banks and other counterparties are set at levels that are more than adequate should cash be required at short notice. 2) Cashflow analysis of pension fund undertaken quarterly. 3) Comply with the Pension Fund Cash Management Strategy. 4) Annual Cash flow analysis on ongoing basis.   | 1                  | 4              | Oct-19      |                            |
| Governance | 20        | 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. 2) Ensure that basis of decision making is grounded in ISS/FSS/Governance statement/Responsible investment policy and that appropriate advice is sought.3) Ensure the Governance Matrix is made visible to all stakeholders in the pension fund enabling clear identification of roles and responsibilities.   | 2                  | 18             | Oct-19      |                            |

| Risk Group | Risk Ref. | Risk Description   | Impact |           |            |       | Likelihood | Total risk score | Mitigation actions  | Revised Likelihood | Net risk score | Reviewed on | Changes made during review |
|------------|-----------|--|--------|-----------|------------|-------|------------|------------------|---|--------------------|----------------|-------------|----------------------------|
|            |           |  | Fund   | Employers | Reputation | Total |            |                  |   |                    |                |             |                            |
| Governance | 21        | Implementation of proposed changes to the LGPS (pooling) does not conform to plan or cannot be achieved within time scales   | 1      | 2         | 4          | 7     | 3          | 21               | TREAT- 1) Officers consult and engage withMHCLG, LGPS Advisory Board, BCPP OOG, consultants, peers, seminars, conferences. 2) Officers engage in early planning for implementation against agreed deadlines. 3) Participation in Cross Pool Collaboration Groups. 3) Recent government guidance continues to endorse pooling.   | 2                  | 14             | Oct-19      |                            |
| Governance | 22        | Changes to LGPS regulations  | 3      | 2         | 1          | 6     | 3          | 18               | TREAT/TOLERATE-1) Impact on contributions and cashflows will considered during the 2019 valuation process. 2) Fund will respond to consultations and statutory guidance. 3) Impact of LGPS (Management of Funds) Regulations 2016 to be monitored.  | 2                  | 12             | Oct-19      |                            |
| Governance | 23        | Change in membership of Pension Fund Committee or Local Pension Board leads to dilution of member knowledge and understanding  | 4      | 2         | 1          | 7     | 4          | 28               | TREAT 1) Ongoing training of Pension Fund Committee and Local Pensions Board members . 2) Pension Fund Committee and Local Pensions Board new member induction programme.   | 2                  | 14             | Oct-19      |                            |
| Governance | 24        | That the Border to Coast Pensions Partnership disbands or the partnership fails to produce a proposal deemed sufficiently ambitious.   | 3      | 2         | 4          | 9     | 1          | 9                | TOLERATE-1) Partners for the pool were chosen based upon the perceived expertise and like-mindedness of the officers and members involved with the fund to ensure compliance with the pooling requirements. 2) Ensure that ongoing fund and pool proposals are comprehensive and meet government objectives. 3) Engage with advisors throughout the process.  | 1                  | 9              | Oct-19      |                            |
| Governance | 25        | Failure to comply with legislative requirements e.g. ISS, FSS, Governance Policy, Freedom of Information requests  | 4      | 1         | 4          | 9     | 2          | 18               | TREAT-1) Publication of relevant documents on external website. 2) Managers monitored with their compliance with ISS and IMA. 3)Pension fund committee and Local Pension Board self-assessment to ensure awareness of all relevant documents. 4) Annual audit review.   | 1                  | 9              | Oct-19      |                            |
| Governance | 26        | 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. 2) Officers to carry out annual measurement against TPR code of conduct.  | 1                  | 6              | Oct-19      |                            |
| Delivery   | 27        | Concentration of knowledge in small number of officers and risk of departure of key staff  | 2      | 3         | 2          | 7     | 3          | 21               | TREAT-1) 'How to' notes in place. 2) Development of team members & succession planning needs to be improved. 3) Officers and members of the Pension Fund Committee and Local Pension Board will be mindful of the proposed CIPFA Knowledge and Skills Framework and appropriate tPR Codes of Conduct when setting objectives and establishing training needs. 4) Skills Matrices completed by all staff and standardised Personal Development Plans being introduced. | 3                  | 21             | Oct-19      |                            |
| Delivery   | 28        | Failure to hold personal data securely   | 1      | 1         | 4          | 6     | 3          | 18               | TREAT- 1) Data encryption technology is in place, which allow secure the sending of data to external service providers. 2) Phasing out of holding records via paper files. 3) Pensions Admin records are locked daily in a secure safe. 4) SCC IT data security policy adhered to. 5) SCC carry's out Security Risk Assessments. 6) Pension Fund custodian proactively and reactively identify and respond to cyber threats.  | 2                  | 12             | Oct-19      |                            |
| Delivery   | 29        | Inaccurate information in public domain leads to damage to reputation and loss of confidence   | 1      | 1         | 4          | 6     | 3          | 18               | TREAT- 1) Ensure that all requests for information (Freedom of Information, Member & Public questions at Council, etc) are managed appropriately and that Part 2 items remain so. 2) Maintain constructive relationships with employing bodies to ensure that news is well managed. 3) Update website information as and when required and at least quarterly.  | 2                  | 12             | Oct-19      |                            |
| Delivery   | 30        | Financial failure of third party supplier results in service impairment and financial loss   | 2      | 2         | 2          | 6     | 3          | 18               | TOLERATE-1) Performance of third parties (other than fund managers) monitored. 2) Regular meetings and conversations with Northern Trust take place. 3) Actuarial and investment consultancies are provided by two different providers.   | 2                  | 12             | Oct-19      |                            |
| Delivery   | 31        | Procurement processes may be challenged if seen to be non-compliant with OJEU rules. Poor specifications lead to dispute. Unsuccessful fund managers may seek compensation following non compliant process | 1      | 1         | 4          | 6     | 3          | 18               | TREAT/TOLERATE - 1) Ensure that assessment criteria remains robust and that full feedback is given at all stages of the procurement process. 2) Use the National LGPS or other established procurement frameworks.  | 1                  | 6              | Oct-19      |                            |

| Risk Group | Risk Ref. | Risk Description   | Impact |           |            |       | Likelihood | Total risk score | Mitigation actions   | Revised Likelihood | Net risk score | Reviewed on | Changes made during review |
|------------|-----------|--|--------|-----------|------------|-------|------------|------------------|--|--------------------|----------------|-------------|----------------------------|
|            |           |  | Fund   | Employers | Reputation | Total |            |                  |  |                    |                |             |                            |
| Delivery   | 32        | Pension Services Manager leaving the Council may dilute the organisation's collective knowledge and impact on decision making. | 3      | 3         | 3          | 9     | 3          | 27               | TREAT/TOLERATE - 1) The interim Pensions Manager contract has been renewed until March 2020.   | 2                  | 18             | Oct-19      | Updated                    |
| Delivery   | 33        | Failure to deliver an accurate and effective pension administration service.   | 4      | 3         | 4          | 11    | 4          | 44               | TREAT - 1) Improve metrics to better measure performance and monitor the pension administration service. 2) The pension administration will present a comprehensive recovery plan to the members at next LPB meeting (April 2019). 3. Monthly meetings between fund and admin team to discuss projects and Business as usuals (BAU). | 3                  | 33             | Oct-19      | Updated                    |

Administration Risk Register 2019/20 Quarter 2

| Risk Ref. | Risk Description   | Risk Owner | Inherent Risk |         |       |       |        | Total risk score | Control actions   | Action by whom | Residual risk |         |       |       |                  | Reviewed on | Changes made during review |         |
|-----------|--|------------|---------------|---------|-------|-------|--------|------------------|---|----------------|---------------|---------|-------|-------|------------------|-------------|----------------------------|---------|
|           |  |            | Impact        |         |       |       | Likely |                  |   |                | Impact        |         |       |       | Total risk score |             |                            |         |
|           |  |            | Fin           | Service | Rep'n | Total |        |                  |   |                | Fin           | Service | Rep'n | Total |                  |             |                            | Likely  |
| A1        | Incorrect data due to employer error, user error or historic error leads to service disruption, inefficiency and conservative actuarial assumptions. | AM/NM      | 4             | 1       | 3     | 8     | 3      | 24               | TREAT<br>1) Update and enforce admin strategy to assure employer reporting compliance<br>2) Implementation and monitoring of a Data Improvement Plan as part of the Service Specification between the Fund and Orbis<br>TOLERATE<br>1) Northern Trust provides 3rd party validation of performance and valuation data.<br>2) Pension Fund team and Pension Committee members are able to interrogate data to ensure accuracy.   |                | 3             | 1       | 3     | 7     | 3                | 21          | Oct-19                     | Updated |
| A2        | Lack of process ownership leads to ineffective processes and errors.   | AM         | 2             | 3       | 3     | 8     | 3      | 24               | TREAT<br>1) Require transparent workflow reporting with clear identification of process ownership to be reported to the Local Pension Board.  |                | 2             | 2       | 2     | 6     | 2                | 12          | Oct-19                     |         |
| A3        | Failure to follow up on outstanding issues results in inefficiency and damaged reputation.   | AM         | 2             | 3       | 4     | 9     | 3      | 27               | TREAT<br>1) Include monitoring of task follow-up times as part of the revised service standards in the Administration Strategy  |                | 2             | 2       | 4     | 8     | 3                | 24          | Oct-19                     | Updated |
| A4        | Lack of capability of the admin system leads to inefficiency and disruption.   | AM         | 3             | 3       | 2     | 8     | 2      | 16               | TREAT/TOLERATE<br>1) Ensure system efficiency is included in the annual improvement review.<br>2) Monitor system review and provide extra resource where business case supports it.   |                | 2             | 2       | 1     | 5     | 2                | 10          | Oct-19                     |         |
| A5        | Poor reconciliation process leads to incorrect contributions.  | AM/NM      | 3             | 3       | 3     | 9     | 4      | 36               | TREAT<br>1) Ensure reconciliation process notes are understood by Pension Fund team<br>2) Ensure that the Pension Fund team is adequately resourced to manage the reconciliation process<br>3) Pensions admin team testing i-connect to ensure it is fit for purpose and if funding agreement reached it will be implement.<br>4) Officers to undertake quarterly reconciliation to ensure contributions are paid on time. With a view to moving to monthly reconciliation if I-connect is implemented. |                | 2             | 2       | 1     | 5     | 2                | 10          | Oct-19                     |         |
| A6        | Lack of guidance and process notes leads to inefficiency and errors.   | AM         | 3             | 3       | 3     | 9     | 3      | 27               | TREAT<br>1) Ensure process notes are compiled and circulated in Pension Fund and administration teams<br>2) Process Improvement Officer developing Standard Operating Procedures for all process.<br>3) Use of Heywood's Training and Education Centre allows for standardisation of training.  |                | 2             | 2       | 2     | 6     | 3                | 18          | Oct-19                     | Updated |
| A7        | Unstructured training leads to under developed workforce resulting in inefficiency.  | AM/NM      | 3             | 4       | 3     | 10    | 3      | 30               | TREAT<br>1) Implementation and monitoring of a Staff Training and Competency Plan as part of the Service Specification between the Fund and Orbis<br>2) Encourage and support formal training.  |                | 1             | 4       | 3     | 8     | 2                | 16          | Oct-19                     | Updated |

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| A8  | Conflicting priorities (Orbis, SCCvsSPF, Pensions pooling) leads to lack of overall strategy, confusion and missed opportunities.                   | AM/NM | 3 | 2 | 3 | 8  | 4 | 32 | TREAT/TOLERATE<br>1) Establish transparent lines of communication between Orbis partnership leads and local service areas<br>2) Ongoing monitoring from the Pension Fund Committee and Local Pension Board<br>3) Rigorous prioritisation of tasks  | 2 | 2 | 3 | 7 | 2 | 14 | Oct-19 |         |
| A9  | Non-compliance with regulation changes relating to the pension scheme or data protection leads to fines, penalties and damage to reputation.        | AM/NM | 3 | 3 | 4 | 10 | 3 | 30 | TREAT<br>1) The fund has generally good internal controls with regard to the management of the fund. These controls are assessed on an annual basis by internal and external audit as well as council officers.<br>2) Through strong governance arrangements and the active reporting of issues, the Fund will seek to report all breaches as soon as they occur in order to allow mitigating actions to take place to limit the impact of any breaches.<br>3) Ensure processes are completed in a timely manner and that post 2014 refunds are paid within 5 years. | 1 | 3 | 4 | 8 | 3 | 24 | Oct-19 | Updated |
| A10 | Gaps in skills and knowledge due to key person/single point of failure and different skill requirements leads to inefficiency and poor performance. | AM    | 3 | 3 | 3 | 9  | 3 | 27 | TREAT<br>1) 'How to' notes in place.<br>2) Development of team members & succession planning needs to be improved.<br>3) Officers and members of the Pension Fund Committee will be mindful of the proposed CIPFA Knowledge and Skills Framework when setting objectives and establishing training needs.<br>4) Skills Matrices completed by all staff and standardised Personal Development Plans being introduced.   | 2 | 3 | 2 | 7 | 3 | 21 | Oct-19 | Updated |
| A11 | Failure to get on top of the backlog leads to resource issues and management distractions.  | AM    | 4 | 3 | 4 | 11 | 4 | 44 | TREAT<br>1) Backlog to be identified as a "Project" as part of the Service Specification between the Fund and Orbis<br>2) Backlog to be included in revised Performance Statistics reported to and scrutinised by the Committee and Board<br>3) Consideration being given to outsourcing the largest areas of the backlog.<br>4) Upgrade software to improve efficiency  | 2 | 2 | 4 | 8 | 4 | 32 | Oct-19 | Updated |
| A12 | Failure to identify GMP liability leads to ongoing costs for the pension fund   | AM    | 3 | 3 | 3 | 9  | 4 | 36 | TREAT<br>1) GMP to be identified as a "Project" as part of the Service Specification between the Fund and Orbis<br>2) Stage 1 reconciliation reviews has been completed.<br>3) Aquila Heywoods have been appointed to carry out an interim stage 2 review<br>4) GMP Reconciliation project is being progressed by JLT. Seperate updates being issued.  | 3 | 3 | 2 | 8 | 4 | 32 | Oct-19 | Updated |
| A13 | Inability to respond to a significant event leads to prolonged service disruption and damage to reputation.   | AM/NM | 3 | 3 | 3 | 9  | 4 | 36 | TREAT/TOLERATE<br>1) Disaster recover plan in place as part of the Service Specification between the Fund and Orbis<br>2) Ensure system security and data security is in place<br>3) Business continuity plans regularly reviewed, communicated and tested<br>4) Internal control mechanisms should ensure safe custody and security of LGPS assets.<br>5) Gain assurance from the Fund's custodian, Northern Trust, regarding their cyber security compliance<br>6) Tolerate consequences of McCloud judgement.   | 3 | 3 | 3 | 9 | 1 | 9  | Oct-19 |         |

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|-----|---|-------|---|---|---|----|---|----|---|-------|---|---|---|---|---|----|--------|---------|
| A14 | Lack of productivity leads to impaired performance.   | AM    | 3 | 3 | 3 | 9  | 4 | 36 | TREAT<br>1) Regular appraisals with focused objectives for pension fund and admin staff<br>2) Productivity outputs are being measured and reported on a monthly basis.<br>3) Enhance performance management   |       | 2 | 2 | 2 | 6 | 4 | 24 | Oct-19 | Updated |
| A15 | Failure to continuously improve leads to inefficiency and missed opportunities.   | AM    | 2 | 2 | 2 | 6  | 3 | 18 | TREAT:<br>1) Annual customer feedback survey to be carried out.<br>2) Quarterly complaints/praise feedback to be reported to and scrutinised by the Committee and Board<br>3) Implementation and monitoring of an annual Continuous Improvement Plan as part of the Service Specification between the Fund and Orbis<br>4) Support and Development Team in place to identify and implement areas for improvement.   |       | 2 | 2 | 2 | 6 | 3 | 18 | Oct-19 | Updated |
| A16 | Rise in ill health retirements impact employer organisations  | NM    | 3 | 1 | 2 | 6  | 2 | 12 | TREAT<br>1) Implement self-insurance across employers within the fund<br>2) Reactive reposition investment strategy if necessary  |       | 3 | 1 | 2 | 6 | 2 | 12 | Oct-19 |         |
| A17 | Rise in inappropriate ill health retirements adversely affects self-insurance costs.  | AM/NM | 2 | 2 | 1 | 5  | 2 | 10 | TREAT<br>1) Pension Fund monitors ill health retirement awards which contradict IRMP recommendations  |       | 2 | 1 | 2 | 5 | 1 | 5  | Oct-19 |         |
| A18 | 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  | AM/NM | 3 | 4 | 2 | 9  | 3 | 27 | TREAT/TOLERATE<br>1) Administering Authority actively monitors prospective changes in membership.<br>2) Maintain knowledge of employer future plans.<br>3) Contributions rates and deficit recovery periods set to reflect the strength of the employer covenant.<br>4) Periodic reviews of the covenant strength of employers are undertaken and indemnity applied where appropriate.<br>5) Risk categorisation of employers implemented as part of 2016 actuarial valuation.<br>6) Monitoring of gilt yields for assessment of pensions deficit on a termination basis. | AM/NM | 3 | 4 | 2 | 9 | 2 | 18 | Oct-19 |         |
| A19 | The Pensions Payroll process had migrated onto the Altair system from SAP in Nov 17. Unlike the SAP payroll process the manual emergency payments made outside of the monthly payroll do not integrate with our banking processes or offer sound financial controls. This is due to these manual payments not being accounted for in the financial system when they occur and therefore payments made are not able to be checked. The risk of errors in the current process are increased by the core Altair payroll system not being integrated with the BACS generator application meaning items have to be recorded twice. | AM/NM | 3 | 2 | 3 | 8  | 3 | 24 | TREAT<br>1) Develop an automated process whereby the Altair payment log updated by the administration team, is then converted into a journal template on a daily basis. This is then processed onto SAP to ensure that all payments processed manually through Altair are accounted for and payments are then subject to the standard financial controls.   | AM/NM | 2 | 2 | 2 | 6 | 2 | 12 | Oct-19 |         |
| A20 | Pension Services Manager leaving the Council may dilute the organisation's collective knowledge and impact on decision making.  | AM    | 3 | 4 | 3 | 10 | 3 | 30 | TREAT/TOLERATE<br>The interim Pensions Manager contract has been renewed until March 2020.  | AM    | 3 | 3 | 3 | 9 | 2 | 18 | Oct-19 |         |

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|-----|--|----|---|---|---|---|---|----|--|----|---|---|---|---|---|----|--------|----------|
| A21 | McCloud Judgement - Impact on resources  | NM | 3 | 2 | 2 | 7 | 4 | 28 | TOLERATE/TREAT - The Pension Fund Team can allocate additional funds / resources to mitigate the impact and avoid reputational damage. | NM | 3 | 2 | 2 | 7 | 2 | 14 | Oct-19 |          |
| A22 | Moving out of County Hall could adversely affect team morale as majority of the staff are within a few miles of County Hall. A move to an office further away may result in employees finding jobs elsewhere to minimise the commute. Resulting in:<br>- Significant loss of skilled and experience staff. | AM | 2 | 3 | 3 | 8 | 4 | 32 | TOLERATE<br>Engage with staff early and to understand their concerns which should be fed into the consideration of new location.       | AM | 2 | 3 | 3 | 8 | 2 | 16 | Oct-19 | New risk |



## **Surrey Local Pension Board 24 October 2019**

### **Review of Internal Dispute Resolution cases in 2019/20 (Quarter 2)**

#### **Recommendation**

The Board is asked to note the content of this report.

#### **Detail:**

##### **Introduction**

1. Pursuant to the Local Government Pension Scheme (LGPS) Regulations 2013 (the Regulations) each scheme employer and administering authority must appoint an adjudicator to consider applications regarding the first instance decisions made by the scheme employer or where relevant the administering authority.
2. Under the Scheme of Delegation relating to section 106 agreements, the following officers are nominated to hear stage one and stage two Internal Dispute Resolution (IDRP) appeals:
  - The Acting Section 151 Officer.
  - The Director of Legal and Democratic Services.
  - The Director of People and Development.
  - The Head of Pensions (Pension Fund and Treasury).

#### **Summary of the appeals in 2019/20 (Quarter 2)**

##### **Stage 1 – not yet determined**

3. A claims company has complained on behalf of a former member about a transfer-out completed in 2013. This is well outside the normal appeals window; however, recent combative Pensions Ombudsman determinations make a finely balanced decision whether to (1) reject it as being out of time, (2) admit it and try to control the narrative or (3) admit it and accept that our due diligence could have been better.
4. A high earner opted-out of the pension fund for tax reasons and subsequently asked for their pension to be paid. The pension was put into payment; however, it soon emerged that they had not left the employment the pension related to, they were not

eligible to draw their pension and the overpayment should be recovered. It is a complicated case compounded by the fact that their employer is in termination - albeit that they have not yet terminated.

5. A member queried whether the calculation of their pensionable pay. The matter should be considered by the employing authority but, for some reason, the member has focused their appeal on the administering authority.
6. A member launched an appeal because they considered that the payment of their pension payments had been delayed.
7. There was confusion over a member's date of birth and estimate was produced on the basis that she was older than she in fact was. This led to her pension benefits being overstated (smaller actuarial increases for late payment) and raised questions about other calculations on her record.

#### **Stage 1 – determined**

8. A member who had suffered a serious illness appealed against the decision to award tier 2, as opposed to tier 1 ill-health retirement. The key issue was whether it was an acute or chronic issue and the adjudicator sent the case back to the employer for reconsideration.

#### **Stage 2 – determined**

9. The compensation awarded for an inaccurate estimate prior to retirement was increased from £1,000 to £1,500 at stage 2.
10. An appeal against a failure to award ill-health retirement was partially upheld insofar as the appellant was awarded £500 for inconvenience and distress.

#### **Pensions Ombudsman cases**

11. An informal determination was received from the Pension Ombudsman which, we believe, contains inaccuracies. However, as we anticipate expending more than the £500 we expect to save by contesting it, we will settle it informally but reserve the right to contest it if the other side insists on a formal determination.

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**Report contact:** John Smith, Senior Advisor (Investments, Finance and Governance)

**Contact details:** T: 020 8213 2700 E-mail: john.smith@surreycc.gov.uk

**Sources/background papers:** The LGPS Regulations 2013



## **Surrey Local Pension Board 24 October 2019**

### **Compliance with the Pensions Regulator's Code of Practice no. 14**

#### **Summary**

A paper was presented to Local Pension Board which outlined how Surrey County Council (SCC) Pension fund complies with the Pensions Regulator's (TPR) Code of Practice 14, which sets out of the requirements and expected standards for the governance associated with the administration of public sector pension schemes. It was requested by the Local Pension Board that items labelled as "Partially" complete should be reviewed and presented to Local Pension Board in six months' time.

#### **Recommendation**

The Board is asked to note this report.

#### **Background**

1. From 1st April 2015 TPR assumed responsibility for the governance and administration of all public sector pension schemes.
2. To assist schemes in understanding TPR's expectations they have issued a Code of Practice No. 14 (1) which provides guidance and sets out standards of conduct and practice expected from Authorities that manage public service pension schemes.
3. Compliance with the Pension Regulator's Code of Practice 14 gives assurance that the Fund has effective processes and practices in place associated with the administration of the Pension Fund.

#### **The Compliance Checklist**

4. The Compliance checklist in Annex 1 shows Surrey Pension Fund progress on 'Partially' complete sections of TPR code of practise no 14 and if further actions are required. As can be seen in most areas, the Fund is making good progress. However, there are a number of areas where the Fund is in the process of being able to demonstrate compliance.

5. The checklist relates to the administration of pension schemes and focusses on requirements and expected standards for public sector pension funds in:

- I. Governing the scheme
  - Knowledge and understanding
  - Conflicts of interests and representation
  - Publishing information about the scheme
- II. Managing risks
  - Internal controls
- III. Pensions administration
  - Scheme record keeping
  - Maintaining contributions
  - Providing information to members
- IV. Resolving issues
  - Internal Dispute Resolution
  - Reporting Breaches of Law

#### **Next Step**

6. The compliance checklist will be updated regularly and reported annually to the Board. The next report being produced for the 28 May 2020 meeting.

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**Report contact:** Ayaz Malik, Pensions Accountant Advisor (Investments, Funding & Governance)

**Contact details:** T: 020 8541 9705 E: [ayaz.malik@surreycc.gov.uk](mailto:ayaz.malik@surreycc.gov.uk)

#### **Annexes:**

Annex 1 – Compliance Checklist

| Ref  | Legal requirement   | TPR's guidance   | How Surrey Pension Fund complies with TPR guidance  | Compliant        | Update  |
|--|---|--|---|------------------|---|
| <p><b>Governing the scheme</b></p> <p>Knowledge and understanding required by Pension board members</p> <p>[34 – 60]</p> | <p>A member of the pension board of a public service pension scheme must be conversant with:</p> <ul style="list-style-type: none"> <li>• the rules of the scheme and</li> <li>• any document recording policy about the administration of the scheme which is for the time being adopted in relation to the scheme.</li> </ul> <p>A member of a pension board must have knowledge and understanding of:</p> <ul style="list-style-type: none"> <li>• the law relating to pensions, and</li> <li>• any other matters which are prescribed in regulations.</li> </ul> <p>The degree of knowledge and understanding required is that appropriate for the purposes of enabling the individual to properly exercise the functions of a member of the pension board.</p> | <p>1. Schemes should assist pension board members to determine the degree of knowledge and understanding needed. [48].</p> | <p>Pension fund committee and Local Pensions Board members will be required to carry out Self-Assessment Questionnaire on an annual basis to assess their overall level of 'Knowledge and Understanding'.</p> <p>Training on the identified areas will be provided as necessary, including induction and on an ongoing refresher basis.</p> <p>Also all new members are provided with key documents as per Training Policy.</p> <p>Ongoing Board members will be required to attend further training with Pensions Committee in addition to carrying out additional ad-hoc training as other needs arise.</p> | <p>Partially</p> | <p>The Self-Assessment Questionnaire will be provided in December to the Pension Fund Committee and Local Pension Board members to complete, which will form part of 2020 training plan based on the specific needs of the members.</p> |

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|   |  | 2. Pension board members completed the Pensions Regulator toolkit.  | Local Pension Board members must complete induction training within the first three months of their appointment.   | Partially | Encourage members to complete Pensions Regulator toolkit. |
| Conflicts of interest and representation<br>[61 – 91] | <p>In relation to the pension board, scheme regulations must include provision requiring the scheme manager to be satisfied:</p> <ul style="list-style-type: none"> <li>• that a person to be appointed as a member of the pension board does not have a conflict of interest: and</li> <li>• from time to time, that none of the members of the pension board has a conflict of interest.</li> </ul> <p>Scheme regulations must require each member or proposed member of a pension board to provide the scheme manager with such information as the scheme manager reasonably requires for the purposes of meeting the requirements referred to above.</p> <p>Scheme regulations must include provision requiring the pension board to include employer representatives and member representatives in equal numbers.</p> | 3. Membership of boards should be designed with regard to proportionality, fairness and transparency and with the aim of ensuring that the board has the right balance of skills, experience and representation [91]. | The board membership includes suitable representation on from employers and scheme members and includes an elected councillor to provide for fairness and proportionality. | Yes       |   |

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| <p>Publishing information about schemes</p> <p>[92 – 99]</p>      | <p>The scheme manager for a public service scheme must publish information about the pension board for the scheme(s) and keep that information up to-date.</p> <p>The information must include:</p> <ul style="list-style-type: none"> <li>• who the members of the pension board are</li> <li>• representation on the board of members of the scheme(s), and</li> <li>• the matters falling within the pension board’s responsibility.</li> </ul> | <p>4. Have policies and processes to monitor all published data on an ongoing basis to ensure it is accurate and complete [98].</p>                             | <p>Changes to the membership are reflected on the fund website.</p> <p>Information relating to the Pension fund committee and Local Pension Board is published on the council’s website.</p>      | <p>Yes</p>       | <p>The Pension Fund website is updated on monthly basis.</p>  |
| <p>Managing Risks</p> <p>Internal Controls</p> <p>[101 – 120]</p> | <p>The scheme manager of a public service pension scheme must establish and operate internal controls. These must be adequate for the purpose of securing that the scheme is administered and managed in accordance with the scheme rules and in accordance with the requirements of the law.</p>  | <p>5. Schemes should periodically review the adequacy of internal controls [115].</p>   | <p>The risk register is presented to the Local Pension Board on quarterly basis and a report is presented to the Pension Fund Committee to approve changes or additions in the risk register.</p> | <p>Yes</p>       | <p>The internal audit carried out their review and the report was presented to Board on 18 July 2019. Recommendations are agreed and are in process of being implemented.</p> |
| <p>Suggested internal controls</p>                                |  | <p>6. Internal controls that ensure that new employers understand what member data is required and how it should be supplied.</p> <p>Internal controls that</p> | <p>Internal controls are subject to regular to internal and external audit.</p> <p>New employers are provided with an admission agreement which sets out their obligation to the scheme.</p>      | <p>Partially</p> | <p>The fund is currently in process of reviewing the strength of employer's covenant.</p>   |

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|  |  | <p>require internal or external auditors to audit any automated systems.</p> <p>Internal controls to ensure that systems support the maintenance and retention of good member records.</p> <p>Internal controls that ensure that data are complete (e.g. undertake a data-cleansing or member tracing exercise and review this on a regular basis (at least annually or at regular intervals that they consider appropriate).</p> <p>Ensure that all staff completes information management training before they are given access to sensitive data.</p> <p>Ensure that member communications are reviewed Regularly.</p> <p>Schemes should put in place systems and processes for making an</p> | <p>Information is shared with employers through secure network.</p> |  |  |
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|  |   | objective assessment of the strength of an employer's covenant [112].   |  |     |   |
| <b>Administration</b><br><br>Scheme recordkeeping<br><br>[122 – 146] | <p>Scheme managers must keep records of information relating to:</p> <ul style="list-style-type: none"> <li>• member information</li> <li>• transactions, and;</li> <li>• pension board meetings and decisions</li> </ul> <p>Legal requirements for this are set out in the Public Service Pensions (Record Keeping and Miscellaneous Amendments) Regulations 2014.</p> <p>Schemes must ensure that processes that are created to manage scheme member data meet the requirements of the Data Protection Act 1998 and the data protection principles.</p> | 7. Schemes should be able to demonstrate to the regulator, where required, that they keep accurate, up-to-date and enduring records [124].                                      | Officers are currently working on the Administration strategy and communication plan to ensure data is accurate and up-to-date.                                      | Yes | <b>The Administration strategy and the Communication to be presented to the Local Pension Board in October and Pension Fund Committee in December for approval.</b> |
|  |   | 8. Schemes should require employers to provide them with timely and accurate data and ensure that appropriate procedures and timescales are in place to do this. [128 and 130]. | The fund is currently working on Administration Strategy & Communications Policy outlines the procedure and deadlines for employers' submission of data to the fund. | Yes | <b>Officers liaise with employers on regular basis for outstanding data.</b>  |

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|  |  | <p>9. Schemes should seek to ensure that employers understand the main events which require information to be passed to the scheme [129].</p>  | <p>At the beginning of the financial year all employers are provided with an updated contribution form, providing guidance and required timescales. The form allows employers to validate if they are paying the right contributions.</p>   |     |  |
|  |  | <p>10. Records should be retained for as long as they are needed [135].</p>  | <p>Most records are stored electronically. The fund is currently in process of scanning paper copies onto an electronic system.</p>   | Yes | <p>The fund officers upload scan paper copies onto the system.</p>   |
|  |  | <p>11. Schemes should monitor data (based on a proportionate and risk based approach) on an ongoing basis to ensure it is accurate and complete [136,137].</p> <p>12. Schemes should carry out a data review exercise at least annually. Schemes should continually review their data [138].</p> | <p>Pension fund is working with the Admin team to enhance the quality of data to ensure it is accurate and complete. However, checks are carried out to validate the data which include:</p> <ul style="list-style-type: none"> <li>• Triennial valuation exercise</li> <li>• Records amended on 3 yearly basis if any issues are identified by actuaries doing their data cleaning.</li> </ul> | Yes | <p>The Pension Administration Team routinely check the integrity of member records as part of BAU processing and raise queries for any potential errors.</p> <p>Annually the PAT load, validate and resolve queries relating to completeness and accuracy as part of</p> |

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|  |  |  |  |  | <p>Employer year end returns.</p> <p>Significant data cleanse work was carried out as part of the 31<sup>st</sup> March 2019 Valuation.</p> <p>tPR Common and Scheme Specific data quality reports are produced annually to monitor data quality and inform priority areas for improvement.</p> <p>October 2019 sees the start of an address tracing exercise for deferred members who have "gone away".</p> |
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|  |   | 13. Schemes should put in place a data improvement plan where poor quality or missing data is identified [141].  | Pension service is currently in process of arranging a meeting with members to discuss improvement plan. | Yes       | Pension service Improvement meetings have been held with the chairman and vice chairman of the Local Board.  |
|  |   | 14. Schemes should reconcile member records with information held by the employer [142].   | End of year return forms are sent to employers to complete to reconcile records.                         | Yes       | Significant effort is put into employer engagement and follow up in order to receive end of year information in a timely and accurate way.<br><br>It is the employer responsibility for prompt notification of membership changes to the Fund. |
| Maintaining contributions<br>[147 – 186] | Employer contributions must be paid to the scheme in accordance with any requirements in the scheme regulations. Where employer contributions are not paid on or before the date they are due under the scheme and the scheme manager has reasonable cause to believe that the failure is | 15. Such procedures are likely to involve:<br>a) Developing a record to monitor the payment of contributions.<br>b) Monitoring the payment of contributions.<br>c) Managing overdue contributions. | The contribution spreadsheet automatically flags if employer paying the right contribution.              | Partially | The fund officers carry out reconciliation on quarterly basis, with the aim of monthly reconciliation.   |

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|  | <p>likely to be of material significance to the regulator in the exercise of any of its functions, the scheme manager must give a written report of the matter to the regulator as soon as reasonably practicable.</p> <p>Where employee contributions are not paid within the prescribed period, if the scheme manager has reasonable cause to believe that the failure is likely to be of material significance to the regulator in the exercise of any of its functions, they must give notice of the failure to the regulator and the member within a reasonable period after the end of the prescribed period. Where there is a failure to pay employee contributions on an earlier date in accordance with scheme regulations, schemes should also consider their statutory duty under section 70 of the Pensions Act 2004 to assess and if necessary report breaches of the law.</p> | d) Reporting payment failures which are likely to be of material significance to the regulator [152].                                    |   |     |   |
| <p><b>Administration</b></p> <p>Providing information to members</p> | <p>The law requires schemes to disclose information about benefits and scheme administration to scheme members and others. The Code summarises the legal requirements</p>   | 16. Managers of a scheme must ensure that scheme managers and others are given information in accordance with the Disclosure Regulations | The Fund aims to provide an annual benefit statement to active and deferred members by 31 August each year. | Yes | <p>Ensure all Annual Benefit Statements are provided on time.</p> <p><b>ABS to active and</b></p> |

|                    |  |  |   |                  |   |
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| <p>[187 – 211]</p> | <p>around:</p> <p>(1) Benefit statements, provided annually for active members [188 – 195]<br/> (2) Other information about scheme administration [196 – 197].<br/> (3) Who is entitled to information [198 – 199]<br/> (4) When basic scheme information must be provided [200 – 201]<br/> (5) What information must be disclosed on request [202]<br/> (6) How benefit statements and other information must be provided [203 – 206]</p> <p>Scheme should also comply as appropriate with other legal disclosure requirements [211].</p> | <p>2013, unless they are an ‘excluded person’. [198]</p>   |   |                  | <p>deferred members generated and distributed on the basis agreed with Fund Officers.</p>   |
|                    |  | <p>17. Schemes should attempt to make contact with their scheme members and, where contact is not possible, schemes should carry out a tracing exercise to locate the member and ensure that their member data are up-to-date [208].</p> | <p>The Fund is scheduled to commission its next tracing exercise to locate missing deferred scheme members.</p> | <p>Partially</p> | <p>Pension Service to commission tracing agency.</p> <p>Tracing agency ITM appointed to perform an initial system search of addresses for deferred members who have “gone</p> |

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|  |  |  |  |  | away".<br>Ongoing, it is<br>standard practice<br>to perform tracing<br>on deferred<br>members with out<br>of date addresses<br>who are<br>approaching<br>retirement age. |
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## Surrey Local Pension Board 24 October 2019

### Draft Administration Strategy

#### Recommendations:

The Board is asked to **note** the Draft Administration Strategy, which replaces the existing strategy.

#### Detail:

1. Regulation 59 of the LGPS Regulations allows an administering authority to prepare a pension administration strategy to provide the following:
  - procedures for liaison and communication with Scheme employers in relation to which it is the administering authority ("its Scheme employers");
  - the establishment of levels of performance which the administering authority and its Scheme employers are expected to achieve in carrying out their Scheme functions by:
    - the setting of performance targets;
    - the making of agreements about levels of performance and associated matters, or;
    - such other means as the administering authority considers appropriate.
  - procedures which aim to secure that the administering authority and its Scheme employers comply with statutory requirements in respect of those functions and with any agreement about levels of performance;
  - procedures for improving the communication by the administering authority and its Scheme employers to each other of information relating to those functions;
  - the circumstances in which the administering authority may consider giving written notice to any of its Scheme employers under Regulation 70 (additional costs arising from Scheme employer's level of performance) on account of that employer's unsatisfactory performance in carrying out its Scheme functions when measured against levels of performance.
2. The Surrey Pension Fund's existing Administration Strategy was approved by the Pension Committee on 15 September 2017.

3. The existing strategy was designed to reflect the composition of the Fund in 2017. This has changed significantly since 2017 and there are now almost 300 employers, with a host of complex new reporting requirements and regulatory obligations.
4. There are four key reasons why a revised administration strategy is necessary:

- i) With the evolution of the LGPS in to a career average revalued earnings (CARE) arrangement, it is critical that data is provided to the Pension Fund in an accurate form and a timely fashion.

*The revised administration strategy is required to clearly lay out the reporting requirements of scheme employers and penalties for failing to meet these reporting requirements.*

- ii) The proliferation of employers in the Fund has created additional demands on resource within the Fund team, without the corresponding increase in administration allowance chargeable to scheme employers.

*The revised administration strategy will enable the Fund to explicitly lay out the functions that are included in the administration allowance and that which are separately chargeable; whether this be actuarial, legal or Fund team costs.*

- iii) To enable the Fund to continue to provide an excellent service to its members and employers, it should seek to review its performance standards.

*The revised administration strategy will enable the Fund to review its existing service standards in consultation with employers and members to ensure that the service delivery appropriately meets customer needs.*

- iv) In April 2015, regulatory responsibility for the LGPS passed to the Pensions Regulator (tPR). The Regulator has issued a code of conduct for public service pension schemes, with strict enforcement of non-compliance.

*The revised administration strategy enables the Fund to demonstrate its compliance with the code of practise and notify of scheme employers of their responsibilities.*

5. The revised administration is broken in to the following sections:

- Regulatory context of the strategy
- Aims of the strategy
- Administration service standards of the Surrey Pension Fund
- Requirement for scheme employers
- Outline of additional administration charges
- Additional fees that may be charged by the Orbis Pension Administration Team
- Additional penalties for poor performance by employers
- Penalties for poor performance by the Orbis Pensions Administration Team
- The consultation and review process

#### **Next steps**

6. The draft administration strategy will be taken to the Pension Fund Committee for its approval at its meeting of December 2019.

7. A period of formal consultation with scheme employers and other interested parties will start from 16 December 2019 and will run until 31 January 2020.
8. The final administration strategy will be taken to the Pension Fund Committee for its approval at its meeting of 12 March 2020.

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**Report contact:** John Smith (Senior Advisor) / Ayaz Malik (Advisor/Accountant)

**Contact details:** T: 020 8213 2700 E: john.smith@surreycc.gov.uk / T. 020 8541 9705 E: ayaz.malik@surreycc.gov.uk

**Annexes:**

Annex 1 – Draft Administration Strategy

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## **Pension administration strategy of the Surrey Pension Fund**

### **Introduction**

The Local Government Pension Scheme (LGPS) is one of the largest public sector pension schemes in the UK. The Surrey Pension Fund (SPF) is part of the LGPS and is the Administering Authority for almost 300 employers in the scheme.

The LGPS is a valuable element of the total remuneration package of employees working with employers in the scheme. Good quality administration and communication of the overall benefits of the LGPS aids in the confidence of membership towards the scheme and in their value of this employee benefit.

The LGPS Regulations 2013 enables the Administering Authority to prepare a written Pension Administration Strategy (the Strategy) of its policy in relation to communications between and levels of performance for both the SPF and employers within the scheme.

This Strategy replaces the current Pension Administration Strategy with effect from [ ] and applies to all existing employers in the Fund, and all new employers joining the Fund after the effective date of [ ].

The Strategy sets out the expected levels of administration performance of both the SPF and the employers within the Fund, as well as details on how performance levels will be monitored and the action that might be taken where persistent failure occurs.

The Strategy is broken in to nine sections:

1. Regulatory context of the Strategy
2. Aims of the Strategy
3. Service standards of the SPF
4. Requirements for scheme employers
5. Outline of additional administration charges
6. Additional fees that may be charged by the Orbis Pension Administration Team (Orbis)
7. Additional penalties for poor performance by employers
8. Penalties for poor performance by Orbis
9. Consultation and review

Surrey County Council has delegated responsibility for the management of the SPF to the SPF Committee (Committee), taking into consideration advice from the Surrey Local Pensions Board (Board). The Committee and Board will monitor the implementation of this Strategy. Any enquiries in relation to this Strategy should be addressed to:

John Smith (Pensions Governance and Employer Manager)  
Surrey Pension Fund  
Room G59  
County Hall  
Penrhyn Road  
Kingston upon Thames  
KT1 2DN  
Tel: 020 8213 2700  
Email: [john.smith@surreycc.gov.uk](mailto:john.smith@surreycc.gov.uk)

## **1. The Regulatory Context of the Strategy**

In accordance with the Public Sector Pensions Act 2015, the LGPS is regulated by the Pensions Regulator (tPR). The SPF and scheme employers and employers are also required to comply with regulatory guidance or Code of Practice issued by tPR.

The Local Government Pension Scheme Regulations 2013 (**Regulation 59 (1)**) enables a LGPS Administering Authority to prepare a written statement of the Administering Authority's policies in relation to such matters mentioned in **Regulation 59 (2)** that it considers appropriate. This written statement shall be known as the "Pension Administration Strategy" and shall include the following:

- Procedures for liaison and communications between the Administering Authority and Scheme Employers ("its Scheme Employers);
- The establishment of levels of performance which the Administering Authority and its Scheme Employers are expected to achieve in carrying out their Scheme functions ("Service Level Agreements (SLA)"). These functions are:
  - (i) the setting of performance targets,
  - (ii) the making of agreements about levels of performance and associated matters, or
  - (iii) such other means as the administering authority considers appropriate
- Procedures which aim to secure that the Administering Authority and its Scheme Employers comply with statutory requirements in respect of those functions and with any agreement about levels of performance;
- Procedures for improving the communications by the Administering Authority and its Scheme Employers to each other of information relating to those functions;

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- The circumstances in which the Administering Authority may consider giving written notice to any of its Scheme Employers under these regulations (additional costs arising from the Scheme Employer's level of performance) on account of that employer's unsatisfactory performance in carrying out its Scheme functions when measured against levels of performance established under the SLA;
- The publication by the Administering Authority of annual reports dealing with:
  - (i) the extent to which the Administering Authority and its Scheme Employers have achieved the level of performance established under the SLA;
  - (ii) such other matters arising from The Pension Administration Strategy as the Administering Authority considers appropriate.
- Such other matters as appear to the Administering Authority after consulting its Scheme Employers and such other persons as it considers appropriate, to be suitable for inclusion in The Pension Administration Strategy.

In addition **Regulations 59 (3 -7)** requires that:

- Where the Administering Authority produces a Pension Administration Strategy, it is kept under review and revised where appropriate;
- When reviewing or revising the Pension Administration Strategy the Administering Authority must consult with its Scheme Employers and such other persons it considers appropriate;
- Where the Administering Authority produces a Pension Administration Strategy or revises that strategy it must send a copy of it to each Scheme Employer and to the Secretary of State;

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- The Administering Authority and Scheme employers must have regard to the Pension Administration Strategy when carrying out functions under the LGPS regulations.
- **Regulation 60** requires each employing authority to publish its discretion on;
  - funding additional pension [16(2)(e) and 16(4)9d),
  - flexible retirement [30(6)],
  - waiving actuarial reductions [30(8)],
  - the award of additional pension [31] and, in addition,
- **Regulation 14 of the Local Government (Discretionary Payments)(Injury Allowances) Regulations 2011** requires employers to publish and keep under review its policy on these regulations.
- There are also a number of discretionary discretions under the current regulations and some mandatory discretions under previous sets of regulations.
- The Pension Fund Team can provide template discretion policies upon request.

**Regulation 70** of the Local Government Pension Scheme Regulations 2013 enables the Administering Authority to recover additional costs from a Scheme Employer when, in the opinion of the Administering Authority, it has incurred additional costs because of the poor performance of the Scheme Employer in relation to the Pension Administration Strategy SLA.

The Administering Authority may give written notice to the Scheme Employer stating:

- the Administering Authority's reasons for forming the opinion;
- the amount the Administering Authority has determined the Scheme Employer should pay under **Regulation 69 (1) (d)** in respect of those costs and the basis on which the specified amount is calculated;
- the provisions of the Pension Administration Strategy which are relevant to the decision to give the notice.

## **2. Aims of the strategy**

The aims of the Strategy are to:

- set out the quality and performance standards expected of the Fund and scheme employers;
- to promote good working relationships and improve efficiency between the SPF and scheme employers;
- ensure scheme employers are aware of and understand their roles and responsibilities under the LGPS regulations;
- ensure the correct benefits are paid to, and the correct income collected from, the correct people at the correct time;
- maintain accurate records and ensure data is protected and has authorised use only;
- ensure that the administration costs attributable to scheme employers are charged proportionately .

The efficient delivery of the benefits of the scheme is reliant upon effective administrative procedures being in place between the SPF and scheme employers.

This Strategy sets out the expected levels of performance of the SPF and scheme employers and the action(s) that might be taken where standards are not met by employers and/or when non-compliance occurs. It also provides scheme employers with an outline of administration charges they may occur in addition to the administration allowance contained in the employer contribution rate.

### 3. Service standards of the SPF

Overriding legislation, including The Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 (as amended), dictates minimum standards that pension schemes should meet in providing certain pieces of information to the various parties associated with the scheme. Further, the LGPS itself sets out a number of requirements for the Administering Authority or employers to provide information to each other, to scheme members and to prospective scheme members, dependants, other pension arrangements or other regulatory bodies. In addition to the legal requirements, SPF has performance standards which cover all aspects of the administration of the SPF.

The SPF service standards are reviewed by the Pensions Fund Committee, Local Pensions Board and are available for consideration by tPR. Regular reporting is undertaken, and performance is also shown in the SPF annual report and accounts. The following sets out the SPF key performance indicators.

| Activity                                 | Description  | Service standards | Limits |
|--|--|-------------------|--------|
| <b>New starter</b>                       | When Orbis receives electronic/paper notification of the new starter. They will verify the information, set up a new record and send confirmation to the new member. | 30 working days   | No     |
| <b>Inter fund adjustment in estimate</b> | Check previous service recorded on starter form and write to previous provider(s) if a transfer has been requested   | 20 working days   | No     |

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| Activity                                       | Description   | Service standards | Limits   |
|--|---|-------------------|--|
| <b>Inter fund adjustment in actual</b>         | Check correct payment has been received, update database and issue statutory notice.            | 20 working days   | No   |
| <b>Transfer in estimate</b>                    | Check previous service details and offer member the option to transfer and advise of timescales | 20 working days   | No   |
| <b>Transfer in actual</b>                      | Check correct payment has been received, update database and issue statutory notice             | 20 working days   | No   |
| <b>Additional Pension Contributions Actual</b> | Update database and inform payroll of the additional pension contribution deduction to be made  | 20 working days   | No   |
| <b>Additional Voluntary Contributions</b>      | Provide information on the Fund's AVC schemes   | 10 working days   | No   |
| <b>Nomination Forms</b>                        | Update database and send acknowledgement  | 20 working days   | No   |
| <b>Member correspondence</b>                   | Reply to member query   | 20 working days   | No   |
| <b>Employer correspondence</b>                 | Reply to employer query   | 20 working days   | No   |
| <b>Employee Estimates</b>                      | Estimate of deferred benefits and/or voluntary retirement for age 60 and over                   | 30 working days   | One estimate per member per annum (consider increasing – this is the bare minimum) |

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| Activity                                  | Description   | Service standards | Limits   |
|---|---|-------------------|--|
| <b>Employer estimate</b>                  | Provide employer with estimate as requested <sup>1</sup>  | 10 working days   | More than five estimates per employer will require additional time, to be agreed with the SPF. |
| <b>Refunds (Frozen Refunds)</b>           | Calculate refund due and issue payment  | 20 working days   | No   |
| <b>Opt outs</b>                           | Provide a memo to payroll to cease contributions and inform the member accordingly              | 20 working days   | No   |
| <b>Deferred</b>                           | Calculate final pay for surrey members, deferred benefits and issue confirmation to all members | 2 months          | No   |
| <b>Inter Fund Adjustment Out Estimate</b> | Provide service and pay details to new employer   | 20 working days   | No   |
| <b>Inter Fund Adjustment Out Actual</b>   | Issue payment   | 20 working days   | No   |
| <b>Provide estimate of transfer value</b> | Provide transfer details  | 40 working days   | 1 per member per year (consider increasing – this is the bare minimum)                         |

<sup>1</sup> Scheme employers are encouraged to utilise the on-line self-service estimate portal. This will provide instant estimate results.

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| Activity  | Description  | Service standards | Limits |
|---|--|-------------------|--------|
| <b>Make payment of transfer value</b>                                       | Issue payment  | 20 working days   | No     |
| <b>Death in service</b>   | Send condolence letter, request certificate and enclosed any claim forms   | 5 working days    | No     |
| <b>Death in service final letter</b>  | Provide details of deceased salary for Surrey members, monies due to/from the estate, calculation of any spouse's and dependants benefits, send letter and make payment of any death grant | 10 working days   | No     |
| <b>Death of deferred member initial</b>                                     | Send condolence letter, request certificates and enclosed any claim forms  | 5 working days    | No     |
| <b>Death of deferred member final</b>                                       | Provide details of any benefits due and make payment of death grant  | 10 working days   | No     |
| <b>Deferred in to payment</b>   | Send initial letter and forms to member  | 10 working days   | No     |
| <b>Retirement</b>   | Calculate final pay for Surrey members, retirement benefits and send initial letter and forms to all members   | 15 working days   | No     |
| <b>Payment of retirement grant and initiate pension.</b>                    | Issue payment of retirement grant and initiate payroll record  | 15 working days   | No     |
| <b>Revised Payments including Guaranteed Minimum Pensions/Modifications</b> | Inform the member of any adjustments to the pension in payment and update payroll entry  | 20 working days   | No     |

## Annex 1

| Activity   | Description   | Service standards  | Limits   |
|--|---|--|--|
| <b>Death on pension</b>                              | Terminate payment, send condolence letter, request certificate and enclosed any claim forms           | 5 working days   | No   |
| <b>Death on pension final letter</b>                 | Provide details of deceased's pension, monies due to/from the estate and spouse's/dependants benefits | 10 working days  | No   |
| <b>Complaints</b>                                    |   | All complaints to be dealt with in line with the additional criteria | No   |
| <b>Employer forums seminars</b>                      | Employer forum hosted by the SPF  | Annually   | Yes – limited to one per year. Further seminars will be chargeable.  |
| <b>Requests for legislative or regulatory advice</b> | Employer email bulletins where appropriate  | TBC  | Advice outside of regular bulletins will be chargeable at the prevailing SPF officer rates. (Surely Orbis should provide basic advice and even |

## Annex 1

| Activity   | Description  | Service standards                        | Limits  |
|--|--|--|---|
|  |  |  | relatively complex advice as standard. Otherwise, employers will simply go to the LGA instead). |
| <b>Follow-up to all member queries not answered within SLA</b> | Email / letter to update member  | 10 working days                          |   |
| <b>Pension payments</b>  | Monthly payment of regular pensions.   | Paid on the final Thursday of each month |   |
| <b>Annual benefit statements</b>                               | Provision of an annual benefit statement for all active and deferred pension members                                   | By 31 August following the end of year   |   |
| <b>Pension Saving Statements</b>                               | Provision of an pension saving statement for active and deferred pension members who exceed the Annual Allowance limit | By 6 October each year                   |   |

## Annex 1

### 4. Requirements for scheme employers

Overriding legislation dictates minimum standards that pension schemes should meet in providing certain pieces of information to the various parties associated with the LGPS. In addition, regulatory guidance sets out a number of requirements for the SPF and scheme employers to provide information.

Under this Strategy scheme employers will be responsible for the following activities in the manner and timescale set out below and the potential consequence of failing to meet these service standards.

| Activity                                | Timescale  | Potential consequence of breach  |
|---|--|--|
| <b>Dedicated employer contact</b>       | The Scheme Employer should notify the SPF of a dedicated pension liaison contact within 1 month of the adoption of the Pension Administration Strategy.  | The SPF will regularly check that contacts are up to date. The failure to appoint a dedicated employer contact will make failure of performance SLAs more likely.                                |
| <b>Discretions policy</b>               | The Scheme Employer should provide the SPF with a copy of their Discretions Policy by 1 <sup>st</sup> July 2014, or within 1 month of the date of the Scheme Employer's entry in the SPF.                              | The provision of a discretions policy is a legal requirement. The SPF will chase receipt of this policy and charge at the prevailing SPF officer rates.  |
| <b>Payment of monthly contributions</b> | Correct payments should be made to the SPF by the 19 <sup>th</sup> (21 <sup>st</sup> for electronic payments) of the month following deductions of pension contributions by the scheme employer (monthly payroll run). | Late payments will incur a charge of £50 plus interest per day. Interest on late payments becomes due with effect from 1 month following the required payment date. Interest is calculated at 1% |

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| Activity   | Timescale  | Potential consequence of breach   |
|--|--|---|
|  |  | above the Bank of England base rate on a daily basis.   |
| <b>Payment of capital sums(*<br/>include footnote)</b> | Correct capital sums should be made to the SPF within 30 days of being invoiced. These may relate to pension strain costs or fees for work in relation to the charges due to the SPF.                | Late payments will incur a charge of £50 plus interest per day. Interest on late payments becomes due with effect from 1 month following the required payment date. Interest is calculated at 1% above the Bank of England base rate on a daily basis.  |
| <b>Monthly contribution schedule</b>                   | A monthly contribution schedule should be sent to the SPF before or at the same time as the monthly contribution. The schedule should be sent electronically and in the format requested by the SPF. | The provision of a monthly contribution schedule is essential to the correct calculation of member benefits. The SPF will chase receipt of the monthly contribution schedule and charge at the prevailing SPF officer rates.  |
| <b>End of year processing</b>                          | An end of year data return should be sent to the SPF within 30 days of the end of the scheme year (31 March). The schedule should be in the format requested by the SPF and be 100% accurate.        | The provision of an annual statement is essential to the correct calculation of member benefits. The SPF will chase receipt of the end of year returns. Any additional administration work incurred by the SPF as a result of late or inaccurate submissions will be charged at the prevailing SPF officer rates. |
| <b>Correct admission of members in to the SPF</b>      | The Scheme Employer must ensure that members are correctly admitted to the SPF.  | In cases where an employer has incorrectly admitted an employee into the SPF where they were not eligible to be in this Fund, the SPF will correct this error. Any additional administration  |

## Annex 1

| Activity  | Timescale   | Potential consequence of breach  |
|---|---|--|
|   |   | work incurred by the SPF will be charged at the prevailing SPF officer rates.  |
| <b>Notification of new starters</b>   | The Scheme Employer should notify the SPF of a new starter within 30 days of their joining the pension scheme.  | The provision of new starter information is essential to the correct calculation of member benefits. Any additional administration work incurred by the SPF will be charged at the prevailing SPF officer rates.       |
| <b>Notification of leavers</b>  | The scheme Employer should notify the SPF of a new leaver within 30 days of their leaving the pension scheme.   | The provision of leaver information is essential to the correct calculation of member benefits. Any additional administration work incurred by the SPF will be charged at the prevailing SPF officer rates.            |
| <b>Notification of retirements</b>  | The Scheme Employer should notify the SPF of a retirement initially in advance of the retirement date and provide final confirmation within 10 days of their last day of service. | The provision of retirement information is essential to the correct calculation of member benefits. Any additional administration work incurred by the SPF will be charged at the prevailing SPF officer rates.        |
| <b>Notification of relevant changes</b>                                       | The Scheme Employer should notify SPF of any relevant changes within 30 days of the change.   | The provision of employment change information is essential to the correct calculation of member benefits. Any additional administration work incurred by the SPF will be charged at the prevailing SPF officer rates. |
| <b>Appoint an Independent Registered Medical Practitioner (IRMP) in order</b> | The Scheme Employer should appoint an IRMP. The appointment must be approved with the SPF.  | The nomination of an IRMP is a legal requirement.  |

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| Activity   | Timescale   | Potential consequence of breach   |
|--|---|---|
| <b>to consider all ill-health retirement applications</b>  |   |   |
| <b>Appoint a “nominated adjudicator” as part of the stage 1 internal dispute resolution procedure (IDRP)(add footnote re AA offer)</b> | The scheme Employer should appoint a “nominated adjudicator” as part of the stage 1 IDRP within 1 month of the date of the Scheme employer’s entry in the SPF. Or within 1 month of the resignation of an existing “nominated adjudicator”. | The nomination of a “nominated adjudicator” as part of the stage 1 IDRP is a legal requirement.                             |
| <b>Comply with auto-enrolment legislation as required by the Pensions Regulator</b>  | From the Scheme Employer’s auto-enrolment staging date.   | Compliance with auto-enrolment legislation is a legal requirement, with non-compliance punishable by the Pensions Regulator |

## 5. Outline of additional administration charges

The following scheme functions are outside of the work covered by the administration allowance as part of the employer contribution rate (this can often be because the charges relate to employers who are yet to be admitted to the SPF). These fees will be payable by scheme employers and are generally related to actuarial, legal or administration costs.

| Activity                       | Description  | Indicative charge                                    | Comments  |
|--------------------------------|--|--|---|
| <b>New employer processing</b> | Assessment of contribution rate of the new scheme employer | According to the prevailing rates of the SPF actuary | Costs will increase if there are delays in providing data or date |

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|   |   |   |
|---|---|---|
| Assessment of the bond value of the new scheme employer (if applicable) | According to the prevailing rates of the SPF actuary            | requires recalculation<br>Costs will increase if there are delays in providing data or date requires recalculation  |
| Assessment of the cost attributable to pension risk (if applicable)     | According to the prevailing rates of the SPF actuary            | Costs will increase if multiple calculations are required   |
| Drafting and executing of admission agreements (if applicable)          | According the prevailing rates of the SPF legal advisers        | Costs will increase according to the complexity of the negotiated drafting of the admissions agreement  |
| Admission administration costs  | Charged at the prevailing SPF officer rates (estimated £1,000). | Costs will increase according to the complexity of the negotiated admission to the SPF. Costs will incurred irrespective of whether or not the applying Scheme Employer abandons the application. |

## Annex 1

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|---|--|--|
| <b>Re-assessment of the bond value of the new scheme employer</b> | The SPF will re-assess bond values in line with the conditions laid out in the admissions agreement. | According to the prevailing rates of the SPF actuary |
|---|--|--|

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## Annex 1

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|---|--|---|
| <b>Reports for scheme employer FRS102/IAS19 returns</b> | The SPF will complete a pension data report required for scheme employer FRS102/IAS19 accounting returns.  | Administration charge of between £200 and £400 plus VAT.<br><br>Any further charge would be in accordance with the prevailing rates of the Fund actuary   |
| <b>General actuarial queries</b>                        | Additional actuarial queries in relation to the scheme employer  | According to the prevailing rates of the SPF actuary  |
| <b>General legal queries</b>                            | Additional legal queries in relation to the scheme employer  | According to the prevailing rates of the SPF legal advisers   |
| <b>Pension strain costs</b>                             | A pension strain cost may be incurred by the scheme employer where a member retires early on the grounds of redundancy or business efficiency or where an active member or deferred member chooses to retire early and the scheme employer elects to waive the actuarial reduction to their pension. | The SPF will calculate the strain cost. Payment will be due as a lump-sum payment within 30 days of being invoiced in line with the PAS Service Level Agreement. Costs are based on age, gender, service and pay of the member. |

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|  |  |                                       |
|--|--|---------------------------------------|
| <b>Valuation of unfunded liabilities</b> | Calculation and invoicing of unfunded liabilities relating to additional pension benefits awarded to employees which do not form part of their entitlement under the LGPS Regulations. | Annual administration charge of £250. |
|--|--|---------------------------------------|

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## Annex 1

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|---|---|---|
| <p><b>Costs of awarding additional pension</b></p>  | <p>The scheme employer may elect to award additional pension to a member. This will incur a charge.</p> | <p>The SPF will calculate the cost. Payment will be due as a lump-sum payment within 30 days of being invoiced in line with the PAS Service Level Agreement.</p>  |
| <p><b>Cessation costs</b></p> <p><i>These costs are in addition to any cessation deficit payment required in accordance with the Funding Strategy Statement</i></p> | <p>The Scheme Employer will incur a cost if they cease membership of the SPF.</p>                       | <p>Charged at the prevailing SPF actuary's rates ( approximately £3,000 plus VAT )</p> <p>Further charge is according to the prevailing rates of the Fund actuary</p> <p>The SPF approach to Scheme Employer cessation is laid out in the Funding Strategy Statement.</p> |

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|  |  |   |   |
|--|--|---|---|
| <p><b>Provision of stage 1 Internal Dispute Resolution Procedure (IDRP) adjudication</b></p> | <p>The Scheme Employer will incur an administration fee if they nominate the SPF as their stage 1 IDRP adjudicator.</p>                            | <p>Charged at the prevailing SPF officer rates (not exceeding £500.00 except in the most complicated cases).</p>  | <p>Costs will increase according to the complexity of the case.</p> |
| <p><b>Establishment of security for the Fund</b></p>   | <p>The Scheme Employer will incur a cost of establishing a form of security required by the Fund; e.g. a legal charge, Bond or Escrow account.</p> | <p>Administration charge of £500.<br/>Further charge in according to the prevailing rates of the SPF actuary and legal advisers.</p>  |   |
| <p><b>Covenant assessment</b></p>  | <p>The Scheme Employer will incur a cost of the Fund carrying out a covenant assessment of the Scheme Employer to establish risk assurance.</p>    | <p>Administration charge of £500.<br/>Further charge is according to the prevailing rates of the SPF covenant advisers (approximately £10,000, depending on circumstances).</p> |   |

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### 6. Additional fees that may be charged by the Orbis Pension Administration Team

| Activity   | Description  | Indicative charge   | Comments |
|--|--|---|----------|
| <b>Pension sharing on divorce pension in payment CEV (pensioners)</b>  | Charges may be levied for CEVs because they are not part of business as usual.             | Charge of £117  |          |
| <b>Pension sharing on divorce implementing a pension sharing order</b> | Charges may be levied for CEVs because they are not part of business as usual.             | Charge of £643  |          |
| <b>Additional cash equivalent transfer values (CETVs)</b>              | Charges may be levied for additional CETVs because they are not part of business as usual. | 1 free and then charge of £117 for any additional quotation |          |

## 7. Additional penalties for poor performance by employers

| Activity  | Description   | Indicative charge   | Comments |
|---|---|---|----------|
| <b>Failure to provide end of year returns in good time</b>  | This prevents the Pension Section from producing annual benefit statements, delays the processing of pension benefits and hinders the smooth administration of the pension scheme and runs the risk of incurring substantial fines from the Pensions Regulator. | A penalty of £5,000 will be payable if the end of year return is received later than 30 <sup>th</sup> June as it may be too late to produce an annual benefit statement (they must be sent out by 31 <sup>st</sup> August). |          |
| <b>Failure to provide monthly contribution returns in good time</b>   | This is dealt with in requirements for scheme employers (above).  |   |          |
| <b>Failure to initiate an admission agreement or arrange alternative pension arrangements before a contract is let.</b> | This leads to great uncertainty for the members being transferred and a considerable amount of additional work for the Pension Fund Team.   | A penalty of up to £2,000 depending upon the severity of the delay.   |          |

## Annex 1

|  |   |  |
|--|---|--|
| <b>Failure to pay pension strain costs in good time.</b> | This is dealt with in requirements for scheme employers (above).  |  |
| <b>Pension recharges that are late for any reason.</b>   | As the payments are made from the pension fund the pension fund suffers if it is not reimbursed promptly. | Interest at 1% above base rate from the date the payment fell due. This provides modest protection for the pension fund without being too onerous for employers. |

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**8. Penalties for poor performance by the Orbis Pensions Administration Team**

| Activity  | Description   | Indicative charge   | Comments |
|---|---|---|----------|
| <b>Failure to self-calculate a contribution rate within 10 working days.</b>        | This can lead to uncertainty for the employees being transferred and additional work for the Pension Fund Team.   | A penalty of up to £500.00 depending the severity of the delay. |          |
| <b>Failure to provide membership data for new academies within 15 working days.</b> | This can lead to uncertainty for employers and additional actuarial fees for the Pension Fund Team.   | A penalty of up to £500.00 depending the severity of the delay. |          |
| <b>Failure to provide membership data for exiting employers 15 working days.</b>    | Failure to provide this information in good time can lead to a breach of the law, reputational damage for the pension fund and generate considerable additional work for the Pension Fund Team. | A penalty of up to £1,000.                                      |          |
| <b>Failure to produce papers for the Local</b>                                      | This makes the board roles harder, leads to additional work for the Pension Fund  | A penalty of up to £500 per paper.                              |          |

## Annex 1

|  |  |  |
|--|--|--|
| <p><b>Pension Board, Local Firefighters Board and Pension Fund Committee within the deadlines.</b></p>                               | <p>Team and undermines effective scrutiny.</p>   |  |
| <p><b>Failure to provide the pension strain costs flowing from early retirements to the Pension Fund Team.</b></p>                   | <p>The consolidated schedule for the quarter must be provided within ten working days of the end of the quarter. Any delay can lead to a serious loss of investment returns.</p> | <p>A penalty of up to £1,000 in addition to any other penalties payable, depending upon the severity of the delay.</p> |
| <p><b>Failure to recharge the Compensation / Crombie / Injury award costs flowing from the payment of compensation benefits.</b></p> | <p>The consolidated schedule for the month must be produced within ten working days of the end of the month. Any delay can lead to a serious loss of investment returns.</p>     | <p>A penalty of up to £1,000 in addition to any other penalties payable, depending upon the severity of the delay.</p> |

### **9. Consultation and review**

In preparing this administration strategy statement the SPF will consult with Scheme Employers. The consultation period will be from 16 December 2019 to 31 January 2020.

Thereafter, the Strategy will be reviewed as when required (at least in line with each triennial valuation).

All Scheme Employers will be consulted before any changes are made to the Strategy.

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## **Surrey Local Pension Board**

### **24 October 2019**

## **New service specification between the Pension Fund and the Pension Administration function**

### **Recommendation:**

The Board is asked to **note** the new Service Specification, which will be presented to the Pension Fund Committee on 13 December 2019 for approval.

### **Detail:**

1. The Surrey Pension Fund has ultimate responsibility for interpreting and implementing statutory LGPS regulations and making sure that it has robust systems and processes in place to ensure that the scheme is administered in line with scheme regulations and within prescribed levels of performance.
2. The previous Surrey Pension Fund's Service Level Agreement (SLA) between the Pension Fund and the pension administration team was approved by the Pension Fund Committee on 15 September 2017.
3. The existing SLA was designed to reflect the relationship between the Pension Fund and administration team at this point in time.
4. The service specification between the Pension Fund and Orbis will set out service standards for the level of service that the Orbis Pension Administration Service will provide to the Pension Fund to ensure that statutory responsibilities are met and Pension Fund members are delivered a high quality service.
5. The purpose of the service specification is to ensure that the relationship and service delivery commitments between the Pension Fund and its provider of pension administration services, Orbis, is clearly defined.
6. The objectives of the service specification are to:
  - Provide clear reference to service ownership, accountability, roles and responsibilities
  - Present a clear, concise and measurable description of the service provision of Orbis to the Pension Fund

- Introduce metrics to allow the measurement of expected service provision with actual delivery

7. Further aims of the service specification are to:

- To ensure Fund compliance with the new regulations
- To provide evidence that the Board and Committee are giving due consideration to value for money and continuous improvement of the administration function
- To increase member and employer awareness as to the how the Fund meets its regulatory duties
- To explore the opportunity to design a common service specification for Orbis partners to produce potential efficiencies for the respective pension funds and the Orbis partnership

8. The service specification is broken in to the following sections:

- Service scope
- Service standards
- Administration service standards of the Surrey Pension Fund
- Requirement for scheme employers
- Outline of additional administration charges
- The consultation and review process

9. The new Service Specification will be presented to the Pension Fund Committee on 13 December 2019 and will replace the existing SLA. The new Service Specification is shown as Annex 1.

### **Next steps**

10. The Board will monitor the performance of the administration team as measured against the new Service Specification.

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**Report contact:** John Smith (Senior Advisor) / Ayaz Malik (Advisor/Accountant)

**Contact details:** T: 020 8213 2700 E: john.smith@surreycc.gov.uk / T: 020 8541 9705 E: ayaz.malik@surreycc.gov.uk

### **Annexes:**

Annex 1 – Service Specification

## Service specification between the Surrey Pension Fund and Orbis Pension Administration

### Overview of the service specification

Surrey County Council is the administering authority for Surrey County Council Pension Fund (SPF).

The SPF has ultimate responsibility for interpreting and implementing statutory Local Government Pension Scheme (LGPS) regulations, related and overriding legislation. It makes sure that there are robust systems and processes in place to ensure that the scheme is administered in accordance with the relevant legislation and within the prescribed levels of performance.

This service specification between the SPF and the Orbis Pension Administration Service (Orbis) sets out service standards for the level of service that Orbis will provide the SPF to ensure that statutory responsibilities are met and SPF members are delivered a high quality service.

The specification is divided in to four sections;

1. Service scope.
2. Service standards.
3. Reporting and monitoring of performance.
4. Review and continuous improvement.

This specification will be reviewed annually by the SPF and Orbis and remains valid until superseded by a revised specification authorised by the SPF.

### Objectives of the service specification

The purpose of the service specification is to ensure that the relationship and service delivery commitments between the SPF and its provider of pension administration services, Orbis, is clearly defined.

The objectives of the service specification are to:

- Provide clear reference to service ownership, accountability, roles and responsibilities.
- Present a clear, concise and measurable description of the service provision of Orbis to the SPF.

- Introduce metrics to allow the measurement of expected service provision with actual delivery.

### **Key stakeholders**

The following are the key stakeholders connected with the service specification:

- The Orbis pension administration team: (“Orbis”)
- The Surrey Pension Fund Committee: (“the Committee”)
- The Surrey Local Pension Board: (“the Board”)
- Employers in the Surrey Pension Fund: (“Employers”)
- The Surrey Pension Fund Team: (“the Fund team”)

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## **The service specification**

Orbis is responsible for all functions associated with the administration of the prevailing LGPS Regulations, The Public Service Pensions Act 2013, associated legislation and, where relevant, the prevailing Local Government (Early Termination of Employment) (Discretionary Compensation) (England and Wales) Regulations

### **1. Service scope**

The following service areas are the responsibility of Orbis as part of the service specification.

#### **1.1 Record keeping, data management and security**

- To generate and maintain accurate, complete and up to date records of all data necessary for pensions administration in respect of all active members, deferred beneficiaries, pensioners and their dependants in SPF for a period of at least 100 (one hundred) years in order to comply with audit requirements, the Local Government Pension Scheme Regulations, all associated legislation including DWP and HMRC legislation and employing bodies' policies.
- All documents relating to members must be scanned to the relevant records on the document imaging system (Altair) and all original documents to be stored securely.
- To maintain adequate records for former members, even if SPF no longer has any liability for them, for at least one hundred years.
- To hold all membership data in at least two forms (e.g. computerised and document imaging system, backed up on a remote secure server) and to ensure that adequate security (including fire proof environment, where relevant), back up facilities and disaster recovery routines are in use at all times.
- To ensure that all data media used comply with current and future legislative requirements.
- To ensure adequate controls are in place to provide security against fraud and to reduce the opportunity for human error.
- To make all records readily available as and when required to authorised representatives of the SPF, the Committee and the Board (including its Internal and

External Auditors) and those of the other employing bodies, to the Fund Actuary, relevant Payroll Services providers and to any other organisation or individual with a statutory right to view such data.

- To follow tPR guidance on data quality and have in place a Data Plan to enable the continuous improvement of data quality.
- For all data storage systems Orbis will be required to maintain a satisfactory level of system security and back-up facilities including as a minimum:
  - daily back-up of all data;
  - arrangements to ensure the security and confidentiality of all data relating to all employing bodies, their employees, pensioners and former members;
  - system access must be controlled by suitable control software and be limited to authorised users only.
  - compliance with the requirements of the Data Protection Act (General Data Protection Regulation); the Computer Misuse Act; the Freedom of Information Act and any other known legislation relating to security of data;
  - arrangements to ensure the security and confidentiality of all documentation received;
  - arrangements to ensure the security and confidentiality of all output data and documentation up to the point where it is transferred to an authorised user or agent.
- To have appropriate physical security and environmental controls to minimise the risk of damage to computer systems holding SPF data.
- To ensure appropriate disaster recovery plans are in place to allow the systems(s) to be restored following a failure and that a copy of such plan is provided to the SPF.
- To ensure that the disaster recovery process is tested annually. Where testing has been carried out a report should be produced for the SPF highlighting any problems encountered that may affect the integrity and safekeeping of data, and the actions taken to remedy these. Orbis shall ensure that any required changes to the disaster recovery process and business continuity are implemented as soon as is reasonable and confirmation provided to the SPF.

## **1.2 Pension payroll**

- To ensure that all pensions, ongoing compensation payments and injury awards are paid accurately and on time.

- Orbis will generate an accounting file at source within the pension payroll system following the payroll run for that month. Orbis will check the file is accurate and that debits and credits are balanced. The file must reconcile to the overall BACS transfer for net pay that is made. In respect of the pension payments in that month.
- Orbis will be responsible for sending the BACS file via its suitable BACS software for payment of the pension payroll at least five full working days before the payment date, or in accordance with any notified BACS schedules.
- Pension payments to members must be suspended from the next pay period after the administration team is notified of their death or a pension payment is returned, pending investigation. However, there may be further pensions payable to eligible survivors under the LGPS and related regulations and Orbis will be responsible for all work associated with assessing eligibility for such entitlements and making payments to dependants.
- Suspended pensions will be investigated by Orbis to ascertain the status of the pensioner with the relevant bank, building society or Department for Works and Pensions to see if death can be confirmed or contact made by alternative means.
- Comprehensive mortality screening be undertaken monthly. Orbis and the SPF may jointly determine from time to time that an additional mortality checking process is required for UK based pensioners.
- For pensioners based overseas, internal audit is responsible for undertaking an exercise every two years to confirm that the pensioner is alive and therefore entitled to continue receiving their pension benefits. Orbis will ensure this process has been completed and inform the SPF of the findings. If a pension payment is returned by an overseas pensioner's bank the Pension Section must suspend the pension and send the member a life certificate.

### **1.3 New employer process**

- Orbis will work with the SPF to set up new employers including Academies, Free schools and admission bodies onto the system. The new employer process is included in Annex 2.

### **1.4 The SPF triennial valuation**

- Orbis will prepare and submit all the required data for the Fund actuary to carry out the triennial valuation of the Pension Fund promptly and in accordance with a schedule of work. This will include liaison with the Fund actuary and the Fund team, if necessary attendance at meetings.

### **1.5 Employer Cessation**

- Orbis will work with the SPF to provide employer data to the Fund actuary in a timely manner to ensure the cessation process is completed within 3 months as per the regulatory requirements. The employer cessation process is provided in Annex 3.

### **1.6 Project work**

- Orbis will work with the SPF to identify any project work which falls outside of the scope of this Service Specification. This work shall be included in the Forward Business Plan (as amended).
- Orbis will actively manage any outsourced contracts and provide regular narrative reports setting out any issues encountered and any progress that has been made.

### **1.7 Communications**

- Orbis will deliver member communications in accordance with the SPF Communications Policy Statement and the Service Standards laid out in this Service Specification.
- Communications improvements will form part of the annual continuous improvement plan. This may include the development of online communications for scheme members.
- Orbis will provide a specific SPF website for members and potential members and employers containing scheme guides, scheme forms, newsletters, contacts and news. The Member Self-Service (MSS) site will enable members to log requests, to perform on-line calculations and to update certain records on-line.
- Orbis Help desk Pensions will provide an immediate telephone contact service for members, prospective members and employers between the hours of 09.00 – 16.00 each working day. Senior managers of Orbis team will be available for contact from the SPF team from 09:00 to 17:00.

- Orbis will annually survey a sample of members and scheme employers to gain feedback on the quality of service and to inform the Annual Continuous Improvement Report.
- When engaging in any communications, whether written or verbal, Orbis will ensure communications are of a high standard, clear, courteous and in plain English.

### **1.8 Complaints**

- Orbis will operate a local resolution complaints procedure; however, any appeals/disputes should immediately be escalated to SPF under the internal disputes resolution procedure.
- Orbis will ensure that all staff are made fully aware of both procedures.
- All complaints received (whether in writing or verbal) must be reported to the SPF in accordance with the Service Standards laid out in this Service Specification.
- Any complaints from either Members of Parliament or Elected Council Members must be brought to the immediate attention of the SPF.
- The internal disputes resolution procedure (IDRP) is used to resolve formal pension disputes in the LGPS. There is a documented process with strict timescales, which must be adhered to.
- Orbis shall produce and communicate an Internal Dispute Resolution Procedure (IDRP) in accordance with the LGPS Regulations. It shall pass any stage 1 and stage 2 IDRP cases to the relevant nominated adjudicator as soon as possible and in accordance with the Service Standards laid out in this Service Specification.
- Orbis shall collate all the relevant documents relating to an appeal case and pass them to the adjudicator together with the formal IDRP form and supporting documents.

### **1.9 Employer discretions**

- Employers are required to complete discretions policies and the SPF team will manage the process and remind unpunctual employers periodically. The SPF team

will maintain a central folder holding all the employer discretions (there are 85 at the time at writing).

## **2.0 Breaches of Law**

- Breaches of law can take many forms and each one should be reported to the SPF team in accordance with the SPF's published Breaches Policy.
- The relevant officer(s) / elected members will decide whether the breach is material and the appropriate remedial measures to take.
- If necessary, the breach will be reported to the Pensions Regulator.

## **2.1 Staff and training**

- The following full-time equivalent staff are currently employed in the management of the SPF administration. This will be reviewed in accordance with service requirements (at least annually).

| <b>FTE posts for SPF</b> | <b>Job title</b>   |
|--------------------------|--|
| <u>0.4</u>               | <b>Lead Pensions Manager</b>   |
| <u>0.4</u><br><u>0.4</u> | <b>Pensions Service Delivery Manager</b><br><b>Pensions Support &amp; Development Manager</b>                              |
| 0.6<br>1.0               | Pensions Technical Advisor<br>Project Manager (FTC – 12 Months)  |
| 2.7<br>0.4               | Pensions Team Leader<br>Engagement and Education Lead  |
| 0.4<br>0.6<br>0.6<br>5.7 | Customer Process Improvement Officer<br>IT Technical Officer<br>My Helpdesk Supervisor Pensions<br>Senior Pensions Officer |
| 0.4<br>0.4<br>7.1        | Business Support<br>Communications Officer<br>Pensions Officer   |

|          |   |
|----------|---|
| 4<br>7.1 | MyHelpdesk Officer Pensions<br>Pensions Administrator |
| 3.4      | Trainee Administrator - Pensions                      |
| 2.0      | Pensions Assistant                                    |

- Orbis shall ensure all staff have the necessary training and expertise in the LGPS Regulations and the policies of the SPF; including, but not restricted to, the SPF Breaches Policy.
- Orbis shall produce a training and continuous professional development plan for staff. Development of staff shall be reported to the SPF.

## **2.2 Roles and Responsibilities**

- Orbis to manage a team administering the Local Government and Firefighters for employees of the local authority organisations for which Business Operations provides an administration service.
- Team leaders manage the day to day operation of the team, allocating and prioritising workloads and ensuring that the team delivers the required level of service. They also take responsibility for the checking of more complex or high profile calculations provided under the Schemes and the Scheme Employers' early retirement and compensation arrangements.
- Roles and Responsibilities for officers in ORBIS and Pension Fund are included in Annex 4

### **3. Service Standards**

The following service standards will be maintained as part of the service specification.

The Service Standards are broken in to two areas:

- Performance levels for services to members
- Performance levels for services to the SPF

#### **3.1 Performance levels for services to members**

- Performance levels for services to members are laid out in the Pension Administration Strategy. These standards may be amended from time to time.
- Delivery as measured against the Performance levels set for services to members shall be reported to the Committee and the Board as and when required, but, at least at the quarterly meetings of these two bodies.
- Orbis will produce up-to-date key performance indicators reports for the monthly meetings with the Pension Fund Team.
- All key performance indicator metrics are to be produced in accordance with the ones agreed at April 2019 Local Pension Board Meeting (Annex 1).
- The officer preparing key performance indicator reports must certify that they are a true and fair reflection of the amount of work received and the number of cases completed each quarter and signed off by Lead Pensions Manager.

#### **3.2 Performance levels for services to the SPF**

- The table below details the end to end timescales for activities to be delivered by Orbis to the SPF.
- Orbis and the SPF acknowledge that this list of activities is not exhaustive and may be amended from time to time.

| <b>Task area</b>     | <b>Service description</b> | <b>Timescale</b> |
|----------------------|----------------------------|------------------|
| <b>Employer work</b> |                            |                  |

| <b>Task area</b>   | <b>Service description</b>   | <b>Timescale</b>   |
|--|--|--|
| New employer processing  | Issue member data to the Fund actuary (Process highlighted in Annex 2).  | 20 working days from receipt of clean data from the new employer     |
|  | Supply new employer with relevant administration documents/instructions  | 10 working days from the new employer start date                     |
| End of year processing   | Issue employers with end of year data requirements   | By 15 March of the relevant year                                     |
| Employer survey  | Issue performance survey to an agreed sample of employers  | Annually   |
| Cessation processing   | Issue member data to the Fund actuary (Process highlighted in Annex 3).  | 20 working days from receipt of clean data from the ceasing employer |
| Capital strain processing  | Calculate and report all cases promptly where employer actions have created a capital strain has been created (e.g. redundancy or early retirement). | Quarterly to the Fund team. SPF will raise invoices quarterly.       |
| <b>Communications (in addition to standards laid out in the Communications Policy)</b> |  |  |
| Member survey  | Issue performance survey to an agreed sample of members  | Annually   |
| Annual benefit statement   | Production and distribution of the annual benefit statement for active and deferred members  | By 31 August after the year end 31 March                             |
| Pension Saving Statements  | Production and distribution of the Pension Saving Statement for active and deferred members who have exceeded the Annual Allowance limit             | By 6 October each year   |
| Pensioner newsletter   | Issue newsletter to pensioners to accompany notification of annual pension increase  | By 30 April after the year end 31 March                              |
| Member newsletter  | Issue newsletter to member detailing scheme updates  | As and when required; at least annually                              |

| <b>Task area</b>                                 | <b>Service description</b>  | <b>Timescale</b>  |
|--|---|---|
| Employer newsletter                              | Issue newsletter to employers detailing scheme updates  | As and when required; at least annually   |
| Member and employer updates                      | The provision of seminars, roadshows, information bulletins, newsletters and scheme guides to inform members and employers of relevant issues and/or operational requirements | As and when required  |
| <b>Meetings</b>                                  |   |   |
| Pension Fund Committee                           | Attendance of a senior Orbis officer at Pension Fund Committee meetings   | As and when required, at least quarterly  |
| Local Pension Board                              | Attendance of a senior Orbis officer at Local Pension Board meetings  | As and when required, at least quarterly  |
| Administration forward plan review               | Attendance of a senior Orbis officer at an administration forward plan review meetings with the Fund team   | As and when required, at least quarterly  |
| SPF Annual General Meeting (AGM)                 | Attendance of a senior Orbis officer at the SPF AGM   | Annually  |
| <b>Discretions</b>                               |   |   |
| Administering Authority discretions              | To comply with responsibilities and obligations as laid out in the Administering Authority discretions policy.  | As and when required  |
| <b>Administration performance</b>                |   |   |
| Administration Forward Plan                      | To develop and agree with and report to the Committee and Board.  | As and when required, at least quarterly  |
| Administration Key Performance Indicators (KPIs) | To be reported against the matrices agreed in April 2019 Local Pension Board meeting and approved by the Pension Fund Committee.  | To be provided monthly and consolidated figures to be produced quarterly for Local Pension Board. |
| SF3 Report                                       | Report to the Fund Team   | By 15 August in the relevant year   |

| <b>Task area</b>   | <b>Service description</b>   | <b>Timescale</b>                         |
|--|--|--|
| Complaints Report  | Complaints made by customers report to the administration team. Report to the Board.   | As and when required, at least quarterly |
| Data Improvement Plan                                    | Data improvement plan report to the Committee and Board  | Annually                                 |
| Staff Training and Competency Plan                       | Staff training and competency plan report to the Committee and Board   | Annually                                 |
| CIPFA or alternative Benchmarking Report                 | Compile data for benchmarking report and present it to the Committee and Board   | Annually                                 |
| Data Protection (GDPR) Compliance Report                 | Data protection (GDPR) compliance report to the Committee and Board  | Annually                                 |
| Disaster Recovery Plan                                   | Disaster recovery plan report to the Committee and Board   | Annually                                 |
| Audit report(s)  | Internal and external audit report and management action plan  | Annually                                 |
| Annual Service Review and Continuous improvement Report. | A review of activity during the past year and of improvements to the service identified for the forthcoming year report to the Committee and Board | Annually                                 |
| Project reports  | Ad hoc reports on project work as identified in the Administration forward plan.   | As and when required.                    |
| Pensions Regulator Scheme return                         | Orbis team to compile data quality for scheme return.  | Annually                                 |

#### 4. Reporting and monitoring of performance

- Orbis are required to report performance levels in accordance with the standards set out in the Pension Administration Strategy, this Service Specification and the key performance matrix agreed by the Local Pension Board.
- Performance should be monitored internally by Orbis and by the SPF and/or its agents.

##### 4.1 Reporting

- Orbis will provide a report to the Committee and Board as required (normally at their regular quarterly meetings). This report will show administration performance for the previous quarter.
- The report will be compiled in accordance with performance standards taken from the Pension Administration Strategy, this Service Specification and the key performance matrix agreed by the Local Pension Board. It will be known as the **Administration Performance Report**.
- The **Administration Performance Report** will be made up of five sections:
  - Administration KPIs;
  - Administration forward plan
  - Project report
  - Action tracker
  - Administration update report
- A template of the **Administration Performance Report** is included as **Annex 1**

##### 4.2 Monitoring of performance

- Orbis will monitor daily / weekly / monthly administration performance by interrogating the pension administration system, Altair, analysing other systems, workflows and scrutinising the output and effectiveness of their teams.
- Orbis will scan all post and e-mails to the relevant pension record and set up a process if appropriate. This work will be done on a daily basis so that Altair is up-to-date and the reports drawn from it are accurate.

- If Orbis has any legacy paper based records they must be scanned to Altair and processes set up if appropriate. This is critical for monitoring administration and providing resilience for disaster recovery.
- The reports collated from Altair, other systems and resources should be available to provide documentary assurance that supports the performance statistics provided by Orbis as part of the **Administration Performance Report**.
- Orbis will make Altair reports, workflows and any other evidence available for inspection to the SPF, Auditors or other agents of the SPF as required.

#### **4.3 Monitoring of Administration performance**

- Monthly review meetings are being held between the SPF and Orbis teams to monitor projects and business as usual (BAU) functions of the Orbis Team. Each meeting is being documented and progress is reported to the Local Pension Board.

## **5. Service review and continuous improvement**

- Orbis shall work with the SPF and provide proposals for improving the level of future service provision and savings to the SPF. This will be provided in the **Annual Service Review and Continuous Improvement Report**.
- Orbis will provide other annual review reports as detailed in the Service Standards of this specification, and including:
  - Data Improvement Plan;
  - Staff Training and Competency Plan;
  - Data Protection (GDPR) Compliance Report
  - Disaster Recovery Plan

## 6. Governance Structure

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Annex 1 – Key performance indicators

**ADMINISTRATION PERFORMANCE REPORT (1) Q1 - 2019/2020**

**ADMINISTRATION - ONGOING WORKFLOW**

| No          | Description  | Performance standard | Tolerable performance* | Current Quarter      |                       |                                  |   |   |   | Previous Quarter     |                       |                                  |   |   |   |
|-------------|--|----------------------|------------------------|----------------------|-----------------------|----------------------------------|---|---|---|----------------------|-----------------------|----------------------------------|---|---|---|
|             |  |                      |                        | No of cases received | No of cases completed | No of cases completed within SLA | Percentages of cases completed within SLA (Score and RAG) | Average time from start to finish to complete cases (in days) | Number of cases outstanding (total backlog) | No of cases received | No of cases completed | No of cases completed within SLA | Percentages of cases completed within SLA (Score and RAG) | Average time from start to finish to complete cases (in days) | Number of cases outstanding (total backlog) |
| <b>OW 1</b> | <b>OVERVIEW</b>  |                      |                        |                      |                       |                                  |   |   |   |                      |                       |                                  |   |   |   |
| OW 1.1      | TOTAL SURREY CASES<br>Total number of cases in period  | N/A                  |                        |                      |                       |                                  |   |   |   |                      |                       |                                  |   |   |   |
| OW 1.2      | TOTAL SURREY CASE BACKLOG<br>Total number of cases in period   | N/A                  |                        |                      |                       |                                  |   |   |   |                      |                       |                                  |   |   |   |
| OW 1.3      | SCHEME MEMBERSHIP<br>Number of members in the Surrey LGPS  | N/A                  |                        |                      |                       |                                  |   |   |   |                      |                       |                                  |   |   |   |
|             | Active members   | N/A                  |                        |                      |                       |                                  |   |   |   |                      |                       |                                  |   |   |   |
|             | Deferred members   | N/A                  |                        |                      |                       |                                  |   |   |   |                      |                       |                                  |   |   |   |
|             | Pensioner members  | N/A                  |                        |                      |                       |                                  |   |   |   |                      |                       |                                  |   |   |   |
| OW 1.4      | TOTAL OPT OUTS<br>Total percentage of SCC eligible members not currently in the Surrey LGPS  | N/A                  |                        |                      |                       |                                  |   |   |   |                      |                       |                                  |   |   |   |
| OW 1.5      | TOTAL ORBIS MEMBERSHIP   | N/A                  |                        |                      |                       |                                  |   |   |   |                      |                       |                                  |   |   |   |
| OW 1.6      | EMPLOYERS<br>Number of employers in the Surrey LGPS  | N/A                  |                        |                      |                       |                                  |   |   |   |                      |                       |                                  |   |   |   |
|             | Councils   | N/A                  |                        |                      |                       |                                  |   |   |   |                      |                       |                                  |   |   |   |
|             | Academies  | N/A                  |                        |                      |                       |                                  |   |   |   |                      |                       |                                  |   |   |   |
|             | Admission bodies   | N/A                  |                        |                      |                       |                                  |   |   |   |                      |                       |                                  |   |   |   |
|             | Other  | N/A                  |                        |                      |                       |                                  |   |   |   |                      |                       |                                  |   |   |   |
| <b>OW 2</b> | <b>CASELOAD DETAIL (MEMBERS)</b>   |                      |                        |                      |                       |                                  |   |   |   |                      |                       |                                  |   |   |   |
| OW 2.1      | NEW STARTER<br>New scheme member to be set up on Altair, check payroll details, request any transfers and send a statutory notice sent to the member.  | 30 working days      | 80%                    |                      |                       |                                  |   |   |   |                      |                       |                                  |   |   |   |
| OW 2.2      | DEFERRED STATUS<br>Calculate pay, check membership, calculate deferred benefits, update Altair and issue a benefit statement.  | 2 months             | 80%                    |                      |                       |                                  |   |   |   |                      |                       |                                  |   |   |   |
| OW 2.3      | RETIREMENT (INITIAL NOTIFICATION)<br>Calculate pay, membership and retirement benefits and send initial letter and forms to member.  | 15 working days      | 80%                    |                      |                       |                                  |   |   |   |                      |                       |                                  |   |   |   |
| OW 2.4      | RETIREMENT (COMPLETE)<br>upon receipt of all the forms and pay the retirement grant, update Altair, set up the pension on the payroll and send a benefit statement to the member.  | 15 working days      | 85%                    |                      |                       |                                  |   |   |   |                      |                       |                                  |   |   |   |
| OW 2.5      | DEATH NOTIFICATION<br>Stop any pension, send condolences letter, request details of any dependents / beneficiaries and send claim forms for any balance / overpayment / Death Grant.   | 5 working days       | 90%                    |                      |                       |                                  |   |   |   |                      |                       |                                  |   |   |   |
| OW 2.6      | SURVIVOR'S PENSIONS<br>Upon receipt of all relevant certificates, forms and supporting evidence set up all survivor's pensions on the payroll and send each beneficiary a pension statement.                                       | 10 working days      | 90%                    |                      |                       |                                  |   |   |   |                      |                       |                                  |   |   |   |
| OW 2.7      | DEATH GRANT PAYMENT<br>Upon receipt of all the certificates, claim forms and details of potential beneficiaries the Death Grant and any balance of pension should be paid and the return of any overpayment requested. The Pension | 10 working days      | 90%                    |                      |                       |                                  |   |   |   |                      |                       |                                  |   |   |   |

**Annex 2 – New employers Process**

**New employer process 1:**

**Converting academies & new academies /free schools – Surrey Payroll**

| <b>Process Number</b> | <b>Action</b>  | <b>Timescale</b>   | <b>Responsibility</b> |
|-----------------------|--|--|-----------------------|
| 1                     | Initial engagement guide sent to new academies including: <ul style="list-style-type: none"> <li>• Issue ‘estimated rate’</li> <li>• Cost of actuary fees</li> <li>• IDRPs/discretions/IRMP requirements</li> <li>• FRS102 requirements</li> <li>• Application form (and request for academy order if not already provided)</li> </ul> | In response to academy order/academies tracker/school notification | SPF                   |
| 2                     | Send academy order/academy notification to Orbis   | 5 working days from receipt of academy order/academy notification  | SPF                   |
| 3                     | Issue cost code to SPF   | 5 working days from receipt of academy order/academy notification  | Orbis                 |
| 4                     | Issue data to actuary  | 30 days from academy conversion                                    | Orbis                 |
| 4                     | Actuary produces final report to SPF   | 10 working days from receiving clean data                          | Actuary               |
| 5                     | Issue actuary report and employer data form to new academy   | 5 working days from receipt of actuary report                      | SPF                   |
| 6                     | Issue confirmed actuary report to Orbis and payroll provider   | 5 working days from receipt of actuary report                      | SPF                   |
| 7                     | Orbis supplies new employer with relevant admin documents  | 10 working days from receipt of actuary report                     | Orbis                 |

**New employer process 2:**

**Converting academies & new academies /free schools – Non Surrey Payroll**

| <b>Process Number</b> | <b>Action</b>   | <b>Timescale</b>   | <b>Responsibility</b> |
|-----------------------|---|--|-----------------------|
| 1                     | Initial engagement guide sent to new academies including: <ul style="list-style-type: none"> <li>• Issue 'estimated rate'</li> <li>• Cost of actuary fees</li> <li>• IDRPs/discretions/IRMP requirements</li> <li>• FRS102 requirements</li> <li>• Application form (and request for academy order if not already provided)</li> <li>• Data capture form</li> </ul> | In response to academy order/academies tracker/school notification | SPF                   |
| 2                     | Send academy order/academy notification to Orbis  | 5 working days from receipt of academy order/academy notification  | SPF                   |
| 3                     | Issue cost code to SPF  | 5 working days from receipt of academy order/academy notification  | Orbis                 |
| 4                     | Issue data to actuary   | 30 days from receipt of clean data from the new academy            | Orbis                 |
| 4                     | Actuary produces final report to treasury / PS  | 10 working days from receiving clean data                          | Actuary               |
| 5                     | Issue actuary report and employer data form to new academy  | 5 working days from receipt of actuary report                      | SPF                   |
| 6                     | Issue confirmed actuary report to Orbis and payroll provider  | 5 working days from receipt of actuary report                      | SPF                   |
| 7                     | Orbis supplies new employer with relevant admin documents   | 10 working days from receipt of actuary report                     | Orbis                 |

**New employer process 3:**

**New employers / admission bodies**

| <b>Process Number</b> | <b>Action</b>   | <b>Timescale</b>  | <b>Responsibility</b> |
|-----------------------|---|---|-----------------------|
| 1                     | Initial engagement guide sent to new academies including: <ul style="list-style-type: none"> <li>• Issue 'estimated rate'</li> <li>• Cost of actuary fees</li> <li>• IDRPs/discretions/IRMP requirements</li> <li>• FRS102 requirements</li> <li>• Application form</li> <li>• Data capture form</li> </ul> | In response to initial inquiry  | SPF                   |
| 2                     | Send Application form/data capture form to Orbis  | 5 working days from receipt of Application form/data capture form from employer | SPF                   |
| 3                     | Issue cost code to SPF  | 5 working days from receipt of Application form/data capture form               | Orbis                 |
| 4                     | Issue data to actuary   | 30 days from receipt of clean data from the new employer                        | Orbis                 |
| 4                     | Actuary produces final report   | 10 working days from receiving clean data                                       | Actuary               |
| 5                     | Issue actuary report and employer data form to new employer   | 5 working days from receipt of actuary report                                   | SPF                   |
| 6                     | Issue confirmed actuary report to Orbis   | 5 working days from receipt of actuary report                                   | SPF                   |
| 7                     | Orbis supplies new employer with relevant admin documents   | 10 working days from receipt of actuary report                                  | Orbis                 |
| 8                     | Supply Orbis with admission agreement   | 5 working days from receipt of engrossed copy                                   | SPF                   |

**Annex 3 – Employer Cessation Process**

| <b>Process Number</b> | <b>Action</b>   | <b>Timescale</b>                                      | <b>Responsibility</b> |
|-----------------------|---|---|-----------------------|
| 1                     | Employer informs the fund about cessation.  | In response to initial inquiry                        | Employers             |
| 2                     | Send cessation notification to Actuary  | 5 working days from receipt of employers notification | SPF                   |
| 3                     | Provide Membership data to actuary  | 10 working days                                       | Orbis                 |
| 4                     | Provide cash flow details   | 10 working days                                       | SPF                   |
| 4                     | Actuary produces final report to SPF  | 10-15 working days from receiving clean data          | Actuary               |
| 5                     | Issue actuary report to employer  | 5 working days from receipt of actuary report         | SPF                   |
| 6                     | Issue confirmed actuary report to Orbis   | 5 working days from receipt of actuary report         | SPF                   |
| 7                     | Make necessary changes to employer records.   | 5 working days from receipt of actuary report         | Orbis                 |
| 8                     | Receive payment from employer if in deficit<br>Make payment to employer if in surplus | 5 working days  | Employer/SPF          |

**Annex 4 – Roles and Responsibilities**

**Orbis**

*Pensions Assistants*

|                                       |
|---------------------------------------|
| Creating diary tasks                  |
| Scan Post                             |
| Return Certificates                   |
| Opt Ins/Outs                          |
| Gone Aways                            |
| Stationery Orders                     |
| Expression of Wish Forms              |
| Nominated Cohabiting Partner Forms    |
| 50/50 Election Forms                  |
| Hours Changes                         |
| Interfund/Transfer In Initial Letters |
| Interfund/Transfer In Chase Letters   |

*Trainee Pensions Administrators*

|   |
|---|
| Button R  |
| BACS Files  |
| Index Post  |
| LGPS Forms  |
| Download Leaver Forms                               |
| Update BACS/TV Spreadsheet                          |
| Check Address, Bank, EoW, NCP, 50/50, Hours Changes |
| Check Vouchers                                      |
| Deferred Processing                                 |
| Send out AVC and Deferred Statements                |
| Calculate Refunds                                   |
| APC/ARC/AVC etc.                                    |

*Pensions Administrators*

|  |
|--|
| Transfer/Interfund Quote/Actual Processing       |
| Deferred Checking                                |
| Refund Quote/Actual Checking                     |
| Active Retirement Quote Processing               |
| Employer Retirement Quote Processing             |
| Deferred into Payment Quote Processing           |
| Deaths – Balance of Pension/Overpayment Recovery |
| Re-Employed Pensioners Processing                |
| Childs Pension Review                            |
| Divorce Quote Processing                         |
| Modification's Processing                        |
| GMP's Processing                                 |

*Pensions Officers*

|  |
|--|
| Divorce Quote Checking                   |
| Transfer/Interfund Quote/Actual Checking |
| Deferred into Payment Quote Checking     |
| Deferred into Payment Actual Processing  |
| Active Retirement Quote Checking         |
| Active Retirement Actual Processing      |
| Employer Retirement Quote Checking       |
| Employer Retirement Actual Processing    |
| Death Benefits Processing                |
| Re-Employed Pensioners Checking          |
| Modifications Checking                   |
| GMP's Checking                           |
| Pensions Increase @ Age 55 Processing    |
| Pensions Increase @ Age 55 Checking      |

*Senior Pensions Officers*

|                                     |
|-------------------------------------|
| Divorce Actual Processing           |
| Divorce Actual Checking             |
| DiP Actual Checking                 |
| Active Retirement Actual Checking   |
| Employer Retirement Actual Checking |
| Death Benefits Checking             |
| Annual/Lifetime Allowance           |

---

**Surrey Pension Fund Team**

*Business Support Officer*

|  |
|--|
| Processing monthly payments                                    |
| Quarterly Contribution Reconciliations                         |
| Providing monthly schools and non-figures to Income management |
| Clearing 8114  |
| TPR return   |
| Organising AGM   |
| Travel arrangements  |
| Minutes/Agenda for monthly meetings                            |
| Recharges for FRS102   |
| Quarterly LPOC Agenda  |
| Updating website   |
| Communications with employers                                  |
| Arranging training for officers and members                    |
| SRM  |
| Organising employer forums                                     |

*Pensions Finance Specialist*



|  |
|--|
| Monthly payroll journals   |
| FRS102 reports – March<br>July<br>August<br><br>Processing and Checking contributions.<br>Responding to actuary queries.   |
| Compensation payments  |
| Supporting Local Board   |
| Supporting Firefighter Board   |
| Supporting Pension Fund Committee  |
| TUPE cases<br><br>Responding to FOI requests<br><br>HEAT – Processing and sending HEAT data to actuary.<br><br>Responding to follow up queries.<br><br>Bulk transfers<br><br>Sending Asset and contribution report to employers.<br><br>Attending monthly meeting with Pensions admin service<br><br>Participation agreements<br><br>Check Quarterly Contribution Reconciliations<br><br>Approve payments<br><br>Cessation reports<br><br>Valuation work |

*Senior Pensions Finance Specialist*

|  |
|--|
| FRS102 reports – March<br>July<br>August |
| Early Retirement Strain                  |
| Quarterly Pension Fund Committee Papers  |
| FOI requests                             |

|                                       |
|---------------------------------------|
| Asset Valuation & Performance Updates |
| Pension Fund Accounts                 |
| Engaging on Responsible Investment    |

*Pensions Governance and Employer Manager*

|   |
|---|
| Deputise for the Strategic Finance Manager (Pensions) on administration and governance matters.   |
| Technical advice on all pension matters.  |
| Strategic risk management   |
| Pension fund's corporate governance.  |
| Supporting the Local Pension Board.<br>Internal disputes resolution procedure (IDRP).<br>Admissions and exits<br>Monitor the performance of the Pensions Administration team.<br>Breaches<br>Supporting Pensions Finance Specialist |

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## **Surrey Local Pension Board 24 October 2019**

### **Risk Management Policy**

#### **Summary**

Surrey Pension Fund recognises the importance of having a robust risk management policy. This report introduces the Risk Management Policy set out in Annex 1, which is presented to the Local Pension Board for approval.

#### **Recommendation**

The Local Pension Board is asked to note and approve the policy.

#### **Background**

1. The Risk Management Policy is closely aligned with Surrey County Council's policy and it has been developed and refined to capture and mitigate the key risks to Surrey Pension Fund.

---

**Report contact:** John Smith, Senior Advisor

**Contact details:** T: 020 8541 9705 E: [john.smith@surreycc.gov.uk](mailto:john.smith@surreycc.gov.uk)

#### **Annexes:**

Annex 1 – Risk Management Policy 2019/20

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## **Surrey Pension Fund Risk Management Policy**

### **Background**

The Local Pension Board has asked officers to prepare a risk management policy and this document outlines Surrey Pension Fund's approach.

Surrey Pension Fund has an integrated risk management strategy that is closely aligned with Surrey County Council's, which is reviewed annually by the Audit and Governance Committee.

The risk management framework is based on HM Treasury's "The Orange Book" risk model, which is widely regarded as a template for best practice.



Risk framework  
(May 2017).pdf

### **Methodology of risk model**

This section is intended as a brief introduction to risk management and how it works in practice.

Although it is not necessary to rehearse the established methodology set out in the Risk Management Framework, it is helpful to establish the context and the key principles. The main elements of the framework are (1) risk drivers and their interaction with (2) the external environment which are identified, measured, managed and monitored in accordance with the policy.

It is important to be selective in order to capture the key risks, describe them clearly and accurately, identify their consequences and weigh their potential impact. The risk rainbow, which is analogous to a colour coded fan, is tool that assists identification and categorisation of risk.

#### **1.1 Impact criteria**

Once the risk has been identified it must be weighed and measured. The council uses a tabular model, which identifies the risks in vertical columns and then measures the potential financial, service and reputational impacts in separate horizontal entries.

(Financial impact “W”+ Service impact “X”+ reputational impact “Y”) x Likelihood “Z” = **Total risk**

**Financial impact** is measured from minor (<1%), moderate (1-10%), significant (10-20%) to severe (<20%).

**Service impact** is measured by the level of intervention from service manager, head of service, strategic director to cabinet decision.

**Reputational impact** ranges from internal communication / press release, minor article in local media / lobby group activity, headline article in local media / minor article in national media to headline article in national media / prolonged local media campaign.

Although the impacts are added together, Likelihood is the key multiplier for operational risks and it is measured in a separate table.

**Likelihood** is measured from remote (no experience with sufficient controls in place), possible (10% have experience and conditions exist for occurrence), probable (most have experience and controls not fully effective) to likely (everyone has experience with no effective measures).

The council utilises a traffic light (RAG) model to measure risk based on the Total Risk Score;

**Red** = high (32-48)

**Amber** = medium (16-31)

**Green** = low (3-15)

## 1.2 Risk controls (the five “Ts”)

This is measured on an incremental scale accompanied by a clear description of the actions to be taken in order to control the risk.

**Terminate** - stop it

**Treat** - reduce the likelihood

**Take** - positive opportunities

**Transfer** - pass to another service better placed to mitigate the risk (but the original service still owns the risk)

**Tolerate** - do nothing (cost outweighs benefits / outside our control)

## 1.3 Monitoring and reporting

The risk register must be maintained and regularly reviewed and reported upon.

## 1.4 Risk registers

Must be completed and maintained in the agreed format.

## **1.5 Risk scores**

Must be set by a panel of at least three officers to ensure a realistic weighting.

## **1.6 Issue management**

Events that have happened and are affecting the organisation in some way need to be actively managed and resolved. A four stage process is used to manage issues;

- 1) **Capture** the issue with a clear description
- 2) **Assess** the impact of the issue (high, medium or low)
- 3) **Action** needed to address the issue
- 4) **Monitor** regularly to track actions and impacts

## **1.7 Risk management in practise**

Although the precis of the risk management framework captures the key elements, it is apparent that the performance of the model in practice is determined by the ability – and experience - of the officer(s) applying it. The model works efficiently if the right risks are identified and weighed correctly but this relies on skill and experience, which cannot be taken for granted.

Although the Finance Management Team (FMT) has limited experience of risk management this issue can be managed by drawing on collective experience and requiring a quorum of three officers, of which at least two have significant pensions experience, to identify risks and to weigh them. This approach would improve consistency and encourage objectivity and, should either of the experienced officers be absent for any reason, the section could consider inviting a risk specialist make up the numbers and to validate their approach.

Although it is sensible to have the most concise risk register possible in principle, it may be pragmatic to have a comprehensive risk register until the FMT acquires the experience to ensure that no significant risk is overlooked. In the longer-term as the FMT becomes acquainted with the nuances of risk management model it may be possible to prune the risk register so that only key risks are monitored on a regular basis. Equally, it may be possible to relax the quorum for risk management meetings as members of the FMT gain experience and grow in confidence.

## **Conclusion**

Surrey Pension Fund believes that it operates an effective risk management model and it uses it to identify and address its key risks. The risk registers will be refined in the light of experience and individual risk scores will be set by a panel of at least three officers in order to make them as accurate as possible.

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## **Surrey Local Pension Board 24 October 2019**

### **The Pensions Regulator LGPS Cohort Report**

#### **Summary**

The purpose of the report is to introduce the Pensions Regulator LGPS Cohort report. The Pensions Regulator liaised with 10 LGPS funds and the governance report is the fruit of that engagement.

#### **Recommendation**

The Board is asked to **note** the content of this report and to make recommendations as necessary.

#### **Detail**

1. The report acknowledges the diversity within the LGPS and concedes that a one-size-fits-all approach is not necessary to mitigate risks.
2. It champions clear separation and independence of functions and counsels against over reliance on the host authority's policies
3. The report sets out taper's view of LGPS governance and it focuses on nine key areas.

#### **Record keeping**

4. Scheme managers should review their data quality regularly and implement a robust data improvement plan, if appropriate.
5. The quality of member data should be assessed and reviewed by the Scheme Manager and the Pension Board and an action plan implemented to address any shortcomings.

#### **Administrators**

6. It recommends publishing and reviewing a pension administration strategy.
7. A comprehensive risk register should be put in place and the Pension Board should review it at each meeting.

### **Internal controls**

8. All processes, controls and decisions should be documented in order to avoid over reliance on one key individual.
9. The scheme manager should implement robust performance metrics, monitor service delivery and escalate issues if standards are not met.

### **Members' communications**

10. There should be a communications strategy and all interactions with members should be clear concise and jargon free.

### **Internal disputes resolution procedure**

11. There must be a clear policy on how to handle complaints and information about the process should be easily accessible and transparent. The scheme manager and the Board should review complaints regularly to identify potential improvements.

### **Pensions Boards**

12. The Pension boards should meet regularly and the members should undergo specialist training. The Chairmen should attend each other's meetings and there should be measures in place to address the issues of turnover and underperforming members.

### **Employers and contributions**

13. Scheme managers should understand the strength of the employer covenant and take a proportionate approach to risk management. The risks should be reviewed regularly and not just at the triennial valuations.
14. The risks should be managed using a range of securities including bonds, charges and guarantees. The scheme manager should consider appropriate steps to strengthen weaker covenants.

### **Cyber security**

15. Scheme managers and boards should prioritise data security and take steps to manage and mitigate risks.
16. Cyber security risks should be recorded in the risk register.
17. Scheme managers should be understand local authority cyber security policies and ensure that they meet the fund's requirements. They should also be aware of third parties data security processes.

### **Frauds and false claims**

18. Scheme managers should regularly review procedures to prevent fraud and the payment processes should be clearly audited.
19. If fraud is detected the scheme managers should stop it and review the process to prevent reoccurrence.

## **The implications for Surrey Pension Fund**

20. Surrey Pension Fund had already commissioned a comprehensive governance review by Hymans Robertson, which confirmed that Surrey had a strong governance regime although it identified a few areas of relative weakness that are being addressed. In many ways the review anticipated the issues raised in the Cohort Report and the Pension Fund Team will study it carefully and build its recommendations into our ongoing improvement plans.

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**Report contact:** John Smith, Senior Advisor (Investments, Funding & Governance)

**Contact details:** T: 020 8213 2700 E: [john.smith@surreycc.gov.uk](mailto:john.smith@surreycc.gov.uk)

**Annexes:**

Annex 1 – TPR update paper

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# The Pensions Regulator - Publication of LGPS Cohort Report

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# **Governance and administration risks in public service pension schemes: an engagement report**

Findings from our engagement with 10 local government funds, selected from across the UK, to understand scheme managers' approaches to a number of key risks. As part of each engagement we fed back on good practice and suggested improvements that could be made.

The engagement took place between October 2018 and July 2019 following the results of our annual governance and administration survey, in which we identified that improvements being made across the Local Government Pension Scheme (LGPS) had slowed down. We were pleased to note that scheme managers were already sharing good practice with their LGPS peers and hope that working with us offered scheme managers a new perspective on their funds.

We carried out this review at a high level based on meetings with scheme managers to understand the challenges they face. The meetings were supplemented by a review of some fund documentation and examples of communications sent to members, prospective members and beneficiaries.

It is not a comprehensive evaluation of the funds' operations and is not intended to replace audit requirements, nor is it to be considered as regulatory assurance or an endorsement of the fund by The Pensions Regulator (TPR).

## Glossary of terms

| <b>Term</b>       | <b>Description</b>  |
|-------------------|---|
| CETV              | Cash Equivalent Transfer Value, a valuation of a members benefit entitlement that can be transferred to another scheme.   |
| FCA               | The Financial Conduct Authority, which regulates firms in the financial sector including IFAs.  |
| Firm              | A business in the financial sector carrying out activities that require authorisation from the FCA.   |
| Fund              | A locally administered element of a wider pension scheme.   |
| IFA               | Independent Financial Adviser, a person with FCA authorisation to advise people about financial decisions.  |
| Member            | A person who has paid into and expects to receive or is receiving a benefit from a pension scheme.  |
| PAS               | Pension Administration Strategy, a document detailing roles and responsibilities as well as penalties for non-compliance with duties to the fund.                               |
| Pension Board     | A body that supports and advises the scheme manager.  |
| Pension committee | A body running a pension scheme with the delegated authority of the scheme manager.   |
| PSPS              | Public Service Pension Scheme   |
| Saver             | A potential beneficiary of a pension scheme, whether or not they are a member.  |
| s.151 officer     | A senior member of staff at a Local Authority. Controls resourcing across the Authority, including for the running of the local element of the Local Government Pension Scheme. |
| Scheme            | A pension scheme which may have separate funds within it.   |
| Scheme manager    | The person or body legally responsible for the operation of a PSPS.   |
| SLA               | Service Level Agreement, an agreed and measurable level of quality usually forming part of a contract.  |

## Executive summary

Overall we found a number of common areas, some requiring improvement but others demonstrating good practice relating to the various risk areas we investigated. The key improvement areas are summarised below. These findings align with the findings from our [annual public service governance and administration survey](#).

**Key person risk:** While most scheme managers demonstrated a good knowledge of what we expect, many funds have a lack of comprehensive documented policies and procedures. We also found an over-reliance on controls put in place by the Local Authority with little interaction between the scheme manager and Local Authority. This was particularly prevalent in relation to cyber security but this theme overlays several of the risk areas we explored.

**Pension boards:** Engagement levels varied, with concerns being raised about the frequency some pension boards meet and their appetite to build their knowledge and understanding. We saw evidence of some pension boards not wanting to review full documents, instead relying on much reduced summaries and leading us to question how they could fulfil their function. Others were well run and engaged.

**Fraud / scams:** We saw evidence of scheme managers learning from wider events and taking steps to secure scheme assets. However, not all were as vigilant when it came to protecting members from potential scams.

**Employers:** We saw considerable variance in the approaches taken to dealing with the risks surrounding employers, such as receiving contributions and employer insolvency. Generally this was connected to fund resourcing but also related to different philosophies related to taking security over assets.

The following sections detail our findings and recommendations, together with case studies we believe will be helpful to the PSPS community.

## Key findings and associated case studies

## Area of focus: Record-keeping

### [Code of Practice 14 – Governance and administration of public service pension schemes](#)

Failure to maintain complete and accurate records and put in place effective internal controls to achieve this can affect the ability of schemes to carry out basic functions. Poor record-keeping can result in schemes failing to pay benefits in accordance with scheme regulations, processing incorrect transactions and paying members incorrect benefits.

#### Findings

Many scheme managers have moved from annual to monthly member data collection and found this enabled them to verify data at an earlier stage, with some funds providing monthly reports to employers highlighting the quality of data submitted and action points they need to complete.

Well-run funds are aware of the quality of the common and scheme specific data they hold. Where it is not entirely accurate robust and measurable, data improvement plans are in place. scheme managers of these funds consider a range of methods to improve data quality, including tracing exercises and improving contract management methods.

They also generally have a robust PAS in place which detail rights and obligations of all parties to the fund.

#### Recommendations

- Scheme managers should be aware of how the member data they hold is measured. Data quality needs regular review. A robust data improvement plan should be implemented as appropriate.
- The quality of member data should be understood by the Scheme Manager and Pension Board. It should be recorded and tracked to ensure common and scheme specific data is of good quality. An action plan should be implemented to address any poor data found.
- Although not a legal requirement, a PAS could be implemented clearly setting out responsibilities and consequences of not complying with duties to the fund. The Pension Board should review the PAS and ensure it will stand up to challenges from employers.

#### Record-keeping case study 1

One scheme manager we engaged with identified concerns with the accuracy of both the common and scheme specific data it held about the fund members. Following engagement with TPR, the scheme manager created and implemented a robust data improvement plan to drive up record-keeping standards.

One of the data areas of concern for the scheme manager was the number of missing member addresses - this resulted in data scores of 60-80% for common and scheme specific categories. After a review of available resources, the scheme manager undertook a tracing exercise and within a short period of time was able to locate and carry out existence checks on over 90% of the deferred members without known addresses. The exercise also involved reviewing the way active and

pensioner members are communicated with to ensure the fund holds the correct contact details for them.

This is an example of a scheme manager taking a holistic approach to improving its record-keeping standards. It gave consideration to the resource available so the project achieved a positive result while providing good value for money. The scheme manager has established that having a data improvement plan which is regularly reviewed will improve oversight of the actions it needs to take and the associated deadlines.

## **Record-keeping case study 2**

The scheme manager of a fund we engaged with openly communicated with us about the challenges it faced in producing Annual Benefit Statements. We were told delays were caused by employers not providing member data to the scheme manager on time, and there were issues with the accuracy of some member data provided by employers.

Having considered its operational structure, and our expectations on governance and administration, the scheme manager reorganised itself internally. With the support of the s.151 officer, the scheme manager developed and implemented a robust data improvement plan which could be measured.

As well as creating a data improvement plan the scheme manager also strengthened its pension administration strategy, outlining responsibilities and the timeframes for action. This document made the consequences of non-compliance by employers clear, such as financial penalties. The scheme manager has also introduced regular employer forums to help further raise standards with employers.

As a result the scheme manager has seen a marked improvement in employer engagement and the quality of member data it holds. It continues to actively monitor both data quality and employer compliance.

## **Area of focus: Internal controls**

### **[Code of Practice 14 – Governance and administration of public service pension schemes](#)**

The scheme manager of a public service pension scheme must establish and operate internal controls. These must be adequate for the purpose of securing that the scheme is administered and managed in accordance with the scheme rules and in accordance with the requirements of the law.

#### **Findings**

There were a range of approaches to identifying, monitoring and mitigating risks to the funds we engaged with. Some

#### **Recommendations**

- A risk register should be in place and cover all potential risk areas. It

funds had detailed risk management frameworks in place and clear defined procedural documents. Others lack detailed risk registers or do not review the risks to the fund on a frequent basis, with little oversight of work being done to identify or mitigate risks.

We found evidence across a number of funds of key person risk, where a long serving member of staff has developed a high level of knowledge about their role and internal processes but this knowledge is not documented. This leaves these funds exposed to the risk of a sharp downturn in administration and governance standards should the key person unexpectedly leave their role.

Funds with an engaged s.151 officer who has a good relationship with the scheme manager are more likely to have clear and robust internal controls.

should be regularly reviewed by the pension board.

- The scheme manager should take a holistic view to risks and understand how they are connected.
- The pension board should have good oversight of the risks and review these at each pension board meeting.
- Internal controls and processes should be recorded, avoiding an over reliance on a single person's knowledge levels.
- The scheme manager should ensure all processes are documented and reviewed on a regular basis.
- Decision and action logs covering all decisions provide a useful reference point as decisions recorded in minutes can be hard to locate.

### **Internal controls case study 1**

A scheme manager has reviewed the approach it takes to maintaining a risk register, having found the approach it was taking could be more effective.

The scheme manager developed a high level document which identifies a wide range of risks with all members of the senior leadership team having a role in the identification and scoring of potential risks.

This document is supported by detailed 'risk maps' which provide:

- (i) a description of the identified risks
- (ii) the person responsible for overseeing the risk
- (iii) how the risk is scored and
- (iv) details of the mitigating actions and controls in place

Action points identified have clear timescales for completion with an identified person being responsible for delivery.

The full risk register is made available to the pension committee and pension board each time they meet and its review is a standing item on both agendas. This allows

for constructive oversight and challenge, along with a clear process to act on feedback provided.

This is an example of a fund which is engaged at all levels of seniority to identify and mitigate risks to good saver outcomes. There are clear, identified processes in place along with strong oversight of the work being done. This approach was devised before TPR began to engage with the scheme manager and demonstrates a clear desire to improve.

## **Internal controls case study 2**

A scheme manager has developed two risk registers, one for the pension committee (which acts as delegated scheme manager) and a separate, shorter, register for the pension board.

The risk register for the pension board had been reduced in size and detail at the request of the pension board. We have concerns the reduced risk register will prevent the pension board members from having full oversight of all the fund's risk and applying their knowledge and understanding in an appropriate way as they will not be fully conversant with the facts surrounding each risk.

The pension board also only reviews the risk register twice a year. We believe the risk register should be a standing item on the agenda for both the pension committee and the pension board and reviewed at each meeting – ie it will be reviewed at least each four times a year by each body.

We gave feedback to the scheme manager about our concerns and recommendations, and would encourage funds that adopt similar practices to consider how they can make more effective use of the pension board and improve the engagement levels of its members.

## **Area of focus: Administrators**

### **[Code of Practice 14 – Governance and administration of public service pension schemes](#)**

Good administration is the bedrock of a well-run fund. A scheme manager should work well with its administrator or administration team, and ensure the right people and processes are in place to ensure members' benefits are administered to a high standard.

#### **Findings**

Better performing scheme managers have a close relationship with their administrator, whether they use a third party provider or an internal team. In these instances robust SLAs are in place which are routinely monitored by senior managers. These scheme managers are

#### **Recommendations**

- Scheme managers must agree targets and have a strong understanding of what service providers are expected to achieve. The scheme manager should challenge and escalate as

also willing to effectively challenge reports from administrators to ensure they fully understand the work being done.

Not all scheme managers have clear oversight of the work being done by administrators or question the information provided by them when it is appropriate to do so. This leads to the scheme manager not understanding how well the fund is performing and can act as a barrier between the scheme manager and both participating employers and members.

There is a variety of methods used to appoint third party administrators, and scheme managers generally carefully consider the best approach for the individual circumstances of their fund.

appropriate should agreed standards not be met.

- Contract lengths should be known and planned against to allow sufficient time to consider contract extensions or for the tender process, as appropriate. This mitigates risks in handing over to a new administrator.
- It is helpful for the administrator to attend and present to pension board meetings as pension board members can use their knowledge and understanding to effectively challenge reports being provided.
- Scheme managers should hold regular meetings with their service providers to monitor performance.

### **Administrator case study 1**

A scheme manager had entered into a outsourcing contract with an administrator. The administrator's performance over a period of time was unsatisfactory, and targets and SLAs were not consistently met. Despite the council's finance director personally intervening with the administrator, matters were not improved to acceptable levels and penalty clauses were invoked.

The scheme manager decided to terminate the contract and review alternative administrative options, with a key aim of including more visibility, which the previous contract type arrangement had not provided.

The scheme manager decided not to take the administration back in house, but to enter into a third option, a shared service partnership with another administrator. This is charged on a shared cost per member basis. The new administrator also provides administrative services for a few other public service funds. The scheme manager is now part of a collaborative board and engages regularly with other scheme managers, has better visibility and good reporting functionality which now enables easy monitoring of the administrator's performance.

Data quality improvements were recognised as a key focus for the new administrator on its appointment. The scheme manager developed and put in place a robust data improvement plan with the new administrator and has made considerable improvements in its data quality scores in a short period of time. They are now using the plan as a living document to continue to target the areas needing improvement.

### **Administrator case study 2**

One of the scheme managers had appointed a third party administrator using a partnership agreement, rather than a commercial contract. This demonstrates one of

a number of approaches taken by scheme managers to secure administration services.

The scheme manager has established a clear set of objectives for the administrator and receives monthly reports about whether these are being met. The reports are shared with the pension board. Additionally, at each pension board meeting a representative of the administrator is present. This allows the pension board members to directly question the administrator about the work it is doing on behalf of the scheme manager and ensure that good saver outcomes are achieved.

Even when a scheme manager uses an outsourced administration service it remains liable for the work done on its behalf. This example demonstrates positive steps taken by a scheme manager to ensure it has effective oversight and can hold an administrator to account.

### **Administrator case study 3**

A scheme manager was informed that its third party administrator intended to restructure in order to improve the level of service it provided to its clients. The administrator was confident that the restructure would not affect its business as usual work and the scheme manager took comfort from this without seeking more detailed assurances.

The restructure did not go as planned, which led to delays in member data being processed and SLAs not being met for around six months. The scheme manager has since increased the number of both operational and strategic meetings it holds with the administrator to combat the declining performance of the administrator.

As part of this work the scheme manager has set clearly documented expectations and provided priorities to the administrator to minimise the number and impact of poor saver outcomes. The scheme manager has now developed new ways of working with the administrator to ensure it probes the administrator's plans in more detail in the future.

This is an example of a scheme manager placing excessive reliance on assurances from an administrator without seeking evidence that supported the assurances. Robust contract management is important and will help scheme managers to identify upcoming risks to savers and to build a strong understanding of the information being provided.

## **Area of focus: Member communication**

### **[Code of Practice 14 – Governance and administration of public service pension schemes](#)**

The law requires scheme managers to disclose information about benefits and scheme administration to scheme members and others. This allows savers to understand their entitlements and make informed financial decisions.

## Findings

A number of scheme managers are currently reviewing the documents they send to savers. It is widely appreciated that pensions and retirement provision is complicated, and communication with savers needs to be in plain English. A variety of methods are being used, with the strongest scheme managers in this area working closely with a technical team and also enlisting the assistance of non-technical staff to check readability and whether it is comprehensive.

Not all scheme managers fully appreciate the extent of their duties to provide information to savers, with some not knowing about the legal duty to inform active members where employee contributions are deducted but not paid to the fund within the legislative timeframe.

### Member communication case study 1

A scheme manager had previously delegated responsibility for communication with members to its third party administrator. However, it had a number of concerns about the quality of the service being provided, which included how members were kept informed and the level of detail provided.

The scheme manager took the decision to change its administrator and has now taken greater control over the communication with members. This has led to the development of a new pension administration strategy, with clear expectations around member communications being set and monitored.

A new website is being developed and the scheme manager recognises that having a clear online presence is an important method of communicating with current and potential members.

It is important to communicate with members, potential members and other relevant savers in a clear way. The information provided by a scheme manager will be used by members to make important decisions about their financial affairs. This is an example of a scheme manager looking to improve the member experience through revising the way it communicates.

### Member communication case study 2

We engaged with a scheme manager that has developed a detailed communication strategy, which covers the content, frequency, format and methods of communicating. The scheme manager actively promotes the benefits of joining the fund to prospective members and through the participating employers.

## Recommendations

- Information sent to members should be clear, precise and free from jargon.
- There should be senior oversight of communications sent to members and prospective members.
- It is often helpful for scheme managers to measure the effectiveness of their communication with savers, eg measuring website traffic and running surveys.

Two people are responsible for different aspects of member communications, with all material being formally approved by the scheme manager before being used. The scheme manager has developed a wide range of accessible materials for savers, including a website, a wide range of information booklets, and newsletters.

Members are informed clearly of how they can raise any queries or concerns about the operation of the fund. This includes members being able to go to the scheme manager's offices in person to discuss any queries with a suitable member of staff.

The scheme manager conducts annual surveys of its members, publishing the outcomes on its website and in its annual report. It uses this information, together with complaint trends, to identify how it can provide a better service to savers.

## **Area of focus: Internal Dispute Resolution Procedure (IDRP)**

### **[Code of Practice 14 – Governance and administration of public service pension schemes](#)**

Scheme managers must make and implement dispute resolution arrangements that comply with the requirements of the law as set out in the Code to help resolve pensions disputes between the scheme manager and a person with an interest in the scheme.

#### **Findings**

Some scheme managers have clear procedures in place for recording, and learning from, complaints and disputes they receive. They use this information to make changes to the way the fund is run in order to provide the best possible service to beneficiaries.

Not all the complaints procedures and IDRPs we saw were clear about who was entitled to use them, and in some cases details of how to complain were not clearly published. This limits the ability of people with an interest in the funds to raise concerns and restricts a useful source of information for scheme managers.

Not all scheme managers have a clear definition of a complaint. It is important for scheme managers to act in a consistent manner and if what a complaint looks like

#### **Recommendations**

- There should be a clear internal policy on how to handle complaints, including escalation to suitable senior members of staff.
- People entitled to use the IDRP should be given clear information about how it operates.
- This information should be easily available, eg on the fund website.
- The pension board and scheme manager should have oversight of all complaints and outcomes, including those not dealt with in-house.
- Complaints and compliments could be analysed to identify changes that can be made to improve the operation of the fund.

is not known this will affect its ability to put things right.

### **IDRP case study 1**

All the scheme managers we engaged with operate a two stage IDRP, where the first and second stages are looked at by people who are independent of each other.

Initially, one of the scheme managers we engaged with didn't have oversight of complaints entering the first stage of the IDRP. These complaints were dealt with by employers as they were not considered to be issues about the fund or an in-house administration matter. This meant the scheme manager did not have full oversight of the first stage complaints and therefore could not identify whether there were any trends or patterns that needed addressing, eg an employer training issue.

Following engagement as part of the cohort work, we recommended that the scheme manager develop greater oversight of the work being done on its behalf. The scheme manager now recognises this is an area where it should improve and has amended its processes to ensure it is aware of how member outcomes are being managed when first stage IDRP complaints are received.

### **IDRP case study 2**

Like all other funds we engaged with, this scheme manager operates a two tier IDRP. However, the scheme manager stood out in this instance for the detailed and methodical manner in which it records complaints that are raised.

All complaints are recorded in a single log which detail how it progresses, potentially from an initial concern through to a finding issued by the Pensions Ombudsman. This allows the scheme manager to analyse complaint trends and the learning points are used to improve the operation of the fund.

Additionally, all actions relating to complaints have a clear owner. This allows for strict quality control and helps ensure complaints are dealt with as soon as possible.

We would encourage all scheme managers, where they have not already done so, to adopt a detailed and auditable approach to monitor complaints and compliments received through all channels.

## **Area of focus: pension boards**

### **[Code of Practice 14 – Governance and administration of public service pension schemes](#)**

The role of the pension board is to assist the scheme manager with the operation of the scheme. Pension board members are required to have an appropriate level of knowledge and understanding in order to carry out their function.

**Findings**

**Recommendations**

Scheme managers have a variety of methods for appointing pension board members and the structure of these boards also varies between funds. In some cases board member rotation is staggered to help preserve knowledge levels. Additionally, some boards have independent chairs, depending on the needs of the individual pension board.

We also found a mix of engagement levels amongst pension board members. Some scheme managers are able to call on strong, committed pension boards to assist them with the operation of the fund. Other scheme managers face challenges around pension board members who routinely fail to attend meetings or complete the training they need to meet the required level of knowledge and understanding.

The relationships between pension boards and scheme managers varied - where the pension board had a strong relationship with the scheme manager, including a willingness to challenge, we found better-run funds.

- The scheme manager should arrange training for pension board members and set clear expectations around meeting attendance.
- Individual pension board member training and training needs should be assessed and clearly recorded.
- The pension board should meet an appropriate number of times a year, at least quarterly.
- Processes should be in place to deal with an ineffective pension board member by either the chair of the pension board or the scheme manager.
- Scheme managers should be aware of the risk of pension board member turnover and ongoing training needs.
- Regular contact between the scheme manager and chair of the pension board is helpful. An open and auditable dialogue outside of formal meetings can help improve the governance and administration of the fund.
- The chairs of the pension board and pension committee should consider attending each other's meetings to observe as this leads to better transparency.
- Pension board members should be fully engaged and challenge parties where appropriate.

### **Pension board case study 1**

One scheme manager spoke to us about the challenge it has faced regarding attendance at pension board meetings, and ensuring the pension board has the required level of knowledge and understanding. At one time it had to reschedule a meeting of the pension board because so few people attended the meeting.

Since then the scheme manager has changed its policy on pension board meetings. One pension board member with a low attendance record has been removed and replaced with a more engaged representative.

The scheme manager is also reviewing how it records the training that pension board members attend. Currently, training is recorded at a high level and there is no

clear method of identifying training needs, although informal discussions take place between the scheme manager and individual pension board members.

The scheme manager has recognised that it needs to better understand how pension board members are meeting their obligation to have an appropriate level of knowledge.

## **Pension board case study 2**

Another scheme manager we engaged with has reviewed how the pension board operates and decided to appoint an independent chair. While the chair does not have voting rights, this person lends their expertise to the running of the pension board to ensure meetings run effectively.

Having an independent chair is not compulsory but in this instance is a positive example of a scheme manager being aware of the needs of the local pension board and taking steps to ensure it operates effectively.

The scheme manager has also developed a strong working relationship with the chair, holding a number of informal meetings outside of the formal pension board meetings. This working practice allows the scheme manager to ensure the pension board receives all the information it needs and that the scheme manager can comprehensively answer any anticipated questions.

## **Area of focus: Employers and contributions**

### **[Code of Practice 14 – Governance and administration of public service pension schemes](#)**

Contributions must be paid to the scheme in accordance with scheme regulations. Scheme managers are also reliant on employers to provide accurate and timely member data, which is required for the effective administration of the scheme.

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#### **Findings**

Scheme managers monitoring the payment of contributions often face the challenge of payroll providers making a single payment for several employers and delaying sending a breakdown of the amount paid. Some scheme managers have been working with participating employers to encourage them to provide training to payroll providers where the payroll company won't engage with a

#### **Recommendations**

- Scheme managers should understand the financial position of participating employers and take a risk-based and proportionate approach to identifying employers most at risk of failing to pay contributions. Red, Amber, Green reporting often provides extra focus.

body it doesn't have a direct contractual relationship with. Changing a payroll provider can cause issues. Early engagement with the employer and provider is helpful to mitigate later problems.

Scheme managers have a variety of ways of assessing the risk of employers failing to pay contributions or having a disorderly exit from the fund, depending on the fund's resources. Better resourced and funded scheme managers will carry out detailed covenant assessments of all participating employers, with other scheme managers only reviewing those they believe to pose the highest risk.

Most scheme managers seek security from employers to mitigate the risk of a failure to pay contributions. Some scheme managers rely on guarantees, particularly in relation to participating employers providing outsourced services. Others expect the majority of employers to set up a bond. Only a few scheme managers accepted a wide range of security types, generally those with larger funds.

Decisions around what security to require are often based on previous ways of operating, rather than considering the best option in individual circumstances.

- Employer solvency should be considered on an ongoing basis and not just at the time of each valuation.
- Where employers outsource the payroll function, early engagement with the employer on the potential risks will help them manage their supplier.
- Employers may exit the fund so it is helpful to have a principle based policy on how to manage this given that circumstances are likely to vary in individual situations.
- Scheme managers should develop an understanding of the risk and benefits of a range of security types, such as charges, bonds and guarantees.
- Scheme managers should consider whether accepting a range of security types will offer more effective protection to the fund, rather than focussing on a single form of security.
- Scheme managers should understand which employers have not provided any security for unpaid contributions and consider what appropriate steps can be taken to secure fund assets.
- Where security is in place, Scheme Managers should have a policy on when the security should be triggered.

### **Employer case study 1**

Having a robust method for reviewing employer risk is a high priority for one of the scheme managers we engaged with. It has developed a process to maintain oversight of the various participating employers in the fund, covering a range of topics from the provision of member data to the strength of the employer covenant.

Each employer is risk rated and the risk levels are regularly monitored. This allows the scheme manager to gain advance notice of potential problems so it can take steps to mitigate the risks and to provide comfort that guarantors are in a position to pay additional amounts to the fund if a call on the guarantee is made.

This information is also used to inform employers of any failures to meet their obligations to the fund at an early stage, identifying action points they need to carry out.

## **Employer case study 2**

Scheme manager 1 has decided to incorporate a charging policy for seeking the reimbursement of costs caused by an employer's failure to comply with its obligations into admission agreements. This means the scheme manager has a clear policy in place that all employers will be aware of when they start to participate in the fund.

Not all scheme managers have approached the issue of employer compliance in the same way. Scheme manager 2 has a small portfolio of participating employers and relies on having a good relationship with them in order to achieve compliance. This scheme manager also considers that as most employers are supported by central government it need not be concerned with affordability.

We were concerned about the lack of formal processes to ensure compliance. While the scheme manager has not encountered difficulties to date, we have recommended that it makes some improvements. Additionally, all scheme managers should remember that, should a participating employer suffer an insolvency event, any missing payments due to the fund will need to be paid by someone and there should not be an over-reliance on the taxpayer and other employers.

## **Area of focus: Cyber security**

### **[Guidance: Cyber security principles for pension schemes](#)**

Pension schemes hold large amounts of personal data and assets which can make them a target for fraudsters and criminals. scheme managers need to take steps to protect their members and assets accordingly.

#### **Findings**

Most scheme managers are heavily reliant on the security systems put in place by the Local Authority, with some not engaging with how the procedures in place affect the fund. Scheme managers of well run funds have a good understanding of the IT systems in place, even where these are implemented by the Local Authority.

Some scheme managers have not given consideration to the risks posed by cyber crime. For these funds, cyber security did

#### **Recommendations**

- Scheme managers and pension boards should understand the risk posed to data and assets held by the fund so steps can be taken to mitigate the risks. This should be reflected in the risk register.
- Regular, independent, penetration testing should be carried out. Scheme managers should consider physical security as well as protection against remote attacks.
- Where cyber security is maintained by the Local Authority rather than the scheme manager, the scheme manager should understand the

not appear on the risk register before our engagement with the scheme manager.

Scheme managers that are aware of the risks associated with cyber crime generally have robust procedures in place to test the effectiveness of both cyber security and resilience methods.

procedure and ensure the fund's requirements are met.

- Scheme managers should be aware of the cyber security processes used by third party providers, such as the administrator or custodian, that handle fund assets or data.

### **Cyber security case study 1**

A scheme manager we engaged with identified cyber security as one of the top risks to the fund. It demonstrated a good awareness of the processes put in place by the Local Authority and carries out testing of these processes.

The scheme manager had recently tested both its cyber defences and the wider business continuity plan. As a result it is confident it can provide a good service to savers in the event of a wide variety of disaster scenarios.

As part of our engagement we also found the scheme manager has processes in place to assess the adequacy of steps taken by its service providers to protect member data. This gives the scheme manager comfort that member data will be secure when being handled by other bodies.

Although the scheme manager has not implemented its own controls it has rigorously reviewed the process put in place by the Local Authority. It has satisfied itself that those processes are of a sufficient standard to protect the fund and its savers.

### **Cyber security case study 2**

A scheme manager had not considered the importance of cyber security until we engaged with them as part of this work. The scheme manager was reliant on the security measures put in place by the council but did not engage on the topic, so it was not clear how it was affected.

Cyber security did not appear on the fund's risk register and the scheme manager was not actively considering the dangers of a successful cyber attack on the fund.

Following our engagement, the scheme manager has developed its understanding of the risks surrounding cyber security. It now records the risk on its risk register and as part of the Local Authority's strategy all staff will receive mandatory training in cyber security.

The scheme manager has also started engaging with third party service providers to ensure they also have robust cyber security and data protection procedures in place. This gives the scheme manager better oversight of how member data is protected when not under the scheme manager's direct control and marks a significant improvement in how this risk is monitored and mitigated.

## Area of focus: Internal fraud and false claims

### Code of Practice 14 – Governance and administration of public service pension schemes

Schemes without strong internal controls are at greater risk. This includes having a clear separation of responsibilities and procedures which prevent a single member of staff from having unfettered access to scheme assets. Strong internal controls, particularly over financial transactions, also help mitigate the risk of assets being misappropriated.

#### Findings

Scheme managers generally appear to have an awareness of the risks of fraud against their fund, both from an internal and external source. We found scheme managers are generally aware of publicised fraudulent activity that have affected other pension schemes and have taken steps to review their own procedures.

Scheme managers of well run funds typically take steps to regularly screen member existence. Their scheme managers are also aware that not all incorrectly claimed pension benefits are the result of an attempt to defraud the fund and can identify when to treat a situation with sensitivity.

Most scheme managers have introduced multiple levels of sign offs, with more than one person being required to agree to a payment being made. The scheme managers were also aware of frauds involving other funds, where this had been made public. They had taken steps to reduce their own vulnerability to similar issues.

#### Fraud case study 1

A scheme manager has worked with its administrator to put in stringent measures to prevent fraudulent activity. In addition to participating in the National Fraud Initiative, it does regular life certificate exercises as part of the fund's policy, checking mortality and addresses. Where doubts are raised the scheme manager will suspend payments pending clarification.

#### Recommendations

- Scheme managers should regularly review their procedures to protect the fund's assets from potential fraud.
- A clearly auditable process should be in place for the authorising of payments. Ideally, this would require more than one person to provide authority to make the payment.
- A scheme manager should have a policy in place to differentiate between a potential fraud and a potential honest mistake by a saver.
- Where a fraud is detected in the scheme manager's fund, or another one, they should take steps to stop the fraud and analyse causes to prevent a reoccurrence.
- When paper records are being used they should be held securely to prevent the risk of loss or misappropriation.

Many of the members of the fund are now non-resident in the UK, which provides challenges to the scheme manager in locating members. The scheme manager has adopted an innovative use of technology for the foreign domiciled members by arranging video calls to speak to the member who must show their passports to provide their identity and confirm personal details.

The scheme manager demonstrated good awareness of the risk of internal fraud by connected persons, and there is clear segregation of duties. Additionally the workflow processes being system driven provide automatic checks with different people checking and authorising the processes. Suspicious payments are immediately reported to senior management to check.

Fraud reporting policies are clear, and internal auditors are involved whenever there is suspicion of a fraudulent activity. The fraud reporting goes immediately to directorship and chief executive level.

## **Fraud case study 2**

In this instance the scheme manager has strong controls in place to identify potential frauds against the fund assets.

The scheme manager works with the National Fraud Initiative to identify instances of possibly fraudulent claims for a benefit from the fund. The scheme manager's work in this area is supplemented by its involvement with the 'Tell Us Once' initiative and the use of a third party agency to help identify when beneficiaries have passed away.

The scheme manager also demonstrated an awareness of the risks associated with members and other potential beneficiaries being overseas. It carries out existence checks on these people as well as those residing in the United Kingdom.

When a payment is due to be made, the scheme manager has introduced a vigorous set of controls. This has led to a clear separation of duties and the requirement for payments to be independently authorised, reducing the risk of fund employees misappropriating fund assets.

## **Conclusion**

We've outlined some areas of good practice in this report, and also some areas where we remain concerned and expect scheme managers to improve where appropriate. Overall, we noted:

- Not all funds are the same and there is a variety of equally valid approaches to mitigating risk used across funds in the LGPS.
- It is important that scheme managers recognise, and maintain, a separation between the fund and Local Authority to avoid an over-reliance on the Local Authority's policies and procedures. When establishing its own policies and procedures a scheme manager should be able to seek assistance from the pension board, meaning steps should also be taken to ensure the pension board is able to fulfil its role. Where this is not possible, scheme managers

should feed into creating Local Authority policies to make sure they are fit for purpose.

- There are clear benefits to the operation of the fund where there is an engaged s.151 officer who is directly involved.
- Good quality data and record-keeping standards underpin all aspects of successfully running a fund and these areas should be treated as a priority in order to drive good outcomes.
- Scheme managers that have developed and implemented a robust pension administration strategy have found them useful. While not a legal requirement, scheme managers should consider whether this type of document will be useful and look to introduce them where this is the case.
- A common risk is the unexpected departure of key members of the scheme manager's staff. Succession planning and clearly recorded processes help mitigate this risk.
- Measuring governance and administration is challenging and requires more than just an analysis of raw figures. Scheme managers should therefore put in place appropriate reporting measures that they believe capture both quantitative and qualitative assessments. This approach should be tailored to the specific circumstances of their fund.
- Scheme managers should take a holistic approach when considering the governance and administration risks to their fund. Most risks are connected to each other and a scheme manager should understand how a risk materialising will impact on other areas of governance and administration.
- Risks to funds are constantly changing and evolving. For example, the methods used by scammers change over time. Scheme managers should be alert to the changing nature of risks and adapt their approaches accordingly.
- Many scheme managers have a clear understanding of how their funds operate and want to provide the best experience for savers. Where scheme managers liaise with each other to discuss common challenges and solutions to them, whether at formal events or through ad hoc engagement, often leads to improved governance standards. We encourage such action.



## Surrey Local Pension Board 24 October 2019

### Competition & Markets Authority (CMA): Investment Consultant (IC) Strategic Objectives

#### Recommendations:

The Board is asked to note the Draft Strategic Objectives for Investment Consultants of the Fund in line with CMA Requirements (Annex 1).

#### Detail:

1. The Pensions Act 1995 requires the trustees of a Local Government Pension Scheme to appoint certain 'professional advisers' to carry out specific tasks in relation to the scheme. The advisers, more specifically, the IC Provider, should have the knowledge, experience and professional qualification to provide investment advice to the Fund.
2. Following dialogue with the Competition Markets Authority (CMA), Ministry of Housing, Communities & Local Government (MHCLG) and Department for Work & Pensions (DWP) and subsequent consultations published by DWP and TPR, The Investment Consultancy and Fiduciary Management Market Investigation Order 2019 appeared to apply two new obligations to the LGPS.
  - A requirement to tender for services provided by some pool companies which fall under the definition of Fiduciary Management (FM)
  - A requirement to set strategic objectives for providers of Investment Consultant (IC) services
  - It also flagged a potential change to the FCA's regulatory perimeter to bring advice on strategic asset allocation within the definition of a regulated activity
3. This report outlines the draft Strategic Objectives set by the Fund for its Investment Consultants.

-----  
**Report contact:** Mamon Zaman, Senior Accountant (Pension Fund and Treasury)

**Contact details:** T: 020 8213 2738 E: mamon.zaman@surreycc.gov.uk

#### **Annexes:**

Annex 1 – Investment Consultant Strategic Objectives

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## Surrey Pension Fund: Strategic Objectives for Investment Consultants (IC)

### Background

The Pensions Act 1995 requires the trustees of a Local Government Pension Scheme (LGPS) to appoint certain 'professional advisers' to carry out specific tasks in relation to the scheme. The advisers, more specifically, the IC Provider, should have the knowledge, experience and professional qualification to provide investment advice to the Fund. The IC Provider must be formally appointed by the Fund through letter of appointment, as per The Pensions Regulator (TPR) guidance below:

The letter of appointment sent to the adviser must mention:

- The date the appointment begins;
- To whom the adviser will report; and
- Who will give instructions to the adviser.

The adviser must acknowledge the appointment in writing within a month. They must also confirm that they will disclose any conflict of interest that affects their role as soon as they become aware of one.

### The Investment Consultancy and Fiduciary Management Market Investigation Order 2019 ('the Order')

The Order was published by the Competition & Markets Authority on 1 August 2019 and provides notice of new responsibilities for LGPS funds.

Following dialogue between the Competition Markets Authority (CMA), Ministry of Housing, Communities & Local Government (MHCLG) and Department for Work & Pensions (DWP) and subsequent consultations published by DWP and TPR, there is agreement that the Order applies two new obligations to the LGPS, as well as a potential change to the Financial Conduct Authority's (FCA) regulator perimeter. The obligations are as follows:

- A requirement to tender for services provided by some pool companies which fall under the definition of Fiduciary Management (FM)
- A requirement to set strategic objectives for providers of Investment Consultant (IC) services
- It also flagged a potential change to the FCA's regulatory perimeter to bring advice on strategic asset allocation within the definition of a regulated activity

Only the second objective immediately applies to the Surrey Pension Fund. This paper will outline the strategic objectives set by Surrey Pension Fund for the IC Providers.

## **The Objective of the Fund**

The Trustees and those responsible for managing the Fund, seeks to ensure that it has sufficient assets to be able to meet its long term obligations to pay pensions to the Fund's members. It also has an objective to maintain employer contribution rates as reasonably stable and affordable as possible.

(The "Objective of the Fund")

Subject to being consistent with the agreed investment consultancy services to be provided by the IC Provider, the following objectives for the IC Provider will, if well executed, contribute towards achieving the Fund's Overall Objective:

### **1. Alignment of services with the Objective of the Fund**

The IC Provider should take into account the Objective of the Fund above and, in doing so, will give due consideration to relevant circumstances of the Fund when advising in its interests. Those relevant circumstances include; but are not limited to, the contributions policy, developments in the funding level of the Fund from whatever cause, the tolerance for investment risk of the Fund and the employers, economic and market conditions and outlook.

The IC Provider should also consider the fiduciary duty of the Fund to act in the best interests of pension members as per the Objective of the Fund, and consider Environmental, Social and Governance (ESG) factors and stewardship risks when providing advice.

The IC Provider should also avoid potential conflicts of interest between the objectives of the IC Provider and the objectives of the Fund.

### **2. Investment strategy objective**

Where applicable, the IC Provider should guide the Fund in determining appropriate strategic investment objectives to achieve optimal funding levels to meet liabilities. This can be achieved through improved performance or management of investment risk over the long term;

- The IC Provider should develop an investment strategy robust enough in steering through volatile market movements which can impact asset and liability values
- The IC Provider should advise the Fund on setting a strategic asset allocation that is well diversified and expected to generate returns in excess of the expected rise of the Fund's liabilities.
- The IC Provider should, when advising on the overall level of risk in the strategic asset allocation, take into consideration the Fund's current risk appetite

- The IC Provider should advise the Fund in maintaining sufficient liquid resources to meet its ongoing obligations
- The IC Provider should advise the Fund on new investment opportunities and emerging risks and periodically propose amendments to the investment strategy where appropriate.

### **3. Investment manager selection objective**

The IC Provider should make recommendations on the appointment and retention of suitable investment managers and also on construction of prospective sub funds within the LGPS Pool, which are consistent with the Fund's strategic objectives.

The IC Provider should recommend investment managers/ sub funds that the IC Provider believes have a high degree of confidence in achieving the objective set for the investment manager after fees over a market cycle.

### **4. Implementation objective**

The IC Provider should assist with achieving timely and cost-effective implementation of the Fund's investment decisions where appropriate, also in the context of current market conditions.

### **5. Investment Strategy Statement**

The IC Provider should provide guidance on any matters in respect of which the Fund is required by law to seek advice in relation to the preparation or revision of the Fund's Investment Strategy Statement.

### **6. Breaches of Law**

The IC Provider has a legal duty to report any breaches of law, in relation to its investments, if they have reason to believe there has been a breach made by the Fund that is likely to be of material significance to the Pensions Regulator.

### **7. Monitoring objective**

The IC Provider should assist with the monitoring of the Fund's performance against its Investment Strategy in the following areas;

- Monitoring current legacy manager and asset class performance, and advising courses of action as and when required
- Monitoring performance of Fund Managers, asset classes of BCPP Sub-funds, and advising courses of action as and when required
- Monitoring the liquidity of the Fund in meeting its ongoing obligations and at what stage the Fund should begin to improve its cash flow requirements
- Monitoring current risk attrition of the Fund's portfolio in relation to its risk appetite and advising when the Fund should increase/ decrease risk in its portfolio.

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## **Surrey Local Pension Board 24 October 2019**

### **Annual Report/Statement of Accounts 2018/19**

#### **Recommendations:**

The Board is asked to note the annual report and financial statements set out in Annex 1.

#### **Detail:**

1. The Pension Fund is required to prepare and publish a document (the annual report) prior to 1 December under Regulation 34 of the 2008 LGPS regulations. The report must contain information pertaining to the financial and investment performance and position of the fund as well as fund policies and statements. The requirements are set out in more detail below in the sections as listed in the aforementioned regulations.
2. The Pension Fund statement of accounts was presented to the Audit and Governance Committee at its meeting on 29 July 2019 and approved, subject to the final completion of the external audit.
3. The external auditor is required to report on the Pension Fund financial statements. There has been no material misstatements in the financial statements and the external auditor (Grant Thornton) has issued an unqualified opinion having completed their audit.
4. A copy of the financial statements and notes to the accounts included in Annex 1 will be published in the Pension Fund Annual Report 2018/19.

---

**Report contact:** Mamon Zaman, Senior Accountant (Pension Fund and Treasury)

**Contact details:** T: 020 8213 2738 E: [mamon.zaman@surreycc.gov.uk](mailto:mamon.zaman@surreycc.gov.uk)

#### **Annexes:**

Annex 1 – Annual Report and Pension Fund Accounts 2018/19

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# Surrey Pension Fund

**Annual Report 2018/19**



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# Chairman's Introduction



2018/19 has been a very busy and successful year for Surrey Pension Fund with strong investment performance and growth in the number of employers in the Fund. The value

of the Fund has increased from £4.1bn to £4.3 bn and while we await the results of the Triennial Valuation as at 31 March 2019, our 31 December 2018 funding level was 93.3%. The number of employers in the fund is now over 270 and we service over 100,000 members.

## Investment pooling within the LGPS

Surrey Pension Fund continues to make methodical and carefully considered progress towards pooling the Fund's assets with other LGPS funds in the Border to Coast Pensions Partnership (BCPP). Our UK Equity holdings were successfully transitioned in November 2018.

The Committee is prudent in ensuring that the BCPP sub funds provide the asset class and mix to suit the fund's investment strategy. Border to Coast operates investment funds for its Partner Funds to invest in based on their strategic asset allocations. The assets under management across the twelve Partner Funds total approximately £46 billion

## Changes in the Investment Strategy

The Fund has continued with its total overhaul of its investment strategy to ensure a fully diversified portfolio, appropriate to the Fund's long term

objectives having regard to the fund's size, the opportunities presented by pooling with BCPP, and the minimisation of risk. This has involved further adjustments in asset allocation.

## Investing Responsibly

The Fund continues to take an increasingly active role in ensuring it invests with due attention to our environmental, social and

governance (ESG) responsibilities. Our focus remains on maintaining appropriate investments having every regard to Climate Change implications and our responsibilities in helping maintain a sustainable world. We believe that our ESG objectives are best served by engagement so, in addition to the commitments in our own investment strategy statement, the Fund is a party to the BCPP Responsibility Investment Policy and a member of the BCPP Climate Change Working Party. The Fund also offers its full support to the Local Authority Pension Fund Forum as well as BCPP's Engagement Lead, Robeco. More widely the Fund is signed up to the Taskforce for Climate Related Financial Disclosures (TCFD) and will begin to report against these disclosures for the 2019/20 Annual Report.

## Funding Strategy

Our successful funding strategy remains unchanged while we await the results of the 2019 triennial valuation.

## Management

Neil Mason and his team have been outstanding over the year in dealing with the increasingly heavy work load. So much so that the Surrey Pension Fund received the Local Authorities Pension Forum's Award for Scheme Governance in September 2018.

# Membership of the Pension Fund Committee

The current membership of the Pension Fund Committee is as follows:

|   |   |
|---|---|
|    | <p><b>Tim Evans: Chairman</b><br/>Party: Conservative<br/>Borough and District: Spelthorne<br/>E: <a href="mailto:tim.evans@surreycc.gov.uk">tim.evans@surreycc.gov.uk</a><br/>T: 01932 785138</p>        |
|   | <p><b>Ben Carasco: Vice Chairman</b><br/>Party: Conservative<br/>Borough and District: Woking<br/>E: <a href="mailto:ben.carasco@surreycc.gov.uk">ben.carasco@surreycc.gov.uk</a><br/>T: 07733 307525</p> |
|  | <p><b>Ayesha Azad</b><br/>Party: Conservative<br/>Borough and District: Woking<br/>E: <a href="mailto:a.azad@surreycc.gov.uk">a.azad@surreycc.gov.uk</a><br/>T: 01483 757646</p>                          |

|   |  |
|---|--|
|    | <p><b>John Beckett</b><br/> Party: Residents Association<br/> Borough and District: Epsom and Ewell<br/> E: <a href="mailto:john.beckett@surreycc.gov.uk">john.beckett@surreycc.gov.uk</a><br/> T: 020 8393 8208</p> |
|   | <p><b>David Mansfield</b><br/> Party: Conservative<br/> Borough and District: Surrey Heath<br/> E: <a href="mailto:david.mansfield@surreycc.gov.uk">david.mansfield@surreycc.gov.uk</a><br/> T: 01483 799328</p>     |
|  | <p><b>Hazel Watson</b><br/> Party: Liberal Democrats<br/> Borough and District: Mole Valley<br/> E: <a href="mailto:h.watson@surreycc.gov.uk">h.watson@surreycc.gov.uk</a><br/> T: 01306 880120</p>                  |
|  | <p><b>Ruth Mitchell</b><br/> Party: Conservative<br/> Borough and District: Elmbridge, Hersham Village<br/> E: <a href="mailto:rmitchell@elmbridge.gov.uk">rmitchell@elmbridge.gov.uk</a><br/> T: 01932 220557</p>   |

|   |   |
|---|---|
|  | <p><b>Tony Elias</b><br/> Party: Conservative<br/> Borough and District: Tandridge<br/> E: Cllr.tony.elias@tandridgedc.gov.uk<br/> T: 01883742685</p> |
|  | <p><b>Margaret Janes</b><br/> Head of Pensions<br/> University of Surrey</p>  |
|   | <p><b>Philip Walker</b><br/> Employee &amp; Pensioners<br/> Representative</p>  |

# Membership of the Local Pension Board

|  |  |
|--|--|
|   | <p><b>Nick Harrison: Chairman</b><br/>Party: Residents' Association and Independent<br/>Borough and District: Reigate and Banstead<br/>E: <a href="mailto:nicholas.harrison@surreycc.gov.uk">nicholas.harrison@surreycc.gov.uk</a><br/>T: 01737 215405</p> |
|    | <p><b>Graham Ellwood: Vice Chairman</b><br/>Party: Conservative<br/>Borough and District: Guildford<br/>E: <a href="mailto:graham.ellwood@surreycc.gov.uk">graham.ellwood@surreycc.gov.uk</a><br/>T: 07899 846626</p>                                      |
|   | <p><b>Paul Bundy</b><br/>Head of Finance<br/>Surrey Police<br/>E: <a href="mailto:Paul.Bundy@surrey.pnn.police.uk">Paul.Bundy@surrey.pnn.police.uk</a></p>   |
|  <p><b>Tina Hood</b><br/>GMB Union, Surrey County Council</p> | <p><b>Tina Hood</b><br/>Surrey LGPS Members<br/>E: <a href="mailto:tina.hood@surreycc.gov.uk">tina.hood@surreycc.gov.uk</a></p>  |

|   |  |
|---|--|
|    | <p><b>Paresh Rajani</b><br/>Surrey LGPS Members</p>  |
|   | <p><b>David Stewart</b><br/>Surrey LGPS Members</p>  |
|  | <p><b>Katy Meakin</b><br/>Human Resources Manager<br/>Waverley Borough Council<br/>E: <a href="mailto:Katy.Meakin@waverley.gov.uk">Katy.Meakin@waverley.gov.uk</a></p> |
|  | <p><b>Trevor Willington</b><br/>Surrey LGPS Members</p>  |

## Officer Contact Details

|   |  |
|---|--|
|    | <p><b>Leigh Whitehouse</b><br/>Director of Finance<br/>E: leigh.whitehouse@surreycc.gov.uk<br/>T: 020 8541 7012</p>                |
|   | <p><b>Anna D'Alessandro</b><br/>Interim Director, Corporate Finance<br/>E:anna.dalessandro@surreycc.gov.uk<br/>T: 07885 434034</p> |
|  | <p><b>Neil Mason</b><br/>Head of Pensions<br/>E: neil.mason@surreycc.gov.uk<br/>T: 020 8213 2739</p>                               |
|  | <p><b>Steve Turner</b><br/>Professional Advisor - Mercer<br/>E: steve.j.turner@mercer.com<br/>T: 01483 777035</p>                  |



**Anthony Fletcher**

Professional Advisor - Independent

E: Anthony.Fletcher@MJHudson.com

T: 020 7079 1000



**Gemma Sefton**

Fund Actuary

T: 0141 566 7568

E: gemma.sefton@hymans.co.uk

**Bankers**

HSBC

**Fund Managers**

LGPS Pool: Border to Coast Pensions Partnership

Baillie Gifford  
CBRE Global Investors  
Franklin Templeton Investments  
Legal and General Investment Management  
Majedie Asset Management  
Marathon Asset Management  
Newton Investment Management  
Western Asset Management  
Aviva Investors  
Ruffer

**Global Custodian**

Northern Trust

**Private Equity Advisors**

BlackRock  
Capital Dynamics  
Goldman Sachs Asset Management  
Hg Capital  
Livingbridge Equity Partners  
Standard Life Capital Partners  
Pantheon Global Infrastructure  
Glennmont Partners  
Darwin Property Investment Management

**AVC Provider**

Prudential Assurance Company  
Equitable Life Assurance Society

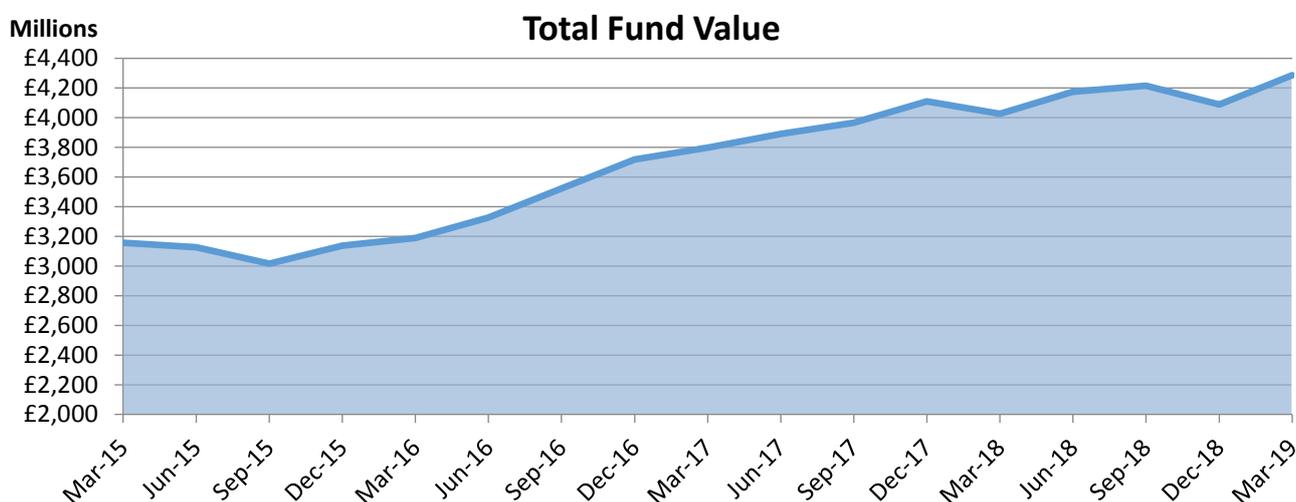
**Auditors**

Grant Thornton UK LLP

# Overview

|                                  | 2015/16<br>£000  | 2016/17<br>£000  | 2017/18<br>£000  | 2018/19          |
|----------------------------------|------------------|------------------|------------------|------------------|
| Contributions and transfers in   | 192,419          | 199,650          | 191,164          | 191,730          |
| Less benefits and expenses       | -139,213         | -157,645         | -167,521         | -176,248         |
| <b>Net additions</b>             | <b>53,206</b>    | <b>42,005</b>    | <b>23,643</b>    | <b>15,482</b>    |
| Net investment income*           | 45,592           | 61,238           | 64,719           | 58,270           |
| Change in market value           | -68,655          | 541,953          | 98,662           | 185,943          |
| <b>Net return on investments</b> | <b>-28,063</b>   | <b>603,191</b>   | <b>163,381</b>   | <b>244,213</b>   |
| <b>Net increase in Fund</b>      | <b>30,143</b>    | <b>645,196</b>   | <b>187,024</b>   | <b>259,695</b>   |
| <b>Fund value at 31 March</b>    | <b>3,223,663</b> | <b>3,868,859</b> | <b>4,055,883</b> | <b>4,315,578</b> |

\*Net of Investment and governance expenses and tax withheld expenses



|                           | 31<br>March<br>2013 | 31<br>March<br>2014 | 31<br>March<br>2015 | 31<br>March<br>2016 | 31<br>March<br>2017 | 31<br>March<br>2018 | 31<br>March<br>2019 |
|---------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| Contributory Employees    | 30,023              | 32,530              | 32,851              | 34,072              | 34,298              | 35,802              | 34,292              |
| Pensioners and Dependants | 20,572              | 21,598              | 22,481              | 23,197              | 24,025              | 25,135              | 25,929              |
| Deferred Pensions         | 28,256              | 30,639              | 33,833              | 34,158              | 41,573              | 45,079              | 49,874              |
| <b>Total</b>              | <b>78,851</b>       | <b>84,767</b>       | <b>89,165</b>       | <b>91,427</b>       | <b>99,896</b>       | <b>106,016</b>      | <b>110,195</b>      |

# LGPS Scheme Details

On 1 April 2014, the new Local Government Pension Scheme (LGPS) came into effect, replacing the final salary scheme with a career average revalued earnings (CARE) scheme for future benefit accrual.

The new Scheme:

- has a normal pension age equal to state pension age (minimum age 65)
- gives a pension for each year at a rate of 1/49th of pensionable pay received in that year
- provides increased flexibility for members wishing to retire early
- allows members to pay reduced contributions as an alternative to opting out (though benefits build up at a slower rate)
- provides for previous years' CARE benefits to be inflation proofed in line with the Consumer Prices Index while the member is still paying in
- requires members to have at least 2 years' membership to qualify for pension benefits

## Key LGPS Facts England and Wales

### SCC

- Made up of 90 regional funds
- Around 5.3 million members
- Total fund assets are £217 billion
- Total expenditure on benefits is over £9.4 billion p.a.

## Key LGPS Facts

- Made up of 271 employers
- Around 100,000 members
- Total fund assets are £4.3 billion
- Total expenditure on benefits is over £176 million p.a.

The following pay ranges and employee contribution rates will apply from April 2019 as follows:

| Actual Pensionable Pay | Contribution Rate |
|------------------------|-------------------|
| Up to £14,400          | 5.5%              |
| £14,401 to £22,500     | 5.8%              |
| £22,501 to £36,500     | 6.5%              |
| £36,501 to £46,200     | 6.8%              |
| £46,201 to £64,600     | 8.5%              |
| £64,601 to £91,500     | 9.9%              |
| £91,501 to £107,700    | 10.5%             |
| £107,701 to £161,500   | 11.4%             |
| £161,501 or more       | 12.5%             |

The regulations for the pre-April 2014 and post-April 2014 scheme are shown below:

Pre-2014: [www.lgpsregs.org/timelineregs/Default.html](http://www.lgpsregs.org/timelineregs/Default.html)

Post-2014: <http://www.lgpsregs.org/schemeregs/lgpsregs2013/timeline.php>

More information on the LGPS can be found on pages 109 to 112.

The Fund is financed by contributions from employees and employers, together with income earned from investments. The surplus of contributions and investment income over benefits currently being paid is invested.

The pay bands above increase each April in line with increases in the Consumer Prices Index (CPI).

Employers' contribution rates are set following each Actuarial Valuation. A valuation of the Fund's financial position must be made every three years when the Actuary certifies the employers' rates payable until the results of the next valuation are known.

Under the Regulations employer contributions are determined in two parts.

- A common rate based on the existing and prospective liabilities of the Fund having regard to the circumstances common to all the participating employers and to the desirability of maintaining as nearly constant a rate as possible
- Individual adjustments arising from circumstances peculiar to an individual employer.

Pensions paid to retired employees, and benefits with a deferred payment date, are subject to mandatory increases under pensions increase legislation. The cost of inflation-proofing

benefits is funded through the employers' contribution rate.

# Pension Fund Governance

## **Pensions Committee:**

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

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

The Pension Fund Committee is advised by a representative of the Fund's professional investment consultant, an independent advisor, the Director of Finance and the Head of Pensions. The Pension Fund Committee meets on a quarterly basis.

## **Local Board:**

The governance arrangements of the Local Government Pension Scheme are changing. From 1 April 2015 the Surrey Pension Fund Committee has been assisted in its management of the Surrey Pension Fund by a Local Pension Board made up from representatives of members and employers of the scheme.

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

(a) to secure compliance with:

- I. the scheme regulations;
- II. any other legislation relating to the governance and administration of the LGPS Scheme and any connected scheme;
- III. any requirements imposed by the Pensions Regulator in relation to the LGPS Scheme.

(b) to ensure the effective and efficient governance and administration of the LGPS Scheme.

The Local Pension Board will ensure it effectively and efficiently complies with the Code of Practice on the governance and administration of public service pension schemes issued by the Pension Regulator.

The Local Pension Board will also help ensure that the Surrey Pension Fund is managed and administered effectively and efficiently and complies with the Code of Practice on the governance and administration of public service pension schemes issued by the Pension Regulator. The Local Pension Board has power to do anything that is calculated to facilitate or is conducive or incidental to the discharge of any of its functions but should always act within its terms of reference.

The Local Board is made up of representatives of the employers and members within the Surrey Fund and that the representation between employees and employers should be equal. The terms of reference of the board outlines the constitution of members as follows:

Employer representatives

- 2 x Surrey County Councilors
- 2 x Other employer representatives

Member representatives

- 1 x GMB nominated representative
- 1 x Unison nominated representative
- 2 x Other member representatives

The first meeting of the year for the Local Pensions Board was the 25 July 2018. The Board papers and minutes of meetings, as well as those for the Pension Fund Committee, are available on the Surrey County Council website.

The annual report of the Local Pension board is overleaf.

# Local Pension Board Annual Report



This is the fourth annual report of the Surrey Local Pension Board. We have used 2018/19 to continue to build on the good practice developed since our establishment in 2015.

The Board is a requirement of the Local Government Pension Scheme Regulations 2013. Its primary functions are to assist Surrey County Council in:

- its compliance with the LGPS Regulations, other relevant legislation and requirements imposed by the Pensions Regulator\*; and
- the effective and efficient governance and administration of the scheme.

The next few pages of this report set out how we have done this, and summarise the topics covered at our meetings. We meet quarterly some weeks ahead of the meetings of the Pension Fund Committee, taking the lead in reviewing administrative performance and projects, and the risk register, reporting issues of concern. The Board also reviews the activities of the Pension Fund Committee, making comments and recommendations as appropriate.

Key highlights of our work are as follows:

- The Board asked for improvements in the reporting of key performance indicators, which have highlighted quite substantial processing backlogs. The Pensions Administration service has committed to an improvement plan and the use of an external provider to clear these backlogs. Progress is being actively monitored by the Board.
- The Board has stressed the importance of annual benefit statements to members, and we are pleased to report that the Pensions Administration Service has consistently improved their timeliness over the last three years.
- The Board asked that there is scheme member representation, as observers, on the Border to Coast Pension Pool. Working with other local authorities who are part of the Border to Coast Pool, this has now been implemented.

You can find out more by writing to the Board's supporting officer, Ben Cullimore at [ben.cullimore@surreycc.gov.uk](mailto:ben.cullimore@surreycc.gov.uk), [democraticservices@surreycc.gov.uk](mailto:democraticservices@surreycc.gov.uk) or phoning 0208 213 2782.

**Nick Harrison**  
Chairman of the Surrey Local Pension Board

| <b>To secure compliance with the Regulations, any other legislation relating to the governance and administration of the Scheme, and requirements imposed by the Pensions Regulator in relation to the Scheme.</b>          | <b>How the Board does this</b>   |
|---|--|
| a) Review regular compliance monitoring reports which shall include reports to and decisions made under the Regulations by the Committee.   | The Board and Committee receive regular updates regarding their respective activities. The Board and Committee are committed to working together.  |
| b) Review management, administrative and governance processes and procedures in order to ensure they remain compliant with the Regulations, relevant legislation and in particular the Code of Practice.                    | The Board has oversight of Pension Fund policies and processes.<br><br>The Board reviews Key Performance Indicators (KPIs) for pension administration on a quarterly basis.  |
| c) Review the compliance of scheme employers with their duties under the Regulations and relevant legislation.  | The Board reviewed employer pension discretions in July 2016, and have continued to monitor compliance over the past year.   |
| d) Assist with the development of and continually review such documentation as is required by the Regulations including Governance Compliance Statement, Funding Strategy Statement and Statement of Investment Principles. | This was reviewed as part of the Fund Annual Report on 23 October 2018, with specific policies also reviewed periodically in 2018/19 meetings. The Board will review these on an annual basis as part of the Fund Annual Report and as part of its Forward Plan. |
| e) Assist with the development of and continually review scheme member and employer communications as required by the Regulations and relevant legislation.   | The Board was provided with an outline of the current communications channels for members and employers as part of a training session in October 2015. This is an item for fuller consideration 2018/19.   |
| f) Monitor complaints and performance on the administration and governance of the scheme.   | The Board reviews complaints on a quarterly basis.   |
| g) Assist with the application of the Internal Dispute Resolution Process.  | The Board receives a quarterly update on the number of Internal Dispute Resolution Process cases and monitors any key themes emerging from these.  |
| h) Review the complete and proper exercise of Pensions Ombudsman cases.   | N/A – No current or outstanding Ombudsman cases to consider.   |

|  |  |
|--|--|
| i) Review the implementation of revised policies and procedures following changes to the Scheme.   | N/A – No changes. The Board is fully conversant on current proposed changes to the LGPS regulations through regular bulletins.   |
| j) Review the arrangements for the training of Board members and those elected members and officers with delegated responsibilities for the management and administration of the Scheme. | The Board will review its own training needs on an annual basis. A knowledge and understanding log is included in the Board's annual report.<br><br>All Board members are required to complete the Pension Regulator Public Sector toolkit in order to comply with the Board's Attendance, Knowledge and Understanding policy.   |
| k) Review the complete and proper exercise of employer and administering authority discretions.  | The Board reviewed these discretions on July 2018.   |
| l) Review the outcome of internal and external audit reports.  | The Board complies with Surrey County Council's agreed process for internal audit reports being considered by scrutiny boards. This means all relevant audit reports are circulated to the Chairman, and any report with one or more high priority recommendation will be considered for discussion at the Board. The results of any external audit are shared with the Board. |
| m) Review draft accounts and scheme annual report.   | The Board received both the draft accounts and fund annual report on 23 October 2018.  |
| n) Review the compliance of particular cases, projects or process on request of the Committee.   | N/A  |
| o) Any other area within the core function (i.e. assisting the Administering Authority) the Board deems appropriate.   | N/A.   |

## 25 July 2018

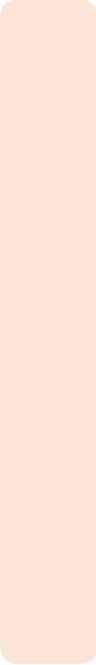
- Pension Fund Committee update
- Administration Performance Report: 1 April 2018 to 30 June 2018
- Administration Update: 1 April 2018 to 30 June 2018
- Review of Internal Dispute Resolution Cases in 2018/19: Quarter One
- Customer Complaints Report: Quarter One
- Communications Update
- Cyber Security
- Risk Registers 2018/19: Quarter One
- Local Pension Board Annual Report
- Training Bulletin: Quarter One
- Pre-Valuation Project Plan
- Border to Coast Update

## 23 October 2018

- Annual Report/Statement of Accounts 2017/18
- Administration Update: 1 July 2018 to 30 September 2018
- Administration Performance Report: 1 July 2017 to 31 August 2018
- Risk Registers 2018/19: Quarter Two
- Customer Complaints Report: Quarter Two
- Annual Benefit Statements Exercise 2018
- Summary of the Pension Fund Committee Meeting of 14 September 2018
- Border to Coast Update
- Review of Internal Dispute Resolution Cases in 2018/19: Quarter Two

## 17 January 2019

- Governance Review
- Pension Committee Update
- Border to Coast
- Administration Update
- Administration Performance Report
- Risk Registers 2018/19: Quarter Three
- Discretions Exercise Report
- Additional Voluntary Contributions Governance Review Exercise
- Review of Internal Dispute Resolution Cases 2018/19: Quarter Three
- Recent Developments in the LGPS



## 25 April 2019

- Summary of Pension Fund Committee Meeting of 8 February 2019
- Administration Update (1 January 2019 to 31 March 2019)
- Administration Performance Report (1 January 2019 to 31 March 2019 - Quarter Four)
- Risk Registers 2018/19 (Quarter Four)
- Training Policy
- Compliance With the Pensions Regulator's Code of Practice No. 14
- Review of Internal Dispute Resolution Cases in 2018/19 (Quarter Four)
- Recent Developments in the LGPS
- Ministry of Housing, Communities and Local Government (MHCLG) - Statutory Guidance on Asset Pooling
- Border to Coast Update

## Members of the Local Pension Board

| Name                                | Representing     | Appointed       | Appointment ended |
|-------------------------------------|------------------|-----------------|-------------------|
| (NH) Nick Harrison<br>(Chairman)    | Scheme employers | 17 July 2015    | N/A               |
| (GE) Graham Ellwood (Vice Chairman) | Scheme employers | 14 June 2017    | N/A               |
| (PB) Paul Bundy                     | Scheme employers | 17 July 2015    | N/A               |
| (TH) Tina Hood                      | Scheme members   | 29 January 2016 | N/A               |
| (PR) Paresh Rajani                  | Scheme members   | 3 May 2016      | N/A               |
| (DS) David Stewart                  | Scheme members   | 17 July 2015    | N/A               |
| (CW) Claire Williams-Morris         | Scheme employers | 17 July 2015    | 17 January 2019   |
| (TW) Trevor Willington              | Scheme members   | 17 July 2015    | N/A               |

## Meeting attendance

| Meeting date    | In attendance          | Apologies      |
|-----------------|------------------------|----------------|
| 25 July 2018    | NH, GE, DS, PR, PB, TH | CW, TW         |
| 23 October 2018 | NH, GE, PR, TW, PB, TH | DS, CW         |
| 17 January 2019 | NH, PB, PR, TW         | GE, TH, DS, CW |
| 25 April 2019   | NH, PB, DS             | GE, TH, PR, TW |

## Compulsory training

| Training                                     | Attained                  |
|--|---------------------------|
| The Pensions Regulator Public Sector Toolkit | NH, PB, PR, DS, CW TW     |
| Local Government Association Fundamentals 1  | NH, PB, TH, PR, DS, CW TW |
| Local Government Association Fundamentals 2  | NH, PB, TH, PR, DS, CW TW |
| Local Government Association Fundamentals 3  | NH, PB, TH, PR, DS, CW TW |

## Additional training

| Training   | In attendance  |
|--|----------------|
| Pension Committee and Pension Board Member Training (5 July 2018)  | PB             |
| Pension Committee and Pension Board Member Training (30 July 2017) | PB             |
| Goldman Sachs Pensions Investment Training                         | NH, GE, CW, PR |

|                 |                           |
|-----------------|---------------------------|
| Hymans Training | NH, GE, TW, PB, PR,<br>TH |
|-----------------|---------------------------|



## **Publications distributed to all Local Pension Board members**

|   |         |
|---|---------|
| Local Government Pension Secretariat<br>bulletins | 170-183 |
|---|---------|

The Public Service Pensions Act 2013, Section 5(4) requires that any member of a Pension Board must not have a “conflict of interest”, which is defined in Section 5(5) as a “financial or other interest which is likely to prejudice the person’s exercise of functions as a member of the board, but does not include a financial or other interest arising merely by virtue of membership of the scheme or any connected scheme.”

A conflict of interest exists where there is a divergence between the individual interests of a person and their responsibility towards the Local Pension Board, such that it might be reasonably questioned whether the actions or decisions of that person are influenced by their own interests.

A conflict of interest would prejudice an individual’s ability to perform their duties and responsibilities towards the Local Pension Board in an objective way.

An example of a potential conflict of interest could be:

A Local Pension Board member may be required to review a decision which may be, or appear to be, in opposition to another interest or responsibility; e.g(s):

- a review of a decision which involves the use of departmental resource in the function of the Local Pension Board, whilst at the same time being tasked with reducing this departmental resource by virtue of their employment;
- a Local Pension Board member could also be employed or have an interest in either privately or as part of the Council in a service area of the Council for which the Local Pension Board has cause to review;
- an independent member of the Local Pension Board may have a conflict of interest if they are also advising the Scheme Manager.

| Name                  | LGPS Member/<br>Employer<br>Representative | Date of Appointment/<br>Termination<br>(if applicable) | Relevant employment<br>or positions held  | In receipt<br>of a<br>LGPS<br>pension? | State<br>d<br>Confl<br>ict<br>with<br>Empl<br>oyment? | Additional note   | Other<br>Conflict<br>s of<br>Interest |
|-----------------------|--|--|---|--|---|---|---------------------------------------|
| <b>Nick Harrison</b>  | Employer                                   | 17/07/2015   | Elected Member of Surrey County Council; Trustee director of a company pension scheme, DB Pension Fund Trustee Ltd. | No                                     | No  | Deutsche Bank itself has no role in relation to the Surrey Pension Fund and no role more generally in providing banking, investment or other services to Surrey County Council. | N/A                                   |
| <b>Graham Ellwood</b> | Employer                                   | 14/06/2017   | Elected Member of Surrey County Council; RI of Wilton Wealth Management Ltd   | No                                     | No  | N/A   | N/A                                   |
| <b>Paul Bundy</b>     | Employer                                   | 17/07/2015   | Service Director Finance, Surrey & Sussex Police  | No                                     | Yes   | Employed by an employer of the fund. If a conflict was to arise, this would be mitigated by the Board member removing himself from the discussion.                              | N/A                                   |
| <b>Tina Hood</b>      | Member                                     | 29/01/2016   | GMB Branch Secretary Surrey County Branch County Hall   | Yes                                    | No  | N/A   | N/A                                   |

|                          |          |                         |  |     |     |  |     |
|--------------------------|----------|-------------------------|--|-----|-----|--|-----|
|                          |          |                         |  |     |     |  |     |
| <b>Paresh Rajani</b>     | Member   | 03/05/2016              | Electrical Services Engineer, Neighbourhood & Housing Management Services, Guildford Borough Council; Unison representative                                | No  | No  | Employer not involved in financial business.   | N/A |
| <b>David Stewart</b>     | Member   | 17/07/2015              | Shared Performance and Reward Manager (LBHF and RBKC), Shared Human Resources London Borough of Hammersmith & Fulham/Royal Borough of Kensington & Chelsea | Yes | No  | Employer's pension services are administered by Orbis - this is actively managed by being recorded at every meeting, and any likelihood of conflict arising would be mitigated by the member removing himself from the discussion. | N/A |
| <b>Trevor Willington</b> | Member   | 17/07/2015              |  | Yes | No  | Employer not involved in financial business.   | N/A |
| <b>Claire Morris</b>     | Employer | 17/07/2015 – 17/01/2019 | Head of Financial Services and Deputy Chief Financial Officer, Guildford Borough Council   | No  | Yes | Employed by an employer of the fund. If a conflict was to arise, this would be mitigated by the Board member removing herself from the discussion.   | N/A |

# Knowledge and Skills Policy

The administrators of the Surrey Pension Fund are committed to the implementation of the Code of Practice on public sector pensions finance knowledge and skills. The Pension Fund Committee has agreed the following knowledge and skills policy statement.

1. The Pension Fund Committee recognises the importance of ensuring that all staff and members charged with the financial administration and decision-making with regard to the pension scheme are fully equipped with the knowledge and skills to discharge the responsibilities allocated to them.

2. It therefore seeks to utilise individuals who are both capable and experienced and it will provide/arrange training for staff and members of the Committee to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills

The members of the Committee are to partake in the CIPFA Knowledge and Skills Framework in order to identify areas where further training is required.

# Communication Policy Statement

## 1 Communication Objectives

- To accurately communicate the provisions and requirements of the Local Government Pension Scheme (LGPS) to all stakeholders.
- To identify and meet all regulatory requirements regarding provision of information.
- To promote appropriate membership of the LGPS Scheme to employees of participating employers.
- To communicate clearly to all stakeholders their own responsibility for communication and information flows in relation to the Scheme, and work with these other parties to improve efficiency of communications.
- To ensure communications are made in a timely manner.
- To use a variety of means for communication, depending on the purpose and content of the communication, and recognising that different styles and methods will suit different stakeholders.

## 2 Stakeholders

The various stakeholders for the purpose of this communication policy are identified below:

- Active members
- Prospective members
- Deferred members
- Pensioners
- Employers

## 3 Website

The Pension Fund has an established website:

**[surreypensionfund.org](http://surreypensionfund.org)**

| <b>Method of Communication</b>               | <b>Media</b>                       | <b>Frequency of issue</b>               | <b>Method of Distribution</b>    | <b>Audience Group (Active, Prospective, Deferred, Pensioner, Employer or All)</b> |
|--|------------------------------------|---|----------------------------------|---|
| Scheme overview and joiner form              | Paper based and on website         | On commencing employment and by request | Via employer                     | Active and prospective  |
| Scheme booklet and joiner pack               | Paper based and on website         | On joining the scheme and by request    | Home address or via employer     | Active and prospective  |
| Factsheets                                   | Paper based and on website         | On request                              | Post to home address or email    | Active and deferred   |
| Newsletters                                  | Paper based and on website         | After material scheme changes           | Via employer                     | Active and Pensioner  |
| Annual benefit Statements*                   | Paper based                        | Annually                                | Post to employer or home address | Active and Deferred   |
| Pension clinics/roadshows and drop-in events | Face to face                       | As requested by employer and employee   | Via employer                     | Active and prospective  |
| Pre-retirement Courses                       | Face to face                       | As requested by employer                | Via employer                     | Active  |
| Briefing reports                             | Paper based and electronic         | Ad hoc                                  | Email or hard copy               | Employers   |
| Formal dispute resolution procedure          | Paper based or electronic          | As and when a dispute arises            | Email or hard copy               | All   |
| Investment Updates                           | Website                            | Quarterly                               | On request                       | Employers   |
| Annual report and accounts                   | Paper based, electronic or website | Annually                                | Email or hard copy               | All   |
| Annual general Meeting                       | Face to face                       | Annually                                | Email invitation                 | Employers   |
| Actuarial valuation Report                   | Electronic or website              | Triennial                               | Email                            | All   |

# Surrey Pension Fund Administration Strategy

## 1. Legislative Framework

- 1.1 This strategy statement has been prepared by Surrey County Council as the administering authority to the Surrey Pension Fund in accordance with Regulation 59 of the Local Government Pension Scheme) Regulations 2013.

## 2. Review

- 2.1 This strategy will be kept under review and will be revised, after consultation with scheme employers, following any material changes in legislation or policies that relate to the strategy.

## 3. Purpose

- 3.1 The purpose of the strategy is to establish levels of performance and procedures for liaison and communication for both the administering authority (AA) and the employers participating in the fund with a view to maintaining good working relationships, transparency and efficient administration.

## 4. Employer Duties & Responsibilities

- 4.1 The employer should nominate a person or persons to liaise with the AA on pension administration matters.
- 4.2 The employer should ensure that any information passed on behalf of the employer to the AA or any requests for information made on behalf of the employer to the AA are undertaken by a duly authorised officer of the employer.
- 4.3 The employer should notify the AA in respect of the following changes in a scheme member's status and within the required timescale by completing the appropriate pension form or secure on-line submission:
  - New Joiner  
Within one month of joining
  - Change in member's details e.g. hours, maternity etc  
Within one month of the change
  - Retirements  
Two months prior to the date of retirement. It is however recognised that there will be occasions where this time limit cannot be met, for example, because the member has retired with little or no notice or details of pensionable pay cannot be provided until the member has left employment.

- Death in Service  
Within five working days of the member's death
- Leavers  
Within one month of the member leaving
- TUPE transfer of scheme member  
At least two months before the transfer date. This is to allow adequate time for pension protection to be put in place as appropriate.

- 4.4 The employer must determine the pension contribution rate at which its employees should contribute to the scheme from 1 April each year and, where there is a change to the member's pensionable pay during the year, from that date. Where an employee holds more than one post, the employer must determine the rate applicable for each post.
- 4.5 The employer will ensure that member and employer pension contributions are deducted at the correct rate, including contributions due on leave of absence with reduced or no pay, maternity leave and any additional contributions the member has requested to pay.
- 4.6 The employer will ensure that pension contributions are paid to the AA within seven days of the end of each month.
- 4.7 The employer will ensure that additional voluntary contributions are paid to the relevant provider within seven days of being deducted from the member's pay.
- 4.8 The employer must, no later than 30 April each year, provide the AA with year-end information to 31 March in an approved format in respect of each post the member holds.
- 4.9 The employer is responsible for exercising the discretionary powers given to employers by the LGPS regulations. The employer is also responsible for publishing its policy in respect of these discretions to its employees and forwarding a copy to the AA.
- 4.10 The AA is not required to verify the accuracy of any information provided by the employer for the purpose of calculating benefits under the provisions of the Local Government Pension Scheme. Therefore, employers should ensure that all information provided is accurate.
- 4.11 Any over-payment resulting from inaccurate information supplied by the employer may be recovered from the employer if it cannot be recovered from the scheme member.
- 4.12 In the event of the AA being fined by The Pensions Regulator, this fine may be passed on to the relevant employer where that employer's action or inaction resulted in the fine.
- 4.13 The employer must nominate a person to hear complaints made under Stage 1 of the Internal Disputes Resolution Procedure and should provide this person's name, job

title, and office address. When an amendment to these details is made, a notification of the change should be sent to the AA immediately.

- 4.14 The employer must obtain the approval of the AA as to its choice of registered medical practitioner for the purposes of awarding ill health retirement under the Scheme regulations.
- 4.15 The employer must pay to the AA any cost identified by the AA as a result of the employing authority's decision to release any pension benefits prior to a member's normal retirement age. Such payments should be made within 30 days from the date of receipt of an invoice issued by the AA or such longer period as agreed by the AA.
- 4.16 The employer must also pay to the AA any charge identified by the AA as a result of the employing authority's decision to award any additional benefits to a scheme member in accordance with its statement of policy regarding the exercise of certain discretionary functions. Such payments should be made within 30 days from the date of receipt of an invoice issued by the AA or such longer period as agreed by the AA.

## **5. Administering Authority Duties & Responsibilities**

### **New Joiners**

- 5.1 *Confirmation letter of scheme admittance to all members.*  
Within 20 days
- 5.2 *Transfers from previous pension schemes.*  
Within 20 days

### **Existing Active Members**

- 5.3 *Annual Benefit Statement*  
By 30 September providing year end data has been received from the employer
- 5.4 *Benefit estimates to employers*  
Within ten days of receipt of request
- 5.5 *Retirements*  
Within ten days of retirement
- 5.6 *Death in Service*  
Death Benefits and dependants' pensions  
Within five days

### **Early Leavers**

- 5.7 *Deferred Benefit statement*  
Within one month of leaving
- 5.8 *Refunds*  
Within ten days
- 5.9 *Transfer to new pension scheme*  
Within 20 days

### **Deferred Benefit Members**

- 5.10 *Annual Benefit Statement*  
By 30 June
- 5.11 *Benefits put into payment*  
Within ten days
- 5.12 *Death Benefits and dependants' pensions*  
Within five days

### **Pensioner Members**

- 5.13 *Changes in personal details*  
Payroll record updated before next payroll run
- 5.14 *Death benefits and dependants' pensions*  
Within five days

\*The timescales for completing the tasks above are measured from the date the AA is in receipt of all the relevant information required to complete the task is expressed in "working days"

### **Communication**

- 5.15 The AA will provide employers with the necessary forms and documents for it to carry-out its pension administration responsibilities. These forms to be available in paper and electronic format, where appropriate
- 5.16 The AA will provide a guide to the Local Government Pension Scheme for scheme members for employer to issue.
- 5.17 The AA will provide a joiner pack to new scheme members.
- 5.18 The AA will issue a newsletter for active scheme members at least once a year
- 5.19 The AA will issue regular employer newsletters and provide training at County Hall for employers to comply with their pension administration responsibilities.
- 5.20 The AA will enable scheme members and employers to visit Pension Services during normal working hours from 8.30am to 5.30pm.
- 5.21 The AA will maintain a Pension Fund Website which will include:
- General information on the LGPS
  - Copies of all the publications of the pension fund including newsletters, scheme guides, strategy statements, annual reports and accounts.
  - Standard forms to be used by employers when providing information to the pensions team
- 5.22 The AA will arrange a Pension Fund Annual General meeting for employers and produce an annual report.

### **Data Quality and Security**

5.23 The AA will ensure that the data held on the systems used to administer the scheme will be secure and regularly backed up to an off-site location. The AA will apply year end data quality control and review processes.

## **6. Unsatisfactory Performance by an Employer**

6.1 Where an employer materially or consistently fails to operate in accordance with the standards laid down in this strategy, which results in additional administration costs being incurred by the AA, the AA may issue a written notice to the employer requiring that these extra costs are met by the employer. Steps to recover additional administration costs would normally only be pursued after support and training had been offered by the AA to address the underperformance.

# Investment Report



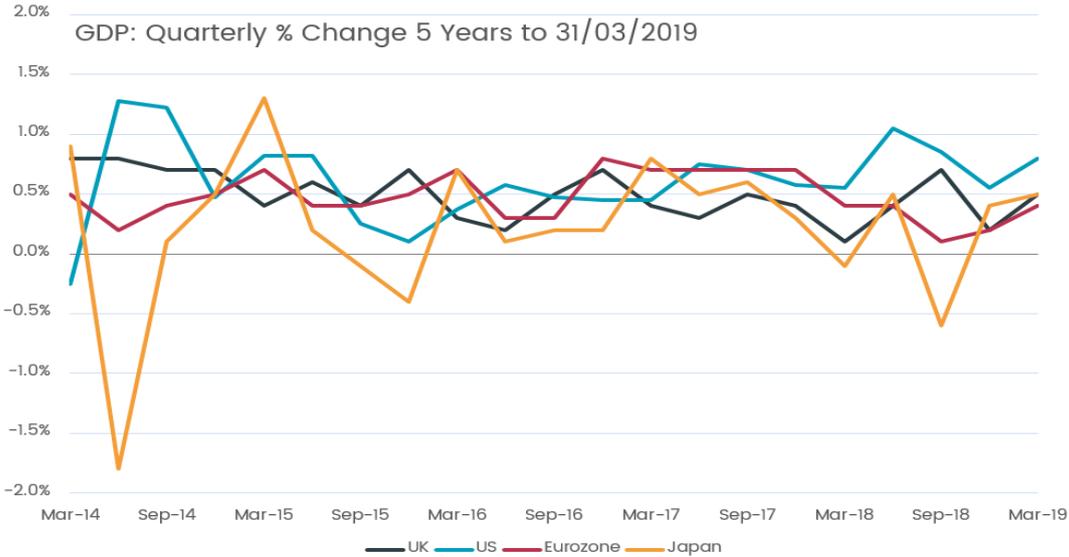
# Annual Investment Review

This report has been prepared by the Independent Investment Advisor to Surrey County Council Pension Fund (the Fund). At the request of the Pension and Investment Committee the purpose of the report is to fulfil the following aims: -

- Provide a review of the economic and market background over the 12 months to 31<sup>st</sup> March 2019.
- Provide an overview of market returns by asset class over the last 12 months.
- Provide an overview of the Fund's performance versus the Fund specific benchmark for the last 12 months.
- An overview of the outlook for markets and how this may impact the performance of the Fund.

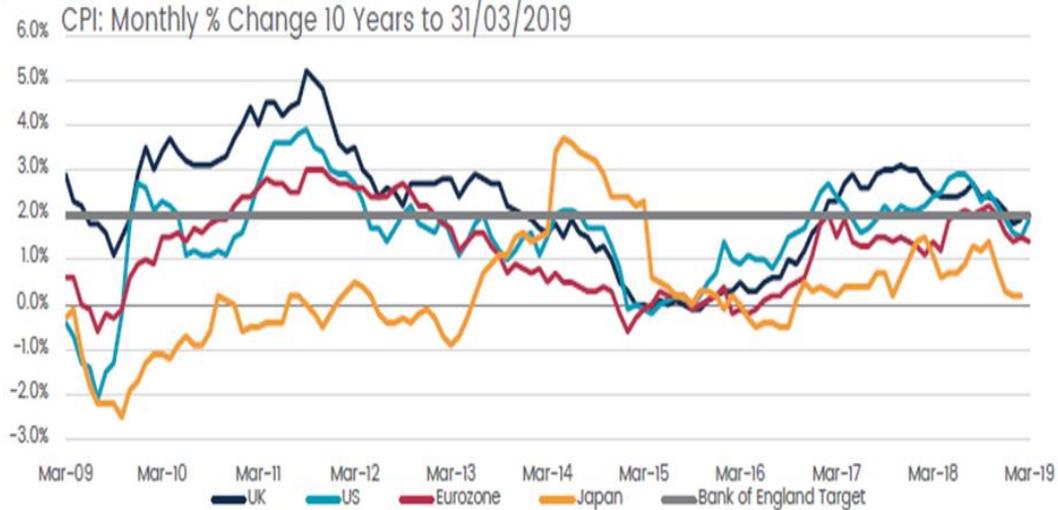
Over the financial year to the end of March 2019 global economic growth, outside of the USA, slowed and became more mixed by region. In the USA, growth improved from an annual rate of 2.3% to 2.9%, mainly due to the one-off stimulus provided by Mr Trump’s tax cuts. The UK economy grew by 1.4%, the Eurozone by 1.9%, and even China’s official growth rate of 6.6% represented a slowdown from previous years. Japan only achieved a growth rate of 0.3%, as the economy was impacted by a number of natural disasters over the summer months.

Chart 1: - GDP growth, quarterly % change. (Source: - Bloomberg.)



Over the year the rate of inflation fell despite the volatility of the oil price and the impact of higher real wage growth in the US, UK and Europe. The unemployment rate has steadily fallen over the year and is at reported lows in the US and the UK. Despite this, central banks seem unable to achieve normalisation around their target inflation rates of 2%.

Chart 2: - Headline CPI inflation and the Central bank target rate. (Source: - Bloomberg.)



The US Federal Reserve (the Fed) raised interest rates by 0.25% four times during 2018 and further tightened monetary policy via its Quantitative Tightening (QT) programme. Following the bout of extreme equity market volatility in the fourth quarter of 2018, and in December in particular, the Fed decided to cancel its two planned rate increases for 2019 and to also end its QT programme in September 2019. This effectively means that the Fed’s balance sheet will not return to its former level at the start of its QE programme, which means the Fed has permanently expanded the money supply and debased the currency. The Bank of England raised the base rate from 0.5% to 0.75% in August 2018, its highest level since 2009. The European Central Bank ended its QE programme in December 2018 but was then forced to re-open a loan support programme early in 2019 in an effort to stimulate the flagging Eurozone economies. The Bank of Japan did not change its very easy monetary policy stance throughout the year.

The political scene has again been dominated by Mr Trump together with the UK government’s attempts to negotiate an exit from the EU. At home Mr Trump has continued to try and find a way of funding the construction of the wall on the US/Mexico border. His dispute over congressional funding led to the longest ever partial shutdown of the US government, but after 35 business days he backed down and the Budget was passed. In February however he declared a national emergency, enabling him to use Presidential powers to fund construction. Furthermore, he claimed that Mr Mueller’s investigation into his links with Russia “completely exonerated” him. On the global scene, realising the negative impact his trade negotiations were having on the global economy and stock markets, he started to sound more conciliatory.

In the UK the Brexit negotiations have turned into a complete impasse. With the government failing three times to get the Withdrawal Agreement passed, it was forced to seek an extension to the negotiations. The EU granted a flexible deadline that has moved the final date for departure from the 29<sup>th</sup> March to the 31<sup>st</sup> October 2019. In the House of Commons, the debates that followed showed that there is no majority in Parliament for anything and the cross-party negotiations also delivered no compromise solution. As a result, the UK government has been forced to hold European Parliamentary elections. In Europe there is a lame duck leader in Mrs Merkel in Germany and an under-pressure President in France. The elections are widely expected to lead to a fragmentation of representation across most member countries, not just in the UK.

Equity markets rose by more than 10% between March and September 2018, but then relinquished all these gains in the fourth quarter on worries about rising US bond yields and trade tensions, resulting in the first negative calendar year for equity markets since 2015. The significant change in the Fed’s policy from tightening to neutral and the more conciliatory tone of Mr Trump’s rhetoric on the US/China trade negotiations were mainly responsible for a sharp rally from January to March 2019. As can be seen in table 1 below, the very strong first quarter returns lifted the 12 month returns into positive territory in all equity markets except Japan in Sterling terms. The continued weakness of Sterling against the US dollar means that US equity markets dominated global equity market returns for Sterling based investors.

**Table 1**, below shows the total investment return in pound Sterling for the major asset classes, using FTSE indices except where noted; for the 3 and 12 months to the end of March 2019.

**% TOTAL RETURN DIVIDENDS REINVESTED**

**MARKET RETURNS**

|                                    | Period end 31 <sup>st</sup> March 2019 |           |
|------------------------------------|--|-----------|
|                                    | 3 months                               | 12 months |
| FTSE UK All-Share                  | 9.4                                    | 6.4       |
| MSCI ACWI – Global Equities        | 10.1                                   | 12.6      |
| FTSE Regional Indices              |  |           |
| North America                      | 11.3                                   | 17.5      |
| Europe ex UK                       | 8.0                                    | 2.6       |
| Japan                              | 4.5                                    | -0.9      |
| Pacific Basin                      | 4.0                                    | 3.9       |
| Emerging Equity Markets            | 8.0                                    | 1.9       |
| UK Gilts - Conventional All Stocks | 3.4                                    | 3.7       |
| UK Gilts - Index Linked All Stocks | 5.9                                    | 5.5       |
| UK Corporate bonds*                | 4.8                                    | 4.1       |
| Overseas Bonds**                   | 2.2                                    | 2.9       |
| Property IPD quarterly             | 0.3                                    | 4.3       |
| Cash 7 day LIBID                   | 0.2                                    | 0.8       |

(Source: - \* iBoxx £ Corporate Bond; \*\*Citigroup WGBI ex UK hedged)

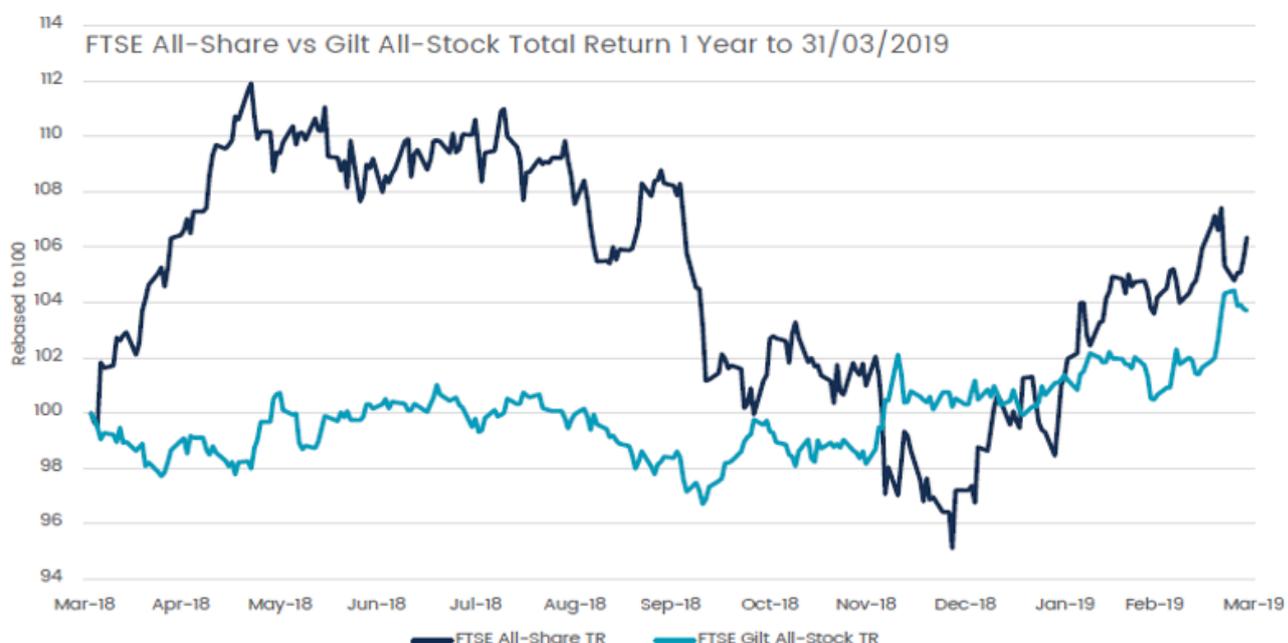
Bond markets also had a roller coaster year, US 10 year government bond yields peaked in November 2018 at 3.24%, having started the year at 2.74%. By the 31st March 2019 they had been driven down 0.3% to 2.41%, by moderating growth, lower inflation and the change in the Fed's policy stance. This fall in yields was matched by UK 10 year Gilts, which fell to 1%, but the weakness and political uncertainty in Europe drove 10 year German government yields down by 0.55% and into negative territory at -0.07%.

Chart 3, below, shows the performance of the major equity market indices over the year, the pale blue line is the US S&P 500 which has outperformed both the UK and MSCI global index, the green line is the MSCI Emerging market index, which has performed poorly on the back of Mr Trump's trade negotiations and the strength of the US dollar. Chart 4 shows how the UK bond and equity market indices have moved over the last 12 months.

**Chart 3:** - Global Equity market indices since 31<sup>st</sup> March 2018 local currency terms.



**Chart 4: - UK bond and Equity market prices since 31<sup>st</sup> March 2018**



Source: - Bloomberg

Brexit was the main driver of the value of Sterling vs US dollar, by May 2018 Sterling had rallied on the expectation of a “deal” but as the year went on the currency gradually weakened and has been range bound between US\$ 1.25 and 1.33 in the first quarter of 2019. Being invested outside the UK was a benefit to the Fund.

At the end of March 2019, the Surrey Pension Fund was valued at £4,286.4 million, this represents a total increase in value of £260.8 million since 31<sup>st</sup> March 2018. The Fund achieved a total net investment return of 5.7% for the year, outperforming both the benchmark return of 3.7% and the target return of 4.7%. Over the last 3 years the Fund has achieved a total return of 9.3% p.a. which is ahead of the benchmark return of 8.3% and slightly behind the target return of 9.4%. This

3 year annualised return is well ahead of the actuarial assumptions made in 2016 and as a result the “funding level” of the Surrey Pension Fund has improved from 83% to 93% funded.

Over the financial year the structure of the Fund has been reviewed and some changes have been made. Research was carried out to discover the Fund’s “Carbon Intensity”. It was found that in aggregate the Fund’s investments had a much lower carbon intensity than the benchmark indices and the market. As part of this discovery process each of the Fund’s external managers, including the Border to Coast Pensions Partnership (BCPP) Surrey’s chosen LGPS pooling partner, was asked to demonstrate how they took Environmental, Social and Governance (ESG) criteria into consideration when making investment decisions. It was found that all of Surrey’s Active managers used ESG factors as a core part of their investment due diligence process and to a greater or lesser extent they were able to demonstrate how they measured ESG and how it altered investment decisions. All of Surrey’s active equity managers use engagement with investee companies directly, and in partnership with others, to seek to constantly improve the ESG rating of their investments.

As part of the Fund’s ongoing strategic review of investments, the Fund increased its allocation to Global equity and reduced its exposure to UK equity. The opportunity was taken to further reduce the Fund’s carbon intensity by investing in a Low Carbon passive global equity fund and a RAFI indexed factor-based fund. The Low Carbon fund will in particular have a significantly lower carbon intensity than the previous market cap weighted passive investments. Also, through its allocation to Private markets the Fund has committed capital for investment in a Renewables Infrastructure Fund. The Fund has also made its first investment using BCPP. In November 2018, the majority of the UK active equity portfolio managed by Majedie and UBS was transitioned to the BCPP UK Equity Alpha Fund. In the new financial year it is expected that further investment solutions provided by BCPP will be used, this will involve the transition of active global equity from Marathon and Newton and new commitments to Private Equity, Debt and Infrastructure.

While the overall Fund enjoyed a strong outperformance of the benchmark and outperformance target, the performance of the Fund’s external active asset managers was quite varied. The Diversified Growth Fund and the Bond Fund managers had a difficult year and significantly underperformed their benchmarks. Whereas the active global equity managers in aggregate outperformed the benchmark and the outperformance target. CBRE, the property fund manager, had another good year and also beat its benchmark and target. There is no 12 month data for the BCPP UK Equity Alpha Fund, the LGIM Low Carbon passive fund and the RAFI factor fund as these investments have only recently been made. Over the fourth quarter the BCPP UK Equity Alpha Fund outperformed the benchmark, but slightly underperformed the outperformance target.

and Market Outlook

A more Dovish Fed has increased the chance of a soft landing in the US which, combined with economic stimulus from China, has given this very long economic expansion a new lease of life. Add to this the fact that first quarter 2019 earnings have outperformed their dramatically lowered expectations. This leads one to the conclusion that most of the good news is probably already in the price at this level of equity markets.

I believe that equity markets can continue to outperform bonds, but there are a number of dark clouds on the horizon that could make equity markets more volatile over the next 12 months; the reality of mixed and lower economic performance, the risk of a harder line on the trade negotiations, the fading positive impact of the tax cuts and the US Bond market yield curve is inverted (long dated yields are lower than short dated yields), this historically is a sign that the bond market is indicating a US recession is on the horizon.

The US trade dispute with China has had a big impact on growth and remains a major concern for equity markets. After it appeared that some form of agreement might be reached, in May 2019 President Trump suddenly increased tariffs on a wide range of Chinese exports from 10% to 25% and threatened to impose new tariffs on other goods. China has responded with its own tariffs on US foodstuffs and other items. In recent days Mr Trump has launched an all-out attack on the global telecoms giant Huawei effectively making it illegal for US companies to trade with them. Given Huawei's 30% share for the global mobile telecoms market, this could have serious implications for investment and growth. Elsewhere, the US has withdrawn from the Iran Nuclear Agreement sponsored by Mr Obama and Europe and imposed sanctions on Iran, further raising tensions in the Middle East.

In the European Parliamentary elections, the newly formed "Brexit Party" was the main beneficiary of the electorate's unhappiness with the UK Parliament, but other Parties that promoted "Remain" agendas among their policies were also beneficiaries at the cost of the Conservative and Labour parties. This pattern was repeated across Europe with the majority centre right coalition in the European Parliament losing ground to a more fragmented group made up more right wing and populist politicians. Against this backdrop, trying to agree something between the UK and the EU over the summer months is going to be very difficult unless it is to accept the Withdrawal Agreement or Revoke article 50.

In the UK, the failure to deliver Brexit and the inability of the main parties to find an agreement on the way forward has cost the Conservative party its fourth Prime Minister over the UK's relationship with the EU and it now has its third since the referendum. The process of electing a new leader, who will automatically become the new Prime Minister, started with eleven candidates, from whom Conservative MP's chose Mr Hunt and Mr Johnson, to go forward to a vote of the full membership of the party. In the end the party membership chose the favourite, Mr Johnson as their leader and our new Prime Minister. With 98 calendar days to go before the next deadline for leaving the EU expires Mr Johnson has pledged to negotiate a new deal with the EU that is both better and does not require the "Backstop". Needless to say, the new leadership of the EU have said the only deal available is the Withdrawal Agreement, negotiated by the last UK Prime Minister. If we are to believe the new PM then this has significantly increased the risk of a "No Deal" exit on the 31st October 2019.

Over the next twelve months I expect low returns from most investment markets and the potential for higher volatility. This emphasises the importance of a diversified portfolio of assets where the sources of return are genuinely diverse and lowly correlated. I note that the Fund is already reasonably diverse, and that progress has been made to increase diversification over the last 12 months. The outcome of the Triennial Valuation needs to be taken into consideration and the continuing strategy review is expected to lead to a wider set of asset classes being employed by the Fund. The closer collaboration with the Border to Coast Pension Partnership, to find investment solutions, should lead to a wider range of investment opportunities, which could help mitigate the risk and volatility of returns over the medium to long term. Diversification is not a guarantee of positive returns but it should lead to lower correlation and better risk adjusted returns.

**Anthony Fletcher, Senior Adviser – MJ Hudson Allenbridge**

**Independent Investment Adviser to the Surrey Pension Fund.**

**24<sup>th</sup> July 2019**

# Investment Arrangements, Performance & Post Pool Reporting

The Fund is managed on both an active and passive basis.

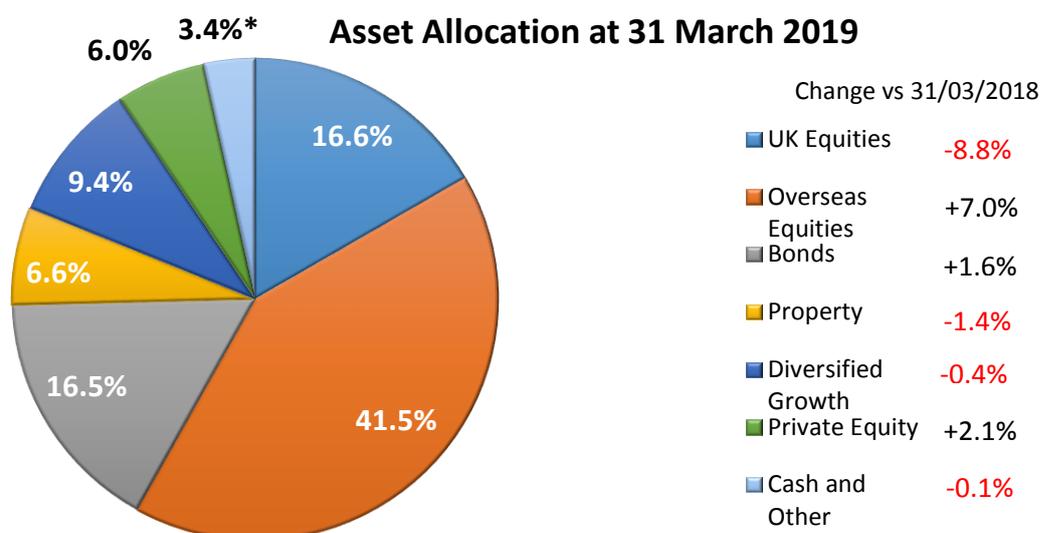
There are a number of external investment managers, who have been appointed to undertake day-to-day decisions on the allocation of investment between types of asset and choices of individual stocks within approved classes. They are required to take a long-term view, balancing risk against return and are remunerated on scales related to the value of funds under management and in certain cases for performance over and above benchmark return. Regular meetings are held with external managers to assess performance.

In addition the Fund has investments in private equity funds managed by Blackrock, Goldman Sachs, Hg Capital, Living Bridge Equity Partners, Capital Dynamics, Standard Life Capital Partners as well as Infrastructure funds, Pantheon Access as well as a new clean energy infrastructure fund, Glenmont Partners.

At 31 March 2019 the market value of assets under management was £3.9bn, excluding the private equity portfolio, internally managed cash, and residual cash held by the custodian. The proportion with each of the investment managers is shown below.

## Portfolio Distribution

The distribution of the Fund investments into different asset classes within the portfolio at 31 March 2019 is shown in the below chart, with the prior year allocation shown in the table below. There has been a reduction in allocation to UK Equities with a target allocation of 17.4% of the whole portfolio (excluding cash), with the reduction offset by an increase in Overseas Equities. The Fund has also restructured its Passive LGIM Funds, transitioning into a RAFI Multi Factor Fund and Low Carbon Fund in January 2019.



\*Difference of 1dp in Cash Allocation above to table below due to rounding differences.

The chart below shows the investment breakdown by asset class over the last two years and the change in actual asset allocation over the year.

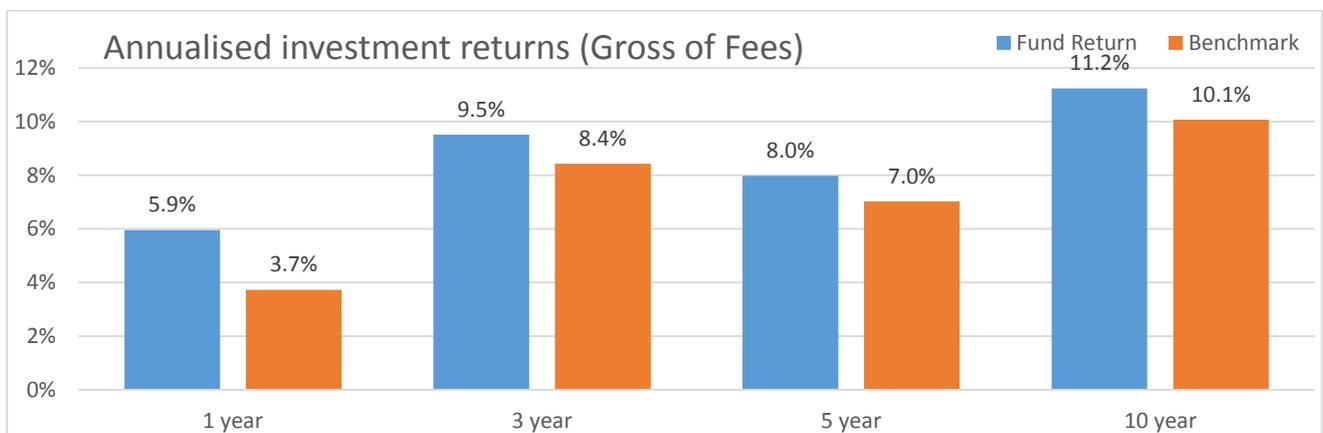
|                           | <b>Market Value as at 31 March 2018 £000</b> | <b>Actual Allocation 31 March 2018</b> | <b>Asset Allocation Target as at 31 March 2019</b> | <b>Market Value as at 31 March 2019 £000</b> | <b>Actual Allocation 31 March 2019</b> | <b>Movement in Year</b> |
|---------------------------|--|--|--|--|--|-------------------------|
| <b>Local Assets</b>       |  |  |  |  |  |                         |
| Fixed interest securities | 396,093                                      | 9.8%                                   | 12.10%   | 495,283                                      | 11.55%                                 | 1.72%                   |
| Index linked securities   | 205,115                                      | 5.1%                                   | 5.50%  | 211,246                                      | 4.93%                                  | -0.16%                  |
| Equities                  | 2,413,734                                    | 59.9%                                  | 47.80%   | 2,025,606                                    | 47.23%                                 | -12.66%                 |
| Property unit trusts      | 321,738                                      | 8.0%                                   | 6.20%  | 283,240                                      | 6.60%                                  | -1.38%                  |
| Diversified growth        | 394,288                                      | 9.8%                                   | 11.40%   | 402,589                                      | 9.39%                                  | -0.39%                  |
| Private equity            | 155,781                                      | 3.9%                                   | 5.00%  | 255,964                                      | 5.97%                                  | 2.10%                   |
| Cash and other            | 143,309                                      | 3.6%                                   | 0.00%  | 150,519                                      | 3.51%*                                 | -0.05%                  |
|                           |  |  |  |  |  |                         |
| <b>Pooled Assets</b>      |  |  |  |  |  |                         |
| BCPP UK Equity Alpha      | 0  | 0                                      | 12.00%   | 464,200                                      | 10.82%                                 | 10.82%                  |
| <b>Total</b>              |  | <b>100.0%</b>                          |  |  | <b>100.0%</b>                          |                         |
|                           |  |  |  |  |  |                         |

Eleven fund managers undertook the management of investments during 2018/2019 in a mix of passive and active investment. A summary of investment managers and the value of the assets under management is shown on page 46.

The Fund assess investment performance against a customized benchmark provided by the Fund custodian Northern Trust. This benchmark is derived from a series of investment indices weighted by the Funds asset allocation. This allows the Fund to measure performance against a 100% passive allocation.

Performance against target and benchmark is continually reviewed at regular intervals, as stated in the Fund’s Investment Strategy Statement.

The graph below shows how the Fund performed against the benchmark, on an annualized basis, for the previous 1, 3, 5 and 10 year periods.



The fund recorded investment performance above that of the benchmark for the previous 12 months to 31 March 2019 as well as outperformance over the longer term 3 year period, shown in the above chart. The outperformance above the benchmark is partly a result of strong investment returns generated by actively managed portfolios. The annual investment returns as at 31 March 2019 for each fund manager are shown in the below table.

| Investment Manager  | Mandate                    | Market value 31 March 2019 | Percentage of Funds Under Management as at 31 March 2019 |
|---|----------------------------|----------------------------|--|
|   |                            | £000                       |  |
| <b>Active Funds Managed within Border to Coast Pensions Partnership (BCPP)</b>      |                            |                            |  |
| Border to Coast UK Equity Alpha   | UK Equity                  | 464,200                    | 11.1%  |
| <b>Passive Funds Managed Outside of Border to Coast Pensions Partnership (BCPP)</b> |                            |                            |  |
| Legal & General Investment Managers   | Multi Asset                | 1,190,723                  | 28.3%  |
| <b>Active Funds Managed Outside of Border to Coast Pensions Partnership (BCPP)</b>  |                            |                            |  |
| Majedie Asset Management  | UK Equities                | 243,621                    | 5.8%   |
| Marathon Asset Management   | Global Equities            | 505,222                    | 12.0%  |
| Newton Investment Management  | Global Equities            | 333,760                    | 7.9%   |
| Western Asset Management  | Multi Asset Credit         | 422,967                    | 10.1%  |
| Franklin Templeton Investments  | Unconstrained Fixed Income | 72,316                     | 1.7%   |
| CBRE Global Multi Manager   | Property                   | 287,636                    | 6.8%   |
| Baillie Gifford Life Limited  | Diversified Growth         | 161,151                    | 3.8%   |
| Ruffer  | Diversified Growth         | 121,748                    | 2.9%   |
| Aviva   | Diversified Growth         | 119,691                    | 2.8%   |
| <b>Total</b>  |                            | <b>3,923,035</b>           |  |
| <b>Total Funds Under Management</b>   |                            | <b>4,200,699</b>           |  |

## **Transition of Assets onto Border to Coast Pensions Partnership (BCPP)**

In 2015 the Department of Housing, Communities and Local Government (as it then was) issued LGPS: Investment Reform Criteria and Guidance which set out how the government expected funds to establish asset pooling arrangements. The objective was to deliver:

- Benefits of scale
- Strong governance and decision making
- Reduced costs and excellent value for money, and
- An improved capacity and capability to invest in infrastructure.

This has led to the creation of eight asset pools which have significantly changed the previous approach to investing, although it should be stressed that the responsibility for determining asset allocations and the investment strategy remains with individual pension funds. Surrey Pension Fund, along with 12 other funds, is now a partner fund of Border to Coast Pensions Partnership.

Some of the risks associated with LGPS Asset Pooling as a whole include:

- Less flexibility in terminating underperforming managers
- Conflicting strategic goals of different partner funds affecting funds on offer
- Lack of transparency in funds managed from pool, from Partner Funds

### Assets transitioned in 2018/19

The Fund transitioned its first asset into Border to Coast's UK Equity Alpha Fund in November 2018 worth approximately £464m as at 31 March 2019.

### Future Transition Plans

The Fund has also subscribed to BCPP's Alternative Investment offerings with £50m committed in Private Equity in May 2019 and a further £100m committed in Infrastructure in June 2019. These funds are expected to generate savings in fees compares to previously subscribing to Private Equity and Infrastructure as a single fund.

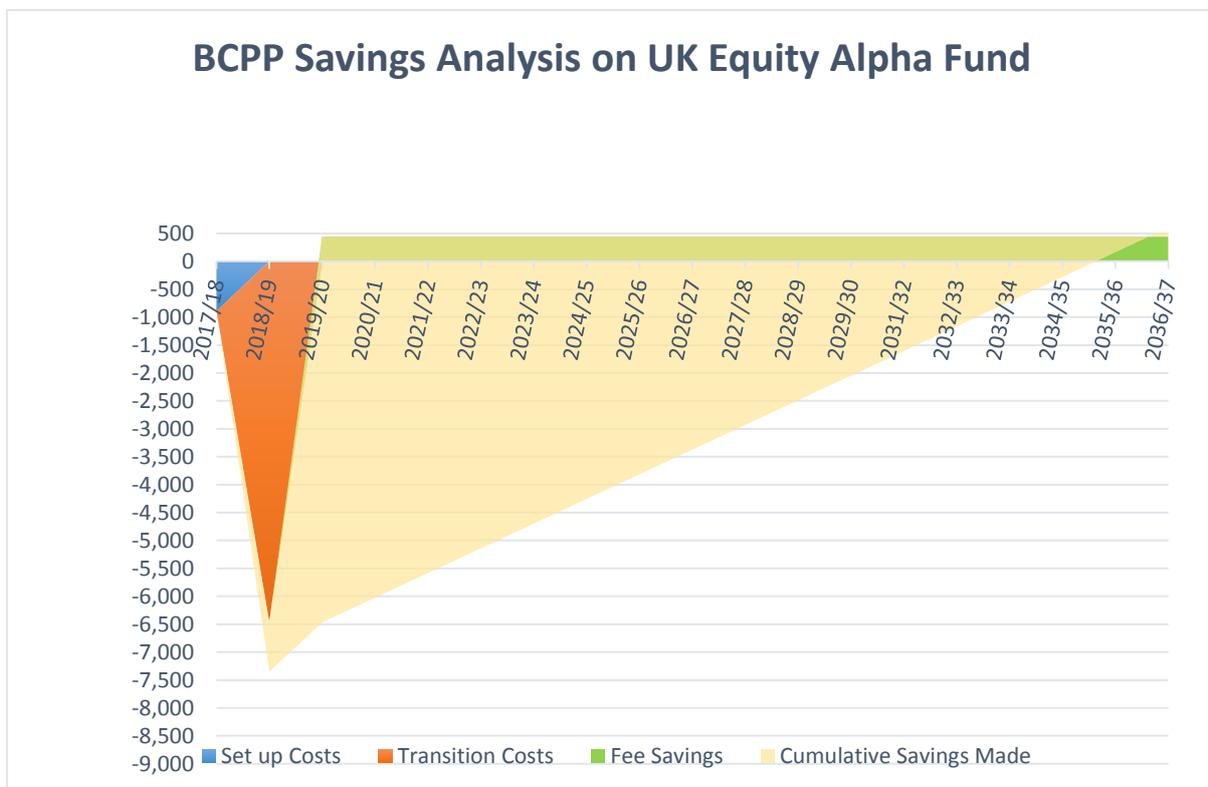
In terms of future transition plans in 2019/20, The Fund expects to transition into BCPP's Global Equity Funds as well as its Multi Asset Credit Portfolio.

## Transition Costs and Fee Savings

The initial transition costs are highlighted below with the expected savings from fee rates.

| Pooling Costs                               | Direct<br>£000s | Indirect<br>£000s | Total<br>£000s | Cumulative<br>£000s |
|---|-----------------|-------------------|----------------|---------------------|
| <b>Set up Costs:</b>                        |                 |                   |                |                     |
| Other Costs                                 | 893             |                   | 893            | 893                 |
| <b>Transition Costs</b>                     |                 |                   |                |                     |
| Transition Fees                             | 62              |                   | 62             | 62                  |
| Other Transition Costs Commissions          | 101             |                   | 101            | 101                 |
| Other Transition Costs Taxes and Stamp Duty | 752             |                   | 752            | 752                 |
| Other Transition Costs Implicit             |                 | 5,544             | 5,544          | 5,544               |
| <b>Total Transition Costs</b>               | <b>1,807</b>    | <b>5,544</b>      | <b>7,351</b>   | <b>7,351</b>        |

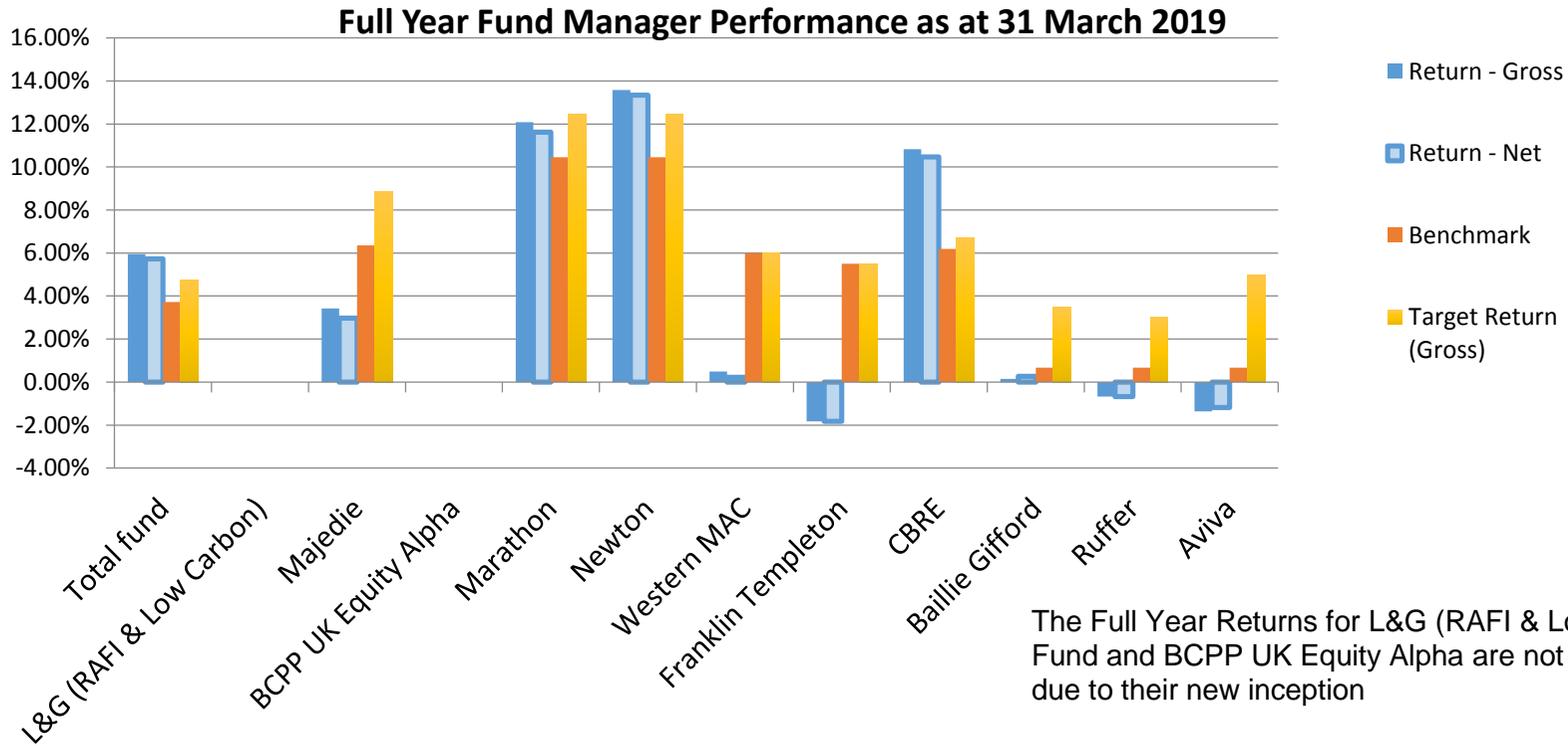
Based on current projections of Manager Fee savings from the BCPP UK Equity Alpha Fund against its initial set up and transition costs, the Fund expects to realise savings in approximately 16.6 years. The Fee Savings analysis is shown in Annex 1 (p114-p115)



|   | Pooled Assets: Border to Coast Pensions Partnership |                |             | Local Assets  |                |               |
|---|---|----------------|-------------|---------------|----------------|---------------|
| 2018-19 Investment Management Expenses      | Direct £000s  | Indirect £000s | Total £000s | Direct £000s  | Indirect £000s | Total £000s   |
| <b>Management Fees</b>                      |   | <b>355</b>     | <b>355</b>  | <b>9,687</b>  |                | <b>9,687</b>  |
| <b>Transaction Costs</b>                    |   | <b>136</b>     | <b>136</b>  | <b>569</b>    |                | <b>569</b>    |
| Commissions                                 |   | 130            | 130         |               |                |               |
| Taxes and stamp duty                        |   | 53             | 53          |               |                |               |
| Implicit Costs                              |   | -47            | -47         |               |                |               |
| <b>Custody</b>                              |   | <b>20</b>      | <b>20</b>   | <b>171</b>    |                | <b>171</b>    |
| <b>Other</b>                                |   | <b>6</b>       | <b>6</b>    |               |                |               |
| <b>Total Investment Management Expenses</b> |   | <b>654</b>     | <b>654</b>  | <b>10,427</b> |                | <b>10,427</b> |

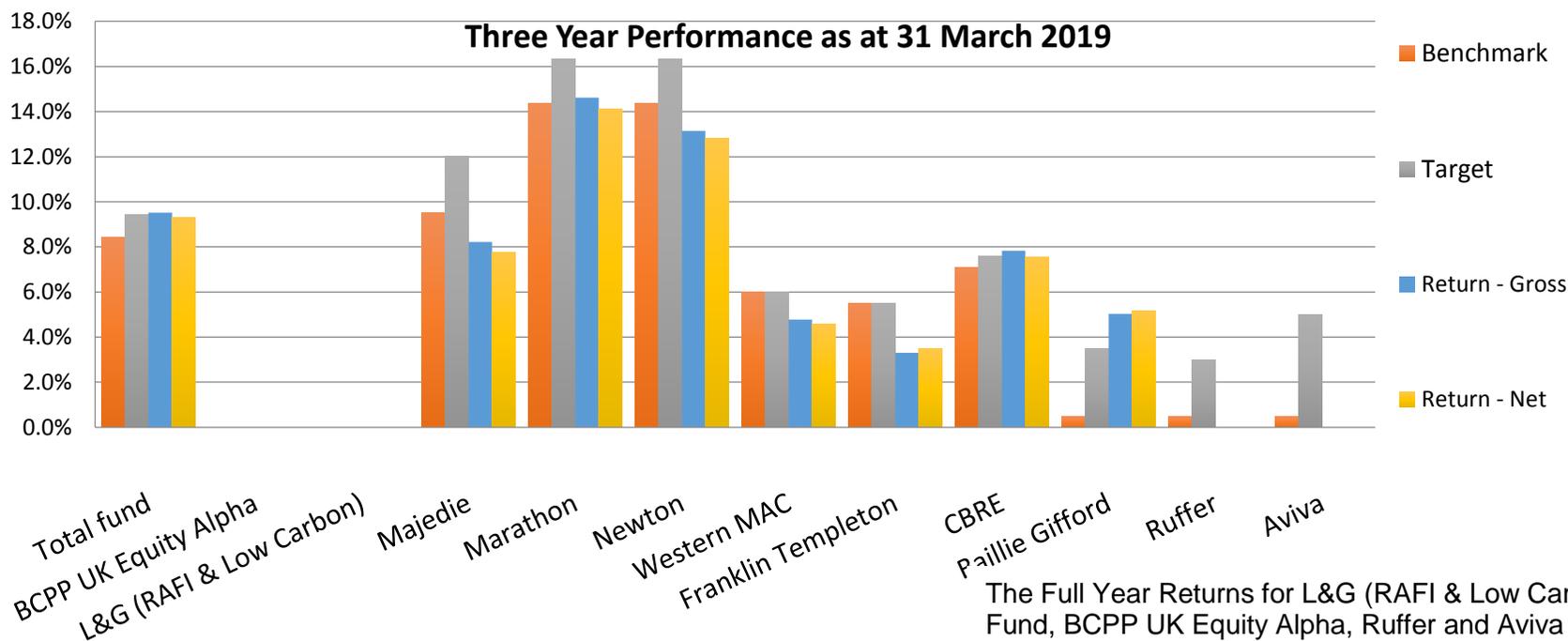
| <b>Manager</b>                            | <b>Asset Category</b>                  | <b>Net of Fees Performance</b> | <b>Gross of Fees Performance</b> | <b>Benchmark Index</b>                          | <b>Benchmark Performance</b> | <b>Target Return Relative to Benchmark (Gross) 1 Year (%)</b> |
|---|--|--------------------------------|----------------------------------|---|------------------------------|---|
|   |  | <b>1 Year (%)</b>              | <b>1 Year (%)</b>                |   | <b>1 Year (%)</b>            |   |
| Total fund                                |  | 5.73%                          | 5.95%                            | Customised                                      | 3.73%                        | 4.73%   |
| <b>Asset pool managed investments</b>     |  |                                |                                  |   |                              |   |
| BCPP UK Equity                            | Active Listed Equity                   | -                              | -                                | FTSE All Share                                  | -                            | -   |
|   |  |                                |                                  |   |                              |   |
| <b>Non-asset pool managed investments</b> |  |                                |                                  |   |                              |   |
| L&G (RAFI Multi Factor & Low Carbon)      | Passive Listed Equity                  | -                              | -                                | MSCI World/ MSCI World Low Carbon               | -                            | -   |
| Majedie                                   | Active Listed Equity                   | 2.98%                          | 3.42%                            | FTSE All Share                                  | 6.36%                        | 8.86%   |
| Marathon                                  | Active Listed Equity                   | 11.62%                         | 12.08%                           | MSCI AC World                                   | 10.45%                       | 12.45%  |
| Newton                                    | Active Listed Equity                   | 13.35%                         | 13.58%                           | MSCI AC World                                   | 10.46%                       | 12.46%  |
| Western – MAC                             | Multi Asset Credit Fund (Fixed Income) | 0.22%                          | 0.49%                            | Total Return Fund (+6% target return)           | 6.00%                        | 6.00%   |
| Franklin Templeton*                       | Absolute Return Fund                   | -1.83%                         | -1.83%                           | Barclays Multiverse Index (+5.5% target return) | 5.50%                        | 5.50%   |

|                 |                                |        |        |                           |        |       |
|-----------------|--------------------------------|--------|--------|---------------------------|--------|-------|
| CBRE            | Property Fund                  | 10.46% | 10.82% | IPD UK All Balanced Funds | 6.20%  | 6.70% |
| Baillie Gifford | Diversified Growth Fund        | 0.27%  | 0.14%  | UK Base Rate              | 0.67%  | 3.50% |
| Ruffer          | Diversified Growth Fund        | -0.68% | -0.68% | UK Base Rate              | 0.67%  | 3.00% |
| Aviva           | Diversified Growth Fund        | -1.18% | -1.36% | UK Base Rate              | 0.67%  | 5.00% |
| Alternatives    | Private Equity/ Infrastructure | 18.04% | 18.04% | MSCI World Index          | 20.76% | 5.00% |



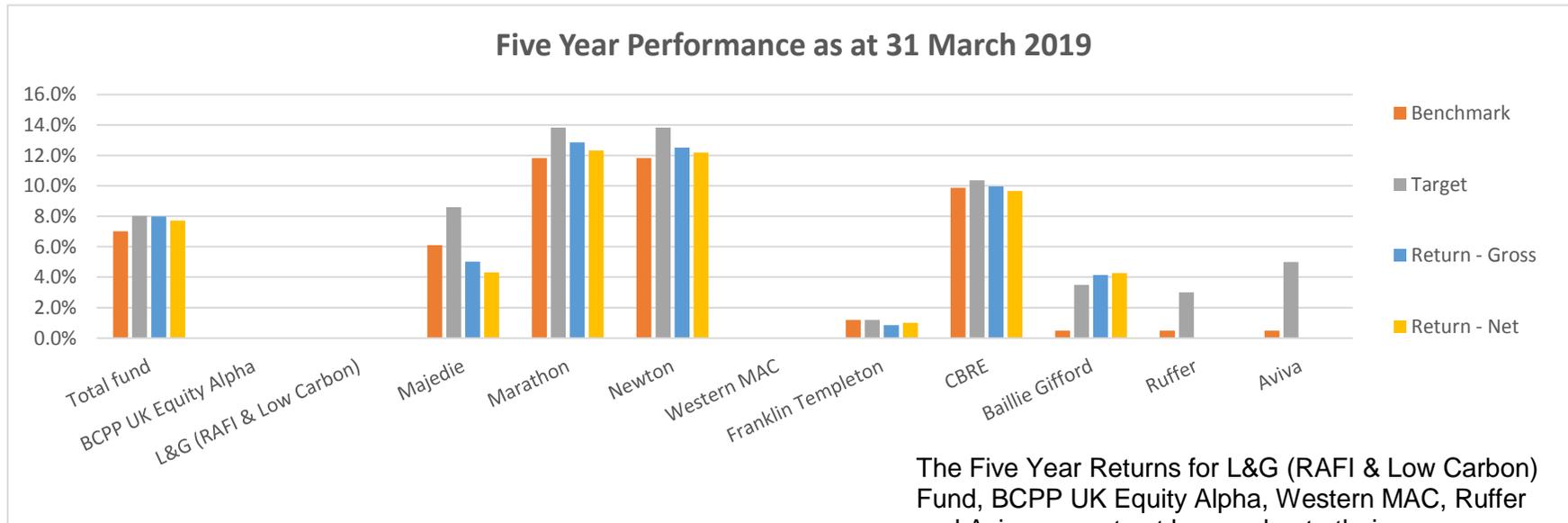
| <b>Manager</b>                            | <b>Asset Category</b>                  | <b>Net of Fees Performance</b> | <b>Gross of Fees Performance</b> | <b>Benchmark Index</b>                          | <b>Benchmark Performance</b> | <b>Target Return Relative to Benchmark (Gross) 3 Year (%)</b> |
|---|--|--------------------------------|----------------------------------|---|------------------------------|---|
|   |  | <b>3 Year (%)</b>              | <b>3 Year (%)</b>                |   | <b>3 Year (%)</b>            |   |
| Total fund                                |  | 9.30%                          | 9.50%                            | Customised                                      | 8.40%                        | 9.40%   |
| <b>Asset pool managed investments</b>     |  |                                |                                  |   |                              |   |
| BCPP UK Equity                            | Active Listed Equity                   | -                              | -                                | FTSE All Share                                  | -                            | -   |
|   |  |                                |                                  |   |                              |   |
| <b>Non-asset pool managed investments</b> |  |                                |                                  |   |                              |   |
| L&G (RAFI Multi Factor & Low Carbon)      | Passive Listed Equity                  | -                              |                                  | MSCI World/ MSCI World Low Carbon               | -                            | -   |
| Majedie                                   | Active Listed Equity                   | 7.8%                           | 8.2%                             | FTSE All Share                                  | 9.5%                         | 12.0%   |
| Marathon                                  | Active Listed Equity                   | 14.1%                          | 14.6%                            | MSCI AC World                                   | 14.3%                        | 16.3%   |
| Newton                                    | Active Listed Equity                   | 12.8%                          | 13.1%                            | MSCI AC World                                   | 14.4%                        | 16.4%   |
| Western – MAC                             | Multi Asset Credit Fund (Fixed Income) | 4.6%                           | 4.8%                             | Total Return Fund (+6% target return)           | 6.0%                         | 6.0%  |
| Franklin Templeton*                       | Absolute Return Fund                   | 3.5%                           | 3.3%                             | Barclays Multiverse Index (+5.5% target return) | 5.5%                         | 5.5%  |

|                   |                                |        |        |                           |        |       |
|-------------------|--------------------------------|--------|--------|---------------------------|--------|-------|
| CBRE              | Property Fund                  | 7.5%   | 7.8%   | IPD UK All Balanced Funds | 7.1%   | 7.6%  |
| Baillie Gifford   | Diversified Growth Fund        | 5.2%   | 5.0%   | UK Base Rate              | 0.5%   | 4.0%  |
| Ruffer            | Diversified Growth Fund        | -      | -      | UK Base Rate              | 0.5%   | -     |
| Aviva             | Diversified Growth Fund        | -      | -      | UK Base Rate              | 0.5%   | -     |
| Alternative Funds | Private Equity/ Infrastructure | 14.83% | 14.83% | MSCI World Index          | 21.66% | 5.00% |



| <b>Manager</b>                            | <b>Asset Category</b>                  | <b>Net of Fees Performance</b><br><b>5 Year (%)</b> | <b>Gross of Fees Performance</b><br><b>5 Year (%)</b> | <b>Benchmark Index</b>                          | <b>Benchmark Performance</b><br><b>5 Year (%)</b> | <b>Target Return Relative to Benchmark (Gross) 5 Year (%)</b> |
|---|--|---|---|---|---|---|
| Total fund                                |  | 7.7%  | 8.00%   | Customised                                      | 7.00%   | 8.00%   |
| <b>Asset pool managed investments</b>     |  |   |   |   |   |   |
| BCPP UK Equity                            | Active Listed Equity                   | -   | -   | FTSE All Share                                  | -   | -   |
|   |  |   |   |   |   |   |
| <b>Non-asset pool managed investments</b> |  |   |   |   |   |   |
| L&G (RAFI Multi Factor & Low Carbon)      | Passive Listed Equity                  | -   |   | MSCI World/ MSCI World Low Carbon               |   |   |
| Majedie                                   | Active Listed Equity                   | 4.3%  | 5.0%  | FTSE All Share                                  | 6.1%  | 8.6%  |
| Marathon                                  | Active Listed Equity                   | 12.3%   | 12.9%   | MSCI AC World                                   | 11.8%   | 13.8%   |
| Newton                                    | Active Listed Equity                   | 12.2%   | 12.5%   | MSCI AC World                                   | 11.8%   | 13.8%   |
| Western – MAC                             | Multi Asset Credit Fund (Fixed Income) | -   | -   | Total Return Fund (+6% target return)           |   | 6.00%   |
| Franklin Templeton*                       | Absolute Return Fund                   | 1.0%  | 0.8%  | Barclays Multiverse Index (+5.5% target return) | 1.2%  | 1.2%  |

|                   |                                |        |        |                           |        |       |
|-------------------|--------------------------------|--------|--------|---------------------------|--------|-------|
| CBRE              | Property Fund                  | 9.7%   | 10.0%  | IPD UK All Balanced Funds | 9.9%   | 10.4% |
| Baillie Gifford   | Diversified Growth Fund        | 4.3%   | 4.1%   | UK Base Rate              | 0.5%   | 4.0%  |
| Ruffer            | Diversified Growth Fund        | -      | -      | UK Base Rate              | 0.5%   | 0.5%  |
| Aviva             | Diversified Growth Fund        | -      | -      | UK Base Rate              | 0.5%   | 0.5%  |
| Alternative Funds | Private Equity/ Infrastructure | 15.49% | 15.49% | MSCI World Index          | 16.67% | 5.00% |



The Five Year Returns for L&G (RAFI & Low Carbon) Fund, BCPP UK Equity Alpha, Western MAC, Ruffer and Aviva are not yet known due to their new inception



# Fund Policies



# Investment Strategy Statement

Surrey Pension Fund's full Investment Strategy Statement, approved by the Pension Fund Committee on 8 February 2019 can be found on the Surrey Pension Fund Website using the link below.

## **1. Introduction**

The County Council is the designated statutory body responsible for administering the Surrey Pension Fund ("the Fund") on behalf of the constituent Scheduled and Admitted Bodies. The Council is responsible for setting investment policy, appointing suitable persons to implement that policy and carrying out regular reviews and monitoring of investments.

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

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

The Committee is advised by a representative of the Fund's professional investment consultant, an independent advisor, the Executive Director of Finance and the Head of Pensions. The Committee meets on at least a quarterly basis.

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

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

The Local Pension Board is advised by the Head of Pensions and the Senior Specialist Advisor.

The Local Pension Board meets on at least a quarterly basis.

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 requires administering authorities to formulate and to publish a statement of its investment strategy, in accordance with guidance issued from time to time by the Secretary of State.

The Investment Strategy Statement is an important governance tool for the Fund, as well as providing transparency in relation to how the Fund's investments are managed. It will be kept under review and revised from time to time in order to reflect any changes in policy.

The Committee complies with the requirements of the Myners Review of Institutional Investment, which can be found in Appendix A, alongside a review of the Fund's compliance with the principles.

## **Key Investment Beliefs**

The Fund's key investment beliefs are set out below:

### **(i) Investment Governance**

The Fund has access to the necessary skills, expertise and resources to manage the whole Fund, as well as internally managing a small proportion of the Fund's assets, such as private equity and cash.

- 

Investment consultants, independent advisors and Officers are a source of expertise and research to inform and assist Committee decisions.

The Fund should continuously monitor and improve its governance structure where relevant, through bespoke training in order to implement tactical views more promptly, but acknowledges that achieving optimum market timing is very difficult.

There can be a first mover advantage in asset allocation and category selection (where considered appropriate), but it is difficult to identify and exploit such opportunities, and may require the Fund to be willing to take-on unconventional risk, thus requiring Committee members to have a full understanding of the risk.

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### **(ii) Long Term Approach**

The strength of the respective employers' covenant and the present cash flow positive nature of the Fund allow a long-term deficit recovery period and enable the Fund to take a long-term view of investment strategy.

The most important aspect of risk is not the volatility of returns, but the risk of absolute loss, and of not meeting the objective of facilitating low, stable contribution rates for employers.

Illiquidity and volatility are risks which offer potential sources of additional compensation to the long term investor. Moreover, it is important to avoid being a forced seller in short term market setbacks.

Participation in economic growth is a major source of long term equity return.

Over the long term, equities are expected to outperform other liquid assets, particularly government bonds and cash.

Well governed companies that manage their business in a responsible manner will likely produce higher returns over the long term.

### **(iii) Appropriate Investments**

Allocations to asset classes other than equities and government bonds (e.g. Private Equity, Diversified Growth Funds and Property) offer the Fund other forms of returns with different risk premia.

Diversification across asset classes and manager strategies that have relatively low correlations with each other will tend to reduce the volatility of the overall Fund return.

In general, allocations to bonds are made to achieve additional diversification.

#### **(iv) Management Strategies**

A well-balanced portfolio has an appropriate mix of passive and active investments.

Passive, index-tracker style management provides low cost exposure to equities and bonds, and is especially attractive in efficient markets.

Active managers can add value over the long term, particularly in less efficient markets, and the Fund believes that, by following a rigorous approach, it is possible to identify managers who are likely to add value, over the long term.

The long term case for value investing is compelling, but it may result in prolonged periods of over and underperformance in comparison to a style neutral approach.

Active management can be expensive but can provide additional performance. Fees should be aligned to the interests of the Fund rather than performance of the market.

Active management performance should be monitored over multi-year rolling cycles and assessed to confirm that the original investment process on appointment is being delivered and that continued appointment is appropriate.

Employing a range of management styles can reduce the volatility of overall Fund returns but can also reduce long term outperformance.

#### **Objectives**

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

- i. To have a clearly articulated strategy for achieving and maintaining a fully funded position over a suitable long term time horizon. The Committee recognises that funding levels can be volatile from year to year depending as they do both on investment market levels and on estimates of liability values, so the long-term strategy needs to be capable of steering a robust course through changing market environments.
- ii. To have a strategic asset allocation that is both well diversified and expected to provide long-term investment returns in excess of the anticipated rise in the value of the Fund's liabilities.

- iii. To appoint managers that the Committee believes have the potential to consistently achieve the performance objectives set over the long term and to give each appointed manager a clearly defined benchmark and performance objective against which they can be judged.
- iv. To ensure investment risk is monitored regularly both in absolute terms (the risk of losing money) and relative to the Fund's liabilities (the risk of funding shortfalls); the Committee will have regard to best practice in managing risk.
- v. To have sufficient liquid resources available to meet the Fund's ongoing obligations.
- vi. To achieve an overall Fund return 1% per annum in excess of the combined portfolio benchmark over rolling three-year periods.

This statement will be reviewed by the Committee quarterly, or more frequently should any significant change occur.

## **2. Investment strategy and the process for ensuring suitability of investments**

The Fund's benchmark investment strategy, along with an overview of the role each asset is expected to perform is set out in the following table:

| <b>Asset class</b>        | <b>Allocation %</b> | <b>Advisory ranges %</b> | <b>Role(s) within the strategy</b>  |
|---------------------------|---------------------|--------------------------|---|
| <b>Listed Equities</b>    | <b>59.8</b>         | <b>56.8 – 62.8</b>       | Generate returns in excess of inflation, through exposure to the shares of domestic and overseas companies.   |
| UK                        | 17.4                |                          |   |
| Global Market Cap         | 19.0                |                          |   |
| Emerging Markets          | 3.8                 |                          |   |
| Global Multi-Factor       | 9.8                 |                          |   |
| Low Carbon                | 9.8                 |                          |   |
| <b>Private Equity</b>     | <b>5.0</b>          | <b>2.0-8.0</b>           | Generate returns in excess of inflation, through exposure to companies that are not publicly traded, whilst providing some diversification away from listed equities and bonds.                           |
| <b>Property</b>           | <b>6.2</b>          | <b>3.2 - 9.2</b>         | Generate returns in excess of inflation through exposure to UK and overseas property markets through income and capital appreciation, whilst providing some diversification away from equities and bonds. |
| <b>Diversified Growth</b> | <b>11.4</b>         | <b>8.4 – 14.4</b>        | Deliver returns in excess of inflation, with a reasonably low correlation to traditional equity markets and providing a degree of downside protection in periods of equity market stress.                 |

|                                   |              |                 |  |
|-----------------------------------|--------------|-----------------|--|
| <b>Growth Fixed Income Assets</b> | <b>12.1</b>  | <b>9.1-15.1</b> |  |
| Total Return                      | 2.4          |                 | Offer diversified, unconstrained exposure to global fixed income markets.  |
| Multi Asset Credit                | 9.7          |                 | Offer diversified exposure to global credit markets to capture both income and capital appreciation of underlying bonds. |
| <b>Inflation Linked Gilts</b>     | <b>5.5</b>   | <b>2.5-8.5</b>  |  |
| Index Linked Gilts                | 5.5          |                 | Low risk income stream with an explicit linkage to inflation.  |
| <b>Total</b>                      | <b>100.0</b> |                 |  |

**Note:** Full details of the asset allocation, including the investment managers and their respective performance benchmarks are included in Appendix B.

Cashflows into and out of the Fund will be used to rebalance the portfolio back towards the target investment strategy stated above where possible (a pragmatic view will be taken with respect to illiquid assets such as private equity and property). The rebalancing process has been delegated to Officers, although the Committee have discretion to exclude certain mandates from the rebalancing at their discretion.

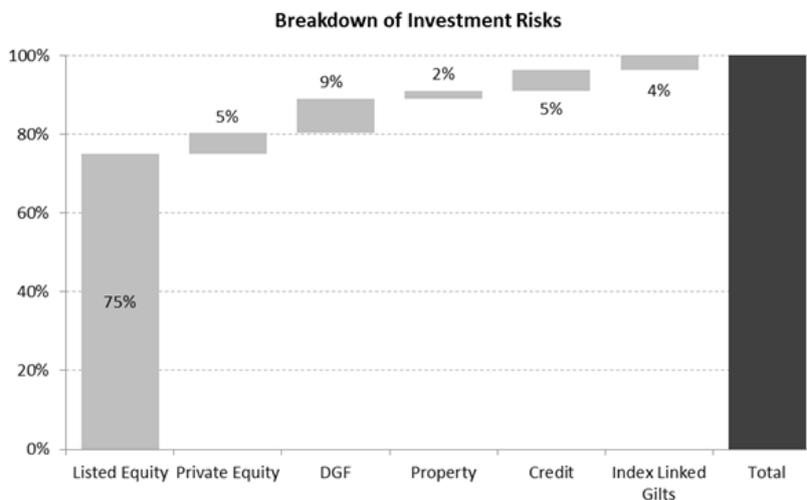
### **3. Risk measurement and management**

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

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

In order to manage equity risk in particular, and given the improvement in the funding level over recent years, an Equity Protection Strategy (EPS) was implemented in December 2017 to help protect the improvement in the funding level from potential future falls in the equity markets. The objective is to materially reduce the risk that contributions will need to rise at the next valuation in order to bridge a funding deficit due to equity market falls.

The graph below provides an indication of the main sources of investment risk (estimated by Mercer) to the Fund's volatility of returns.



Note: Credit risk encompasses the risks within Total Return Fixed Income and Multi Asset Credit. The chart excludes the risk associated with the change in value of the Fund's liabilities. The chart also does not allow for the impact of the EPS, which would be expected to materially reduce the equity-specific VaR (although it will remain the highest risk component at the total portfolio level).

The following risks are recognised and considered by the Committee:

**Valuation risk:** the Actuarial valuation assumes that the Fund generates an expected return equal to or in excess of the Fund's discount rate. An important risk to which the Fund is exposed is that the return is not achieved, either due to unexpected increases in CPI, or if the assets do not deliver as expected.

**Longevity risk:** this is the risk that the members of the Fund live longer than expected under the Actuarial Valuation assumptions. This risk is captured within the Actuarial Valuation report which is conducted at least triennially and monitored by the Committee, but any increase in longevity will only be realised over the long term.

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

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

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

**Liquidity risk:** the Committee recognises that there is liquidity risk in holding assets that are not readily marketable and realisable. Given the long term investment horizon, the Committee believes

that a degree of liquidity risk is acceptable, given the potential return. The majority of the Fund's assets are realisable at short notice.

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

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

**Exchange rate risk:** this risk arises from unhedged investment overseas. The Fund has a currency hedge in place: 50% of its exposure to the US dollar, Euro and Yen within the liquid equity allocation. For other asset classes, currency hedging is reviewed on a case-by-case basis.

**Cashflow risk:** the Fund is cashflow positive, in that contributions are expected to exceed outgoings (outgoings are largely expected to be in the form of meeting benefit payments). As outlined in Section 2, excess cashflows are used to rebalance the investment policy closer into line with the target. Over time, it is expected that the size of pensioner cashflows will increase as the Fund matures and greater consideration will need to be given to raising capital to meet outgoings. The Committee recognises that this can present additional risks, particularly if there is a requirement to sell assets at inopportune times.

**Governance:** members of the Committee and Local Pension Board participate in regular training delivered through a formal programme. Both the Committee and Local Pension Board are aware that poor governance and in particular high turnover of members may prove detrimental to the investment strategy, fund administration, liability management and corporate governance and seeks to minimise turnover where possible.

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

The full ESG policy of the Fund is outlined in Section 5.

#### **4. Approach to asset pooling**

In order to satisfy the requirements of the LGPS (Management and Investment of Funds) Regulations 2016, the Surrey Pension Fund has elected to become a shareholder in Border to Coast Pensions Partnership (BCPP) Limited. BCPP Limited will be a Financial Conduct Authority (FCA) regulated Operator and an Alternative Investment Fund Manager ("AIFM"). The BCPP submission received approval from Government on 12 December 2016.

Asset values total £35.9 billion, supporting 906,000 scheme members and 2,166 employers (data at 31 March 2015).

BCPP is a partnership of the following administering authorities:

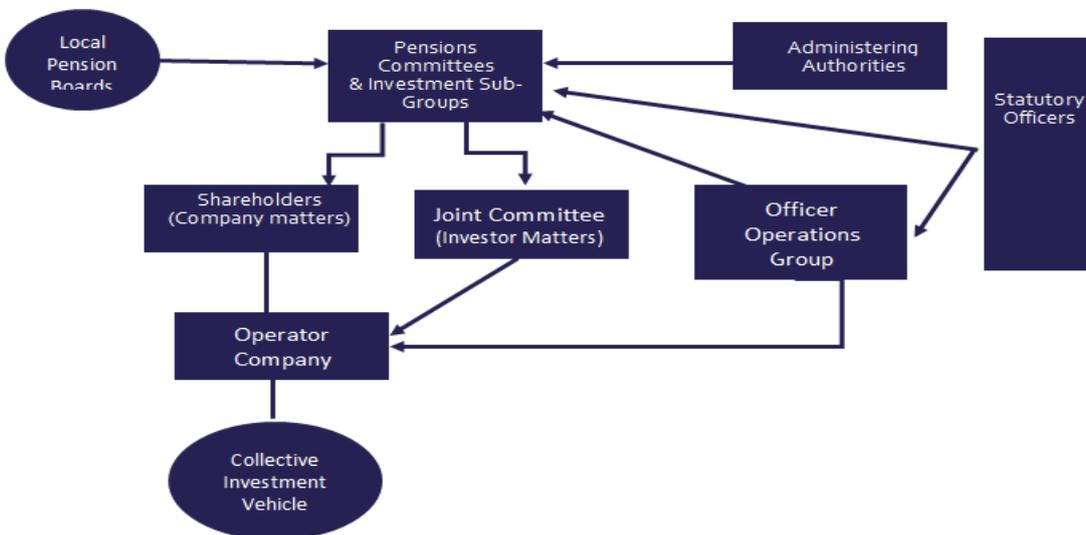
- Bedfordshire Pension Fund
- Cumbria Pension Fund
- Durham Pension Fund
- East Riding Pension Fund
- Lincolnshire Pension Fund
- North Yorkshire Pension Fund
- Northumberland Pension Fund
- South Yorkshire Pension Fund
- Surrey Pension Fund
- Teesside Pension Fund
- Tyne and Wear Pension Fund
- Warwickshire Pension Fund

•

The basis of the pooling will be in line with guidance issued by the Secretary of State and meeting the four criteria set out below:

- a. Benefits of scale - a minimum asset size per pool of £25bn.
- b. Strong governance and decision making
- c. Reduced costs and value for money
- d. Improved capacity to invest in infrastructure

The governance structure of BCPP is as follows:



The Fund will hold BCPP to account through the following mechanisms:

- A representative on the BCPP Shareholder Board, with equal voting rights, who will provide oversight and control of the corporate operations of BCPP Limited. Each Fund has an equal share in the company.
- 
- A representative on the BCPP Joint Committee who will monitor and oversee the investment operations of BCPP Limited.

- - Officer support to the representatives from the Officer Operations Group and the Statutory Officer Group.

The regulatory changes do not affect the sovereignty of the Surrey Pension Fund which will retain the decision making powers regarding asset allocation and will delegate the investment management function to BCPP Limited. The pooling of LGPS assets will have no impact on the pension entitlement of members of the fund (pensioners, current employees, and deferred members who are yet to draw their pension).

BCPP has been created by like-minded funds, established around key principals:

- one fund one vote, regardless of size, all Funds will be treated equally;
- equitable sharing of costs;
- to drive efficiencies and work effectively, partner funds must have a complementary investment ethos, risk appetite and investment strategy.

BCPP will have an internal team of investment managers, in addition to appointing external managers. Its role will be to implement the investment strategies of the partner funds, through a range of investment sub-funds, offering internally and externally managed solutions. It is anticipated that a significant proportion of the Fund's investments will be made through BCPP Limited. Where it is not practical or cost effective for assets to be transferred into the pool (e.g. existing private equity investments), they will continue to be managed at the Fund level. Whilst these assets are unlikely to be transferred, it is expected that once these investments are fully distributed, the proceeds will be reinvested into BCPP.

## **5. Environmental, social and corporate governance (ESG) policy**

The Fund has no specific policy on investing or divesting investments wholly with regard to ESG issues. However external fund managers are expected to take into account ESG issues when assessing potential investment opportunities. It is the belief of the Fund that well governed companies that manage their business in a responsible manner will produce superior returns over the long term, and the Fund expects these considerations to form part of the investment selection criteria for external fund managers in carry out stock selection.

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

The Fund aims to be an active shareholder in the exercising of its company share voting rights to promote and support good corporate governance principles.

For assets managed in the BCPP pool, the Fund supports the Responsible Investment Policy of BCPP (shown as Appendix C). BCPP undertake voting on these assets in accordance with the BCPP Corporate Governance and Voting Guidelines (shown as Appendix D).

For assets managed outside of the BCPP pool, the Fund will comply with the principles of the Responsible Investment Policy of BCPP. Share voting is undertaken in-house, after consultation with fund managers and a specialist corporate governance advisor.

The Fund is a member of the Local Authority Pension Fund Forum (LAPFF), a membership group of LGPS funds that campaigns on corporate governance issues. Assets held within BCPP are managed in accordance with the engagement principles as outline in the BCPP Responsible Investment Policy. This engagement demonstrates a commitment to sustainable investment and the promotion of high standards of corporate governance and responsibility.

Responsibility for investment decisions is delegated by the Administering Authority to the Pension Fund Committee. The structure of the Committee, as set out in the opening section of this ISS, includes specific representative members for both employers within the Fund and the scheme membership.

## **6. Policy of the exercise of rights (including voting rights) attaching to investments**

The Fund supports compliance of BCPP with the Corporate Governance Code as outlined in the BCPP Corporate Governance and Voting Guidelines (shown as Appendix D).

The Fund complies with the seven statements of the **UK Stewardship Code** as follows:

Principle 1: Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities.

The Fund takes its responsibilities as a shareholder seriously and has made a commitment to the informed exercise of its ownership rights.

Principle 2: Institutional investors should have a robust policy on managing conflicts of interest in relation to stewardship and this policy should be publicly disclosed.

The Fund expects its fund managers to have effective policies addressing potential conflicts of interest. In respect of conflicts of interest within the Fund, Committee members are required to make declarations of interest prior to panel meetings.

Principle 3: Institutional investors should monitor their investee companies.

Day-to-day responsibility for managing the Fund's equity holdings is delegated to our appointed fund managers and the fund expects them to monitor companies, intervene where necessary, and report back regularly on activity undertaken.

The Fund actively votes all its equity holdings directly and liaises with the fund managers as necessary.

Principle 4: Institutional investors should establish clear guidelines on when and how they will escalate their activities as a method of protecting and enhancing shareholder value.

Responsibility for day-to-day interaction with companies is delegated to the Fund's investment managers, including the escalation of engagement when necessary. On occasion, the Fund may itself choose to escalate activity; this will typically be through our membership of the LAPFF. When this occurs, the Committee will typically take a minuted vote on the decision whether to participate in the proposed activity.

Principle 5: Institutional investors should be willing to act collectively with other investors where appropriate.

The Fund seeks to work collaboratively with other institutional shareholders in order to maximise the influence that it can have on individual companies. This is achieved through our LAPFF membership, together with initiatives proposed by our investment managers or other advisors.

Principle 6: Institutional investors should have a clear policy on voting and disclosure of voting activity.

The Fund aims to exercise all votes associated with its equity holdings and operates a custom policy which reflects the Fund's investment objectives. Fund officers are responsible for voting decisions and are supported by specialist proxy research.

On a general basis, the Fund will support resolutions which are consistent with the UK Governance Code and represent best practice. In overseas markets, we will take account of local best practice principles. Where resolutions or issues fall short of the expected standards, we will either abstain or vote against, depending on the individual circumstances of the company and the issues presented.

The policy is reviewed at least annually in order to take account of regulatory developments. Controversial issues may be discussed at Committee meetings.

Principle 7: Institutional investors should report periodically on their stewardship and voting activities.

The Fund reports on its stewardship activity to the Committee and employer member representatives at the Annual Meeting where members have an opportunity to ask specific questions.

In addition, quarterly reports of voting actions are posted on the Fund's website ([www.surreypensionfund.org](http://www.surreypensionfund.org))

The Committee will provide an annual report on how the Fund satisfies its UK Stewardship Code obligations requirements.

## **Advice Taken**

In constructing this statement, the Committee has taken advice from a representative of the Fund's professional investment consultant (Mercer Limited), an independent advisor, the Executive Director of Finance and the Head of Pensions.

## **Appendix A: Myners Investment Principles Compliance Statement**

### **Principle 1: Effective Decision-making**

Administering authorities should ensure that:

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

#### **✓ Full compliance**

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

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

### **Principle 2: Clear Objectives**

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

#### **✓ Full compliance**

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

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

### **Principle 3: Risk and liabilities**

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

✓ **Full compliance**

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

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

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

**Principle 4: Performance assessment**

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

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

✓ **Full compliance**

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

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

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

**Principle 5: Responsible ownership**

Administering authorities should:

- Adopt, or ensure their investment managers adopt, the Stewardship Code.
- Include a statement of their policy on responsible ownership in the statement of investment

principles.

- Report periodically to scheme members on the discharge of such responsibilities.

✓ **Full compliance**

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

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

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

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

## **Principle 6: Transparency and reporting**

Administering authorities should:

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

✓ **Full compliance**

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

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

Pensions newsletters are sent to all Fund members.

**Appendix B: Investment Manager Performance Targets and Benchmarks**

| <b>Manager</b> | <b>Portfolio</b>        | <b>Allocation (%)</b> | <b>Benchmark Index</b> | <b>Performance Target</b>                              |
|----------------|-------------------------|-----------------------|------------------------|--|
| BCPP           | UK Equities             | 12.0                  | FTSE All Share         | +2.0% p.a. (gross of fees) over rolling 3-year periods |
| Majedie        | UK Equities – Long Only | 5.5                   | FTSE All Share         | +2.5% p.a. (gross of fees) over rolling 3-year periods |

|                    |  |      |  |  |
|--------------------|--|------|--|--|
|                    | UK Equities – Directional Long/Short   |      | FTSE All Share   | Absolute return focused, but aims to out-perform the FTSE All Share Index by an unspecified amount over the long term  |
| Marathon           | Global Equities  | 11.4 | MSCI AC World  | +2.0% p.a. (gross of fees) over rolling 3-year periods   |
| Newton             | Global Equities  | 7.6  | MSCI AC World  | +2.0% p.a. (gross of fees) over rolling 3-year periods   |
| Various*           | Private Equity   | 5.0  | MSCI World Index   | +5% p.a. (net of fees) over the life of the contract   |
| CBRE               | Property   | 6.2  | IPD UK All Balanced Funds  | +0.5% p.a. (gross of fees) over rolling 3-year periods   |
| Baillie Gifford    | Diversified Growth   | 3.8  | UK Base Rate   | +3.5% p.a. (net of fees) over rolling 3-year periods   |
| Ruffer             | Diversified Growth   | 3.8  | UK Base Rate   | First objective is not to lose money on a rolling 12 month basis. Second objective is to outperform cash and inflation on a consistent basis.<br><br>*Fund target of +3.0% (gross of fees) over 3 year rolling periods |
| Aviva              | Diversified Growth   | 3.8  | UK Base Rate   | +5.0% p.a. (gross of fees) over rolling 3-year periods   |
| Western            | Multi Asset Credit   | 9.7  | Total return benchmark   | +5% to 7% per annum over the market cycle  |
| Franklin Templeton | Unconstrained Global Fixed Income  | 2.4  | Barclays Multiverse Index  | +4% to 7% p.a. (gross of fees) over rolling 3-year periods   |
| LGIM               | Multi-Asset Equities and Bonds<br><br>RAFI Multi-Factor<br><br>Low Carbon Index<br><br>CN - AAA-AA-A<br><br>Bonds – All Stocks Index<br><br>Index-Linked Gilts | 28.8 | MSCI World<br><br>MSCI World Low Carbon Target Index<br><br>Markit iBoxx GBP Non Gilts ex BBB All stock<br><br>Portfolio of single stock funds structured by reference to Fund liabilities | To track the performance of the respective indices within a lower level of tracking deviation (gross of fees) over rolling 3-year periods  |
| Internal           | Cash   |      | LIBID 7-day rate   | LIBID 7 day rate   |

\*See Appendix C

## **Appendix C: BCPP Responsible Investment Policy (November 2018)**

The Appendix C BCPP Responsible Investment Policy has been shown separately in the *Responsible Investment Policy* Section of Surrey Pension Fund's Annual Report 2018-19 from page

## **Appendix D: BCPP Corporate Governance and Voting Guidelines (November 2018)**

### **1. Introduction**

Border to Coast Pensions Partnership believes that companies operating to higher standards of corporate governance along with environmental and social best practice have greater potential to protect and enhance investment returns. As an active owner Border to Coast will engage with companies on environmental, social and governance (ESG) issues and exercise its voting rights at company meetings. When used together, voting and engagement can give greater results.

An investment in a company not only brings rights but also responsibilities. The shareholders' role is to appoint the directors and auditors and to be assured that appropriate governance structures are in place. Good governance is about ensuring that a company's policies and practices are robust and effective. It defines the extent to which a company operates responsibly in relation to its customers, shareholders, employees, and the wider community. Corporate governance goes hand-in-hand with responsible investment and stewardship. Border to Coast considers the UK Corporate Governance Code and other best practice global guidelines in formulating and delivering its policy and guidelines.

### **2. Voting procedure**

These broad guidelines should be read in conjunction with the Responsible Investment Policy. They provide the framework within which the voting guidelines are administered and assessed on a case-by-case basis. A degree of flexibility will be required when interpreting the guidelines to reflect specific company and meeting circumstances. Voting decisions are reviewed with the portfolio managers. Where there are areas of contention the decision on voting will ultimately be made by the Chief Investment Officer. A specialist proxy voting advisor is employed to ensure that votes are executed in accordance with the policy.

Where a decision has been made not to support a resolution at a company meeting, Border to Coast will, where able, engage with the company prior to the vote being cast. This will generally be where it holds a declarable stake or is already engaging with the company. In some instances, attendance at AGMs may be required.

Border to Coast discloses its voting activity on its website and to Partner Funds on a quarterly basis.

We will support incumbent management wherever possible but recognise that the neglect of corporate governance and corporate responsibility issues could lead to reduced shareholder returns.

We will vote **For**, **Abstain** or **Oppose** on the following basis:

- We will support management that acts in the long-term interests of all shareholders, where a resolution is aligned with these guidelines and considered to be in line with best practice.

- We will abstain when a resolution fails the best practice test but is not considered to be serious enough to vote against.
- We will vote against a resolution where corporate behaviour falls short of best practice or these guidelines, or where the directors have failed to provide sufficient information to support the proposal.

### **3. Voting Guidelines**

#### **Company Boards**

The composition and effectiveness of the board is crucial to determining corporate performance, as it oversees the running of a company by its managers and is accountable to shareholders. Company behaviour has implications for shareholders and other stakeholders. The structure and composition of the board may vary between different countries; however, we believe that the following main governance criteria are valid across the globe.

#### **Composition and independence**

The board should have a balance of executive and non-executive directors so that no individual or small group of individuals can control the board's decision making. They should possess a suitable range of skills, experience and knowledge to ensure the company can meet its objectives. Boards do not need to be of a standard size: different companies need different board structures and no simple model can be adopted by all companies.

The board of large companies, excluding the Chair, should consist of a majority of independent non-executive directors although local market practices shall be taken into account. Controlled companies should have a majority of independent non-executive directors, or at least one-third independent directors on the board. As non-executive directors have a fiduciary duty to represent and act in the best interests of shareholders and to be objective and impartial when considering company matters, they must be able to demonstrate their independence. Non-executive directors who have been on the board for over nine years have been associated with the company for long enough to be presumed to have a close relationship with the business or fellow directors.

The nomination process of a company should therefore ensure that potential risks are restricted by having the right skills mix, competencies and independence at both the supervisory and executive board level. It is essential for boards to achieve an appropriate balance between tenure and experience, whilst not compromising the overall independence of the board. The re-nomination of board members with longer tenures should be balanced out by the nomination of members able to bring fresh perspectives. It is recognised that excessive length of tenure can be an issue in some markets, for example the US where it is common to have a retirement age limit in place rather than length of tenure. In such cases it is of even greater importance to have a process to robustly assess the independence of long tenured directors. Where it is believed an individual can make a valuable and independent contribution, tenure greater than ten years will be assessed on a case-by-case basis.

The company should therefore, have a policy on tenure which is referenced in its annual report and accounts. There should also be sufficient disclosure of biographical details so that shareholders can make informed decisions. There are a number of factors which could affect independence, which includes but is not restricted to:

- Representing a significant shareholder.

- Serving on the board for over nine years.
- Having had a material business relationship with the company in the last three years.
- Having been a former employee within the last five years.
- Family relationships with directors, senior employees or advisors.
- Cross directorships with other board members.
- Having received or receiving additional remuneration from the company in addition to a director's fee, participating in the company's share option or performance-related pay schemes, or being a member of the company's pension scheme.

## **Leadership**

The role of the Chairman (he or she) is distinct from that of other board members and should be seen as such. The Chairman should be independent upon appointment and should not have previously been the CEO. The Chairman should also take the lead in communicating with shareholders and the media. However, the Chairman should not be responsible for the day to day management of the business: that responsibility rests with the Chief Executive. The role of Chair and CEO should not be combined as different skills and experience are required. There should be a distinct separation of duties to ensure that no one director has unfettered decision making power.

However, Border to Coast recognises that in many markets it is still common to find these positions combined. Any company intending to combine these roles must justify its position and satisfy shareholders in advance as to how the dangers inherent in such a combination are to be avoided; best practice advocates a separation of the roles. A senior independent non-executive director must be appointed if roles are combined to provide shareholders and directors with a meaningful channel of communication, to provide a sounding board for the chair and to serve as an intermediary for the other directors and shareholders. Led by the senior independent director, the non-executive directors should meet without the chair present at least annually to appraise the chair's performance.

## **Non-executive Directors**

The role of non-executive directors is to challenge and scrutinise the performance of management in relation to company strategy and performance. To do this effectively they need to be independent; free from connections and situations which could impact their judgement. They must commit sufficient time to their role to be able to carry out their responsibilities. A senior independent non-executive director should be appointed to act as liaison between the other non-executives, the Chairman and other directors where necessary.

## **Diversity**

Board members should be recruited from as broad a range of backgrounds and experiences as possible. A diversity of directors will improve the representation and accountability of boards, bringing new dimensions to board discussions and decision making. Companies should broaden the search to recruit non-executives to include open advertising and the process for board appointments should be transparent and formalised in a board nomination policy. Companies should have a diversity policy which references gender, ethnicity, age, skills and experience and how this is considered in the formulation of the board. The policy should give insight into how diversity is being addressed not only at board level but throughout the company and be disclosed in the Annual Report.

We will vote against chairs of the nomination committee at FTSE350 companies where less than 30% of directors serving on the board are female. We will promote the increase of female representation on boards globally in line with best practice in that region and will generally expect companies to have at least one female on the board.

### **Succession planning**

We expect the board to disclose its policy on succession planning, the factors considered and where decision-making responsibilities lie. A succession policy should form part of the terms of reference for a formal nomination committee, comprised solely of independent directors and headed by the Chairman or Senior Independent Director except when it is appointing the Chairman's successor. External advisors may also be employed.

### **Directors' availability and attendance**

It is important that directors have sufficient time to devote to the company's affairs; therefore, full time executives should not hold more than one non-executive position in a FTSE 100 company, or similar size company in other regions; nor the chairmanship of such a company. In the remaining instances, directors working as full-time executives should serve on a maximum of two publicly listed company boards.

With regard to non-executive directors, there can be no hard and fast rule on the number of positions that are acceptable: much depends upon the nature of the post and the capabilities of the individual. Shareholders need to be assured that no individual director has taken on too many positions. Full disclosure should be made in the annual report of directors' other commitments and attendance records at formal board and committee meetings. A director should attend a minimum of 75% of applicable board and committee meetings to ensure commitment to responsibilities at board level.

### **Re-election**

For a board to be successful it needs to ensure that it is suitably diverse with a range of skills, experience and knowledge. There is a requirement for non-executive directors to be independent to appropriately challenge management. To achieve this, boards need to be regularly refreshed to deal with the issues of stagnant skill sets, lack of diversity and excessive tenure; therefore, all directors should be subject to re-election annually, or in-line with local best practice.

### **Board evaluation**

A requisite of good governance is that boards have effective processes in place to evaluate their performance and appraise directors at least once a year. The annual evaluation should consider its composition, diversity and how effectively members work together to achieve objectives. Individual director evaluation should demonstrate the effective contribution of each director. An internal evaluation should take place annually with an external evaluation required at least every three years.

### **Stakeholder engagement**

Companies should take into account the interests of and feedback from stakeholders which includes the workforce. Taking into account the differences in best practice across markets, companies should have an appropriate system in place to engage with employees.

Engagement and dialogue with shareholders on a regular basis is key for companies; being a way to discuss governance, strategy, and other significant issues.

## **Directors' remuneration**

Shareholders at UK companies have two votes in relation to pay; the annual advisory vote on remuneration implementation which is non-binding, and the triennial vote on forward-looking pay policy which is binding. If a company does not receive a majority of shareholder support for the pay policy, it is required to table a resolution with a revised policy at the next annual meeting.

It must be noted that remuneration structures are varied, with not one model being suitable for all companies; however, there are concerns over excessive remuneration and the overall quantum of pay. Research shows that the link between executive pay and company performance is negligible. Excessive rewards for poor performance are not in the best interests of a company or its shareholders. Remuneration levels should be sufficient to attract, motivate and retain quality management but should not be excessive compared to salary levels within the organisation and with peer group companies. There is a clear conflict of interest when directors set their own remuneration in terms of their duty to the company, accountability to shareholders and their own self-interest. It is therefore essential that the remuneration committee is comprised solely of non-executive directors and complies with the market independence requirement.

Remuneration has serious implications for corporate performance in terms of providing the right incentives to senior management, in setting performance targets, and its effect on the morale and motivation of employees. Corporate reputation is also at risk. Remuneration policy should be sensitive to pay and employee conditions elsewhere in the company, especially when determining annual salary increases.

Where companies are potentially subject to high levels of environmental and societal risk as part of its business, the remuneration committee should also consider linking relevant metrics and targets to remuneration to focus management on these issues.

The compensation provided to non-executive directors should reflect the role and responsibility. It should be structured in a manner that does not compromise independence, enhancing objectivity and alignment with shareholders' interests. Non-executive directors should therefore, not be granted performance-based pay. Although we would not expect participation in Long-term Incentive Plans (LTIPs), we are conscious that in some exceptional instances Non-executives may be awarded stock, however the proportion of pay granted in stock should be minimal to avoid conflicts of interest.

To ensure accountability there should be a full and transparent disclosure of directors' remuneration with the policy published in the annual report and accounts. The valuation of benefits received during the year, including share options, other conditional awards and pension benefits, should be provided.

## **Annual bonus**

Bonuses should reflect individual and corporate performance targets which are sufficiently challenging, ambitious and linked to delivering the strategy of the business and performance over the longer-term. Bonuses should be set at an appropriate level of base salary and should be capped. Provisions should be in place to reduce or forfeit the annual bonus where the company has experienced a significant negative event.

## **Long-term incentives**

Remuneration policies have over time become more and more complex making them difficult for shareholders to adequately assess. Border to Coast therefore encourages companies to simplify remuneration policies.

Performance-related remuneration schemes should be created in such a way to reward performance that has made a significant contribution to shareholder value. The introduction of incentive schemes to all employees within a firm is encouraged and supported as this helps all employees understand the concept of shareholder value. However, poorly structured schemes can result in senior management receiving unmerited rewards for substandard performance. This is unacceptable and could adversely affect the motivation of other employees.

Incentives are linked to performance over the longer-term in order to create shareholder value. If restricted stock units are awarded under the plan, the vesting period should be at least three years to ensure that the interests of both management and shareholders are aligned in the long-term. Employee incentive plans should include both financial and non-financial metrics and targets that are sufficiently ambitious and challenging. Remuneration should be specifically linked to stated business objectives and performance indicators should be fully disclosed in the annual report.

The performance basis of all such incentive schemes under which benefits are potentially payable should be clearly set out each year, together with the actual performance achieved against the same targets. We expect clawback or malus provisions to be in place for all components of variable compensation.

## **Directors' contracts**

Directors' service contracts are also a fundamental part of corporate governance considerations. Therefore, all executive directors are expected to have contracts that are based upon no more than twelve months' salary. Retirement benefit policies of directors should not be excessive, and no element of variable pay should be pensionable. The main terms of the directors' contracts including notice periods on both sides, and any loans or third party contractual arrangements such as the provision of housing or removal expenses, should be declared within the annual report.

## **Corporate reporting**

Companies are expected to report regularly to shareholders in an integrated manner that allows them to understand the company's strategic objectives. Companies should be as transparent as possible in disclosures within the Report and Accounts. As well as reporting financial performance, business strategy and the key risks facing the business, companies should provide additional information on ESG issues that also reflect the directors' stewardship of the company. These could include, for example, information on a company's human capital management policies, its charitable and community initiatives and on its impact on the environment in which it operates.

Every annual report (other than those for investment trusts) should include an environmental section, which identifies key quantitative data relating to energy and water consumption, emissions and waste etc., explains any contentious issues and outlines reporting and evaluation criteria. It is important that the risk areas reported upon should not be limited to financial risks. We will encourage companies to report and disclose in line with the Financial Stability Board's Task Force on Climate-related Financial

Disclosures (TCFD) recommendations, and the Workforce Disclosure Initiative in relation to human capital reporting.

## **Audit**

The audit process must be objective, rigorous and independent if it is to provide assurance to users of accounts and maintain the confidence of the capital markets. To ensure that the audit committee can fulfil its fiduciary role, it should be established as an appropriate committee composition with at least three members who are all independent non-executive directors and have at least one director with a relevant audit or financial background. Any material links between the audit firm and the client need to be highlighted, with the audit committee report being the most appropriate place for such disclosures.

FTSE 350 companies should tender the external audit contract at least every ten years. Reappointment of the same firm with rotation of the audit partner, will not be considered as sufficient. If an auditor has been in place for more than ten fiscal years, their appointment will not be supported. Where an auditor has resigned, an explanation should be given. If the accounts have been qualified or there has been non-compliance with legal or regulatory requirements, this should be drawn to shareholders' attention in the main body of the annual report. If the appropriate disclosures are not made, the re-appointment of the audit firm will not be supported.

## **Non-Audit Fees**

There is concern over the potential conflict of interest between audit and non-audit work when conducted by the same firm for a client. Companies must therefore make a full disclosure where such a conflict arises. There can be legitimate reasons for employing the same firm to do both types of work, but these need to be identified. As a rule, the re-appointment of auditors will not be supported where non-audit fees are considerably in excess of audit fees in the year under review, and on a three-year aggregate basis, unless sufficient explanation is given in the accounts.

## **Political donations**

There are concerns over the reputational risks and democratic implications of companies becoming involved in funding political processes, both at home and abroad. Companies should disclose all political donations, demonstrate where they intend to spend the money and that it is the interest of the company and shareholders. Where these conditions are not met political donations will be opposed.

## **Lobbying**

A company should be transparent and publicly disclose direct lobbying, and any indirect lobbying through its membership of trade associations. We will assess shareholder proposals regarding lobbying on a case-by-case basis; however, we will generally support resolutions requesting greater disclosure of trade association and industry body memberships, any payments and contributions made, and where there are differing views on issues.

## **Shareholder rights**

As a shareowner, Border to Coast is entitled to certain shareholder rights in the companies in which it invests (Companies Act 2006). Boards are expected to protect such ownership rights.

## **Dividends**

Shareholders should have the chance to approve a company's dividend policy and this is considered best practice. The resolution should be separate from the resolution to receive the report and accounts. Failure to seek approval would elicit opposition to other resolutions as appropriate.

### **Voting rights**

Voting at company meetings is the main way in which shareholders can influence a company's governance arrangements and its behaviour. Shareholders should have voting rights in equal proportion to their economic interest in a company (one share, one vote). Dual share structures which have differential voting rights are disadvantageous to many shareholders and should be abolished. We will not support measures or proposals which will dilute or restrict our rights.

### **Authority to issue shares**

Companies have the right to issue new shares in order to raise capital but are required by law to seek shareholders' authority. Such issuances should be limited to what is necessary to sustain the company and not be in excess of relevant market norms.

### **Disapplication of Pre-emption Rights**

Border to Coast supports the pre-emption rights principle and considers it acceptable that directors have authority to allot shares on this basis. Resolutions seeking the authority to issue shares with and without pre-emption rights should be separate and should specify the amounts involved, the time periods covered and whether there is any intention to utilise the authority.

### **Share Repurchases**

Border to Coast does not necessarily oppose a company re-purchasing its own shares but it recognises the effect such buy backs might have on incentive schemes where earnings per share measures are a condition of the scheme. The impact of such measures should be reported on. It is important that the directors provide a full justification to demonstrate that a share repurchase is the best use of company resources, including setting out the criteria for calculating the buyback price to ensure that it benefits long-term shareholders.

### **Memorandum and Articles of Association**

Proposals to change a company's memorandum and articles of association should be supported if they are in the interests of Border to Coast, presented as separate resolutions for each change, and the reasons for each change provided.

### **Mergers and acquisitions**

Border to Coast will normally support management if the terms of the deal will create rather than destroy shareholder value and makes sense strategically. Each individual case will be considered on its merits. Seldom will compliance with corporate governance best practice be the sole determinant when evaluating the merits of merger and acquisition activity, but full information must be provided to shareholders on governance issues when they are asked to approve such transactions. Recommendations regarding takeovers should be approved by the full board.

### **Articles of Association and adopting the report and accounts**

It is unlikely that Border to Coast will oppose a vote to adopt the report and accounts simply because it objects to them per se; however, there may be occasions when we might vote against them to lodge dissatisfaction with other points raised within this policy statement. Although it is a blunt tool to use, it can be an effective one especially if the appropriate Chair or senior director is not standing for election.

If proposals to adopt new articles or amend existing articles might result in shareholders' interests being adversely affected, we will oppose the changes.

### **Virtual Shareholder General Meetings**

Many companies are considering using electronic means to reach a greater number of their shareholders. An example of this is via a virtual annual general meeting of shareholders where a meeting takes place exclusively using online technology, without a corresponding in-person meeting. There are some advantages to virtual only meetings as they can increase shareholder accessibility and participation; however, they can also remove the one opportunity shareholders have to meet face to face with the Board to ensure they are held to account. We would expect an electronic meeting to be held in tandem with a physical meeting. Any amendment to a company's Articles to allow virtual only meetings will not be supported.

### **Shareholder Proposals**

We will assess shareholder proposals on a case by case basis. Consideration will be given as to whether the proposal reflects Border to Coast's Responsible Investment policy, is balanced and worded appropriately, and supports the long-term economic interests of shareholders.

### **Investment trusts**

Border to Coast acknowledges that issues faced by the boards of investment companies are often different to those of other listed companies. The same corporate governance guidelines do not necessarily apply to them; for example, investment companies can operate with smaller boards. However, the conventions applying to audit, board composition and director independence do apply.

The election of any representative of an incumbent investment manager onto the board of a trust managed or advised by that manager will not be supported. Independence of the board from the investment manager is key, therefore management contracts should not exceed one year and should be reviewed every year. In broad terms, the same requirements for independence, diversity and competence apply to boards of investment trusts as they do to any other quoted companies.

We may oppose the adoption of the report and accounts of an investment trust where there is no commitment that the trust exercises its own votes, and there is no explanation of the voting policy.

## **Appendix E: Private Equity**

The table below outlines details on the Fund's private equity commitments. The Fund also has a commitment to invest up to 5% of the fund in private equity. This allocation is achieved by investing both in fund of funds and direct funds, managed by a number of private equity specialists. The investments are funded through cash flow. The Committee reviews the private equity strategy on an annual basis and makes commitments in order to achieve the target commitment level of 5% of the Fund. Fees paid to managers vary due to the levels of risk taken and the geographic areas in which

the manager is invested. Fees are generally expressed as a proportion of assets under management. Performance fees are in place for a number of the Fund's managers.

| <b>Name</b>                       | <b>Currency</b> | <b>Inception</b> | <b>Commitment</b> |
|-----------------------------------|-----------------|------------------|-------------------|
| <b>UK Funds</b>                   |                 |                  | <b>£/€/ \$m</b>   |
| HG Capital 5                      | £               | 2006             | 7.9               |
| HG Capital 6                      | £               | 2009             | 9.4               |
| HG Capital 7                      | £               | 2013             | 15.0              |
| Livingbridge 4 LP                 | £               | 2007             | 13.0              |
| Livingbridge Enterprise 1 LP      | £               | 2013             | 10.0              |
| Darwin Property Fund              | £               | 2013             | 20.0              |
| Darwin Property Fund              | £               | 2017             | 40.0              |
| Capital Dynamics LGPS CPAV        | £               | 2016             | 24.0              |
| <b>Euro Fund of Funds</b>         |                 |                  |                   |
| Standard Life ESP II              | €               | 2004             | 10.0              |
| Standard Life ESP 2006            | €               | 2006             | 15.0              |
| Standard Life ESP 2008            | €               | 2008             | 15.0              |
| Standard Life ESF                 | €               | 2011             | 17.5              |
| Standard Life SOF I               | \$              | 2013             | 20.0              |
| Standard Life SOF II              | \$              | 2014             | 20.0              |
| Standard Life SOF III             | \$              | 2016             | 25.0              |
| Standard Life SOF III             | \$              | 2016             | 20.0              |
| Glennmont Clean Energy Europe III | €               | 2018             | 45.0              |
| <b>US Fund of Funds</b>           |                 |                  |                   |
| Blackrock Div PEP I               | \$              | 2001             | 5.0               |
| Blackrock Div PEP II              | \$              | 2001             | 5.0               |
| Blackrock Div EP III              | \$              | 2005             | 17.5              |
| GSAM PEP 2000                     | \$              | 2000             | 9.5               |
| GSAM PEP 2004                     | \$              | 2004             | 10.0              |
| GSAM PEP 2005                     | \$              | 2006             | 17.0              |
| GSAM PEP X                        | \$              | 2008             | 18.0              |

|   |    |      |      |
|---|----|------|------|
| GSAM PEP XI                             | \$ | 2011 | 40.0 |
| GSAM Vintage Fund VI                    | \$ | 2013 | 20.0 |
| GSAM Vintage Fund VII                   | \$ | 2016 | 50.0 |
| GSAM West Street Infrastructure         | \$ | 2017 | 20.0 |
| Pantheon Global Infrastructure Fund III | \$ | 2017 | 60.0 |
| <b>US Funds</b>                         |    |      |      |
| Capital Dynamics US Solar Fund          | \$ | 2011 | 24.9 |

# Responsible Investment Policy

The Fund aims to be an active shareholder in the exercising of its company share voting rights to promote and support good corporate governance principles.

For assets managed in the BCPP pool, the Fund supports the Responsible Investment Policy of BCPP (shown as Appendix C). BCPP undertake voting on these assets in accordance with the BCPP Corporate Governance and Voting Guidelines (shown as Appendix D).

For assets managed outside of the BCPP pool, the Fund will comply with the principles of the Responsible Investment Policy of BCPP. Share voting is undertaken in-house, after consultation with fund managers and a specialist corporate governance advisor.

The Fund is a member of the Local Authority Pension Fund Forum (LAPFF), a membership group of LGPS funds that campaigns on corporate governance issues. Assets held within BCPP are managed in accordance with the engagement principles as outline in the BCPP Responsible Investment Policy. This engagement demonstrates a commitment to sustainable investment and the promotion of high standards of corporate governance and responsibility.

## **Appendix C: BCPP Responsible Investment Policy (November 2018)**

### **Responsible Investment Policy**

This Responsible Investment Policy details the approach that Border to Coast Pensions Partnership will follow in fulfilling its commitment to our Partner Funds in their delegation of responsible investment (RI) and stewardship responsibilities.

#### **1. Introduction**

Border to Coast Pensions Partnership Ltd is an FCA-authorized investment fund manager (AIFM). It operates investment funds for its twelve shareholders which are Local Government Pension Scheme funds (Partner Funds). The purpose is to make a difference to the investment outcomes for our Partner Funds through pooling to create a stronger voice; working in partnership to deliver cost effective, innovative, and responsible investment now and into the future; thereby enabling great, sustainable performance.

Border to Coast believes that businesses that are governed well and run in a sustainable way are more resilient, able to survive shocks and have the potential to provide better financial returns for investors. Environmental, social and governance (ESG) issues can have a material impact on the value of financial assets and on the long-term performance of investments, and therefore need to be considered across all asset classes in order to better manage risk and generate sustainable, long term returns. Well-managed companies with strong governance are more likely to be successful long-term investments.

Border to Coast is an active owner and steward of its investments, both internally and externally managed, across all asset classes. The commitment to responsible investment is communicated in the Border to Coast UK Stewardship Code compliance statement. As a long-term investor and

representative of asset owners, we will therefore, hold companies and asset managers to account regarding environmental, societal and governance factors that have the potential to impact corporate value. We will incorporate such factors into our investment analysis and decision making, enabling long-term sustainable investment performance for our Partner Funds. As a shareowner, Border to Coast has a responsibility for effective stewardship of the companies it invests in, whether directly or indirectly through mandates with fund managers. It will practice active ownership through voting, monitoring companies, engagement and litigation.

The LGPS (Management and Investment of Funds) 2016 regulations state that the responsibility for stewardship, which includes shareholder voting, remains with the Partner Funds. Stewardship day-to-day administration and implementation have been delegated to Border to Coast by the Partner Funds, on assets managed by Border to Coast, with appropriate monitoring and challenge to ensure this continues to be in line with Partner Fund requirements. To leverage scale and for operational purposes, Border to Coast has, in conjunction with Partner Funds, developed this RI Policy and accompanying Corporate Governance & Voting Guidelines to ensure clarity of approach on behalf of Partner Funds.

## **2. What is responsible investment?**

Responsible investment (RI) is the practice of incorporating ESG issues into the investment decision making process and practicing investment stewardship, to better manage risk and generate sustainable, long-term returns. Financial and ESG analysis together identify broader risks leading to better informed investment decisions and can improve performance as well as risk-adjusted returns.

Investment stewardship includes active ownership, using voting rights, engaging with investee companies, influencing regulators and policy makers, and collaborating with other investors to improve long-term performance.

## **3. Governance and Implementation**

Border to Coast takes a holistic approach to sustainability and as such it is at the core of our corporate and investment thinking. Sustainability, which includes RI, is considered and overseen by the Board and Executive Committees. Specific policies and procedures are in place to demonstrate the commitment to RI, which include the Responsible Investment Policy and Corporate Governance & Voting Guidelines. Border to Coast has a dedicated staff resource for managing RI within the organisational structure.

The RI Policy is jointly owned and created after collaboration and engagement with our twelve Partner Funds. The Chief Investment Officer (CIO) is accountable for implementation of the policy. The policy is monitored with regular reports to the CIO, Investment Committee, Board, Joint Committee and Partner Funds. It is reviewed at least annually or whenever revisions are proposed and updated as necessary.

## **4. Skills and competency**

Border to Coast will, where needed, take proper advice in order to formulate and develop policy. The Board and staff will maintain appropriate skills in responsible investment and stewardship through continuing professional development; where necessary expert advice will be taken from suitable RI specialists to fulfil our responsibilities.

## 5. Integrating RI into investment decisions

Border to Coast will consider material ESG factors when analysing potential investments. ESG factors tend to be longer term in nature and can create both risks and opportunities. It is therefore important that, as a long-term investor, we take them into account when analysing potential investments.

The factors considered are those which could cause financial and reputational risk, ultimately resulting in a reduction in shareholder value. ESG issues will be considered and monitored in relation to both internally and externally managed assets. The CIO will be accountable for the integration and implementation of ESG considerations. Issues considered include, but are not limited to:

| Environmental                                  | Social  | Governance   | Other  |
|--|---|--|--|
| Climate change<br>Resource & energy management | Human rights<br>Child labour<br>Supply chain<br>Human capital<br>Employment standards | Board independence/<br>diversity<br>Executive pay<br>Tax transparency<br>Auditor rotation<br>Succession planning<br>Shareholder rights | Business strategy<br>Risk management<br>Cyber security<br>Bribery & corruption |

### 5.1. Listed Equities (Internally managed)

Border to Coast looks to understand and evaluate the ESG-related business risks and opportunities companies face. We consider the integration of ESG factors into the investment process as a complement to the traditional financial evaluation of assets; this results in a more informed investment decision-making process. Rather than being used to preclude certain investments, it is used to provide an additional context for stock selection.

ESG data and research from specialist providers is used alongside general stock and sector research when considering portfolio construction, sector analysis and stock selection. The Head of RI will work with colleagues to raise awareness of ESG issues. Voting and engagement should not be detached from the investment process; therefore, information from engagement meetings will be shared with the team to increase knowledge, and portfolio managers will be involved in the voting process.

### 5.2. Private Markets

Border to Coast believes that ESG risk forms an integral part of the overall risk management framework for private market investment. An appropriate ESG strategy will improve downside protection and help create value in underlying portfolio companies. Border to Coast will take the following approach to integrating ESG into the private market investment process:

- ESG issues will be considered as part of the due diligence process for all private market investments.
- A manager's ESG strategy will be assessed through a specific ESG questionnaire agreed with the Head of RI and reviewed by the alternatives investment team with support from the Head of RI as required.
- Managers will be requested to report annually on the progress and outcomes of ESG related values and any potential risks.

- Ongoing monitoring will include identifying any possible ESG breaches and following up with the managers concerned.

### 5.3. Fixed Income

ESG factors can have a material impact on the investment performance of bonds, both negatively and positively, at the issuer, sector and geographic levels. ESG analysis will therefore be incorporated into the investment process for corporate and sovereign issuers to manage risk. The challenges of integrating ESG in practice are greater than for equities with the availability of data for some markets lacking.

The approach to engagement also differs as engagement with sovereigns is much more difficult than with companies. Third-party ESG data will be used along with information from sources including UN bodies, the World Bank and other similar organisations. This together with traditional credit analysis will be used to determine a bond's credit quality. Information will be shared between the equity and fixed income teams regarding issues which have the potential to impact corporates and sovereign bond performance.

### 5.4. External Manager Selection

RI will be incorporated into the external manager appointment process including the request for proposal (RFP) criteria and scoring and the investment management agreements. The RFP will include specific reference to the integration of ESG by managers into the investment process and to their approach to engagement.

Voting is carried out by Border to Coast for both internally and externally managed equities where possible and we expect external managers to engage with companies in alignment with the Border to Coast RI policy.

The monitoring of appointed managers will also include assessing stewardship and ESG integration in accordance with our policies. All external fund managers will be expected to be signatories or comply with international standards applicable to their geographical location. Managers will be required to report to Border to Coast on their RI activities quarterly.

### 5.5. Climate change

Border to Coast will actively consider how climate change, the shifting regulatory environment and potential macroeconomic impact will affect its investments. These pose significant investment risks and opportunities with the potential to impact the long-term shareholder value of investments across all asset classes. Risks and opportunities can be presented through a number of ways and include: physical impacts, technological changes, regulatory and policy impact, transitional risk, and litigation risk. Border to Coast will therefore look to:

- Assess its portfolios in relation to climate change risk where practicable.
- Incorporate climate considerations into the investment decision making process.
- Engage with companies in relation to business sustainability and disclosure of climate risk in line with the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD)<sup>1</sup> recommendations.

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<sup>1</sup> The Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) - The TCFD developed recommendations on climate-related financial disclosures that are applicable to organisations (including asset owners) across sectors and jurisdictions.  
<https://www.fsb-tcfd.org/publications/finalrecommendations-report/>

- Encourage companies to adapt their business strategy in alignment with a low carbon economy.
- Support climate related resolutions at company meetings which we consider reflect our RI policy.
- Encourage companies to publish targets and report on steps taken to reduce greenhouse gas emissions.
- Co-file shareholder resolutions at company AGMs on climate risk disclosure after due diligence, that are deemed to be institutional quality shareholder resolutions consistent with our RI policies.
- Monitor and review its fund managers in relation to climate change approach and policies.
- Participate in collective initiatives collaborating with other investors including other pools and groups such as LAPFF.
- Engage with policy makers with regard to climate change through membership of the Institutional Investor Group on Climate Change (IIGCC).

## 6. Stewardship

As a shareholder Border to Coast has a responsibility for effective stewardship of the companies it invests in, whether directly or indirectly through mandates with fund managers. It will practice active ownership through voting, monitoring companies, engagement and litigation. As a responsible shareholder, we will become a signatory to the UK Stewardship Code<sup>2</sup> and the UN Principles of Responsible Investment<sup>3</sup>.

### 6.1. Voting

Voting rights are an asset and Border to Coast will exercise its rights carefully to promote and support good corporate governance principles. It will aim to vote in every market in which it invests where this is practicable. To leverage scale and for practical reasons, Border to Coast has developed a collaborative voting policy to be enacted on behalf of the Partner Funds which can be viewed here xxxxxx.

A specialist proxy voting advisor will be employed to provide analysis of voting and governance issues. A set of detailed voting guidelines will be implemented on behalf of Border to Coast by the proxy voting advisor to ensure that votes are executed in accordance with policies. The voting guidelines are administered and assessed on a case-by-case basis. A degree of flexibility will be required when interpreting the guidelines to reflect specific company and meeting circumstances.

Where possible the voting policies will also be applied to assets managed externally. Policies will be reviewed annually in collaboration with the Partner Funds. There may be occasions when an individual fund wishes Border to Coast to vote its pro rata holding contrary to an agreed policy; there is a process in place to facilitate this.

Border to Coast has an active stock lending programme. Where stock lending is permissible, lenders of stock do not generally retain any rights on lent stock. Procedures are in place to enable

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<sup>2</sup> The UK Stewardship Code aims to enhance the quality of engagement between investors and companies to help improve long-term risk-adjusted returns to shareholders.

<https://www.frc.org.uk/Our-Work/CodesStandards/Corporate-governance/UK-Stewardship-Code.aspx>

<sup>3</sup> The Principles for Responsible Investment (PRI) is the world's leading advocate for responsible investment enabling investors to publicly demonstrate commitment to responsible investment with signatories committing to supporting the six principles for incorporating ESG issues into investment practice.

stock to be recalled prior to a shareholder vote. Stock will be recalled ahead of meetings, and lending can also be restricted, when:

- The resolution is contentious.
- The holding is of a size which could potentially influence the voting outcome.
- Border to Coast needs to register its full voting interest.
- Border to Coast has co-filed a shareholder resolution.
- A company is seeking approval for a merger or acquisition.
- Border to Coast deems it appropriate.

Proxy voting in some countries requires share blocking. This requires shareholders who want to vote their proxies depositing their shares shortly before the date of the meeting (usually one week) with a designated depository.

During this blocking period, shares cannot be sold until after the meeting has taken place; the shares are then returned to the shareholders' custodian bank. We may decide that being able to trade the stock outweighs the value of exercising the vote during this period. Where we want to retain the ability to trade shares, we may abstain from voting those shares.

Where appropriate Border to Coast will consider co-filing shareholder resolutions and will notify Partner Funds in advance. Consideration will be given as to whether the proposal reflects Border to Coast's Responsible Investment policy, is balanced and worded appropriately, and supports the long-term economic interests of shareholders.

## 6.2. Engagement

The best way to influence companies is through engagement; therefore, Border to Coast will not divest from companies principally on social, ethical or environmental reasons. As responsible investors, the approach taken will be to influence companies' governance standards, environmental, human rights and other policies by constructive shareholder engagement and the use of voting rights. The services of specialist providers may be used when necessary to identify issues of concern.

Border to Coast has several approaches to engaging with investee holdings. Meeting and engaging with companies is an integral part of the investment process. As part of our stewardship duties we regularly monitor investee companies and take appropriate action if investment returns are at risk. Engagement takes place between portfolio managers and investee companies across all markets where possible. Border to Coast and all twelve Partner Funds are members of the Local Authority Pension Fund Forum (LAPFF). Engagement takes place with companies on behalf of members of the Forum.

We will seek to work collaboratively with other like-minded investors and bodies in order to maximise Border to Coast's influence on behalf of Partner Funds, particularly when deemed likely to be more effective than acting alone. This will be achieved through actively supporting investor RI initiatives and collaborating with various other external groups e.g. LAPFF, the Institutional Investors Group on Climate Change, other LGPS pools and other investor coalitions.

Due to the proportion of assets held in overseas markets it is imperative that Border to Coast is able to engage meaningfully with global companies. To enable this and compliment other engagement approaches, an external voting and engagement service provider will be appointed. Engagement will take place with companies in the internally managed portfolios across various

engagement streams; these will cover environmental, social, and governance issues as well as UN Global Compact<sup>4</sup> breaches.

We will expect external managers to engage with investee companies and bond issuers as part of their mandate on our behalf and in alignment with our RI policy.

We will engage with regulators, public policy makers, and other financial market participants as and when required. We will encourage companies to improve disclosure in relation to ESG and to report and disclose in line with the TCFD recommendations.

### **6.3. Litigation**

Where Border to Coast holds securities, which are subject to individual or class action securities litigation, we will, where appropriate, participate in such litigation. There are various litigation routes available dependent upon where the company is registered. We will use a case-by-case approach to determine whether or not to participate in a class action after having considered the risks and potential benefits. We will work with industry professionals to facilitate this.

## **7. Communication and reporting**

Border to Coast will be transparent with regard to its RI activities and will keep beneficiaries and stakeholders informed. This will be done by making publicly available RI and voting policies; publishing voting activity on our website quarterly; reporting on engagement and RI activities to the Partner Funds quarterly; and in our annual RI report.

Consideration will also be given to voluntarily reporting in line with the TCFD recommendations.

## **8. Training and assistance**

Border to Coast will offer the Partner Funds training on RI and ESG issues. Where requested, assistance will be given on identifying ESG risks and opportunities in order to help develop individual fund policies and investment principles for inclusion in the Investment Strategy Statements.

## **9. Conflicts of interest**

Border to Coast has a suite of policies which cover any potential conflicts of interest between itself and the Partner Funds which are applied to identify and manage any conflicts of interest.

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<sup>4</sup>UN Global Compact is a shared framework covering 10 principles, recognised worldwide and applicable to all industry sectors, based on the international conventions in the areas of human rights, labour standards, environmental stewardship and anti-corruption.

## **Appendix D: BCPP Corporate Governance and Voting Guidelines (November 2018)**

### **1. Introduction**

Border to Coast Pensions Partnership believes that companies operating to higher standards of corporate governance along with environmental and social best practice have greater potential to protect and enhance investment returns. As an active owner Border to Coast will engage with companies on environmental, social and governance (ESG) issues and exercise its voting rights at company meetings. When used together, voting and engagement can give greater results.

An investment in a company not only brings rights but also responsibilities. The shareholders' role is to appoint the directors and auditors and to be assured that appropriate governance structures are in place. Good governance is about ensuring that a company's policies and practices are robust and effective. It defines the extent to which a company operates responsibly in relation to its customers, shareholders, employees, and the wider community. Corporate governance goes hand-in-hand with responsible investment and stewardship. Border to Coast considers the UK Corporate Governance Code and other best practice global guidelines in formulating and delivering its policy and guidelines.

### **2. Voting procedure**

These broad guidelines should be read in conjunction with the Responsible Investment Policy. They provide the framework within which the voting guidelines are administered and assessed on a case-by-case basis. A degree of flexibility will be required when interpreting the guidelines to reflect specific company and meeting circumstances. Voting decisions are reviewed with the portfolio managers. Where there are areas of contention the decision on voting will ultimately be made by the Chief Investment Officer. A specialist proxy voting advisor is employed to ensure that votes are executed in accordance with the policy.

Where a decision has been made not to support a resolution at a company meeting, Border to Coast will, where able, engage with the company prior to the vote being cast. This will generally be where it holds a declarable stake or is already engaging with the company. In some instances, attendance at AGMs may be required.

Border to Coast discloses its voting activity on its website and to Partner Funds on a quarterly basis.

We will support incumbent management wherever possible but recognise that the neglect of corporate governance and corporate responsibility issues could lead to reduced shareholder returns.

We will vote **For**, **Abstain** or **Oppose** on the following basis:

- We will support management that acts in the long-term interests of all shareholders, where a resolution is aligned with these guidelines and considered to be in line with best practice.
- We will abstain when a resolution fails the best practice test but is not considered to be serious enough to vote against.
- We will vote against a resolution where corporate behaviour falls short of best practice or these guidelines, or where the directors have failed to provide sufficient information to support the proposal.

### **3. Voting Guidelines**

## **Company Boards**

The composition and effectiveness of the board is crucial to determining corporate performance, as it oversees the running of a company by its managers and is accountable to shareholders. Company behaviour has implications for shareholders and other stakeholders. The structure and composition of the board may vary between different countries; however, we believe that the following main governance criteria are valid across the globe.

### **Composition and independence**

The board should have a balance of executive and non-executive directors so that no individual or small group of individuals can control the board's decision making. They should possess a suitable range of skills, experience and knowledge to ensure the company can meet its objectives. Boards do not need to be of a standard size: different companies need different board structures and no simple model can be adopted by all companies.

The board of large companies, excluding the Chair, should consist of a majority of independent non-executive directors although local market practices shall be taken into account. Controlled companies should have a majority of independent non-executive directors, or at least one-third independent directors on the board. As non-executive directors have a fiduciary duty to represent and act in the best interests of shareholders and to be objective and impartial when considering company matters, they must be able to demonstrate their independence. Non-executive directors who have been on the board for over nine years have been associated with the company for long enough to be presumed to have a close relationship with the business or fellow directors.

The nomination process of a company should therefore ensure that potential risks are restricted by having the right skills mix, competencies and independence at both the supervisory and executive board level. It is essential for boards to achieve an appropriate balance between tenure and experience, whilst not compromising the overall independence of the board. The re-nomination of board members with longer tenures should be balanced out by the nomination of members able to bring fresh perspectives. It is recognised that excessive length of tenure can be an issue in some markets, for example the US where it is common to have a retirement age limit in place rather than length of tenure. In such cases it is of even greater importance to have a process to robustly assess the independence of long tenured directors. Where it is believed an individual can make a valuable and independent contribution, tenure greater than ten years will be assessed on a case-by-case basis.

The company should therefore, have a policy on tenure which is referenced in its annual report and accounts. There should also be sufficient disclosure of biographical details so that shareholders can make informed decisions. There are a number of factors which could affect independence, which includes but is not restricted to:

- Representing a significant shareholder.
- Serving on the board for over nine years.
- Having had a material business relationship with the company in the last three years.
- Having been a former employee within the last five years.
- Family relationships with directors, senior employees or advisors.
- Cross directorships with other board members.

- Having received or receiving additional remuneration from the company in addition to a director's fee, participating in the company's share option or performance-related pay schemes, or being a member of the company's pension scheme.

## **Leadership**

The role of the Chairman (he or she) is distinct from that of other board members and should be seen as such. The Chairman should be independent upon appointment and should not have previously been the CEO. The Chairman should also take the lead in communicating with shareholders and the media. However, the Chairman should not be responsible for the day to day management of the business: that responsibility rests with the Chief Executive. The role of Chair and CEO should not be combined as different skills and experience are required. There should be a distinct separation of duties to ensure that no one director has unfettered decision making power.

However, Border to Coast recognises that in many markets it is still common to find these positions combined. Any company intending to combine these roles must justify its position and satisfy shareholders in advance as to how the dangers inherent in such a combination are to be avoided; best practice advocates a separation of the roles. A senior independent non-executive director must be appointed if roles are combined to provide shareholders and directors with a meaningful channel of communication, to provide a sounding board for the chair and to serve as an intermediary for the other directors and shareholders. Led by the senior independent director, the non-executive directors should meet without the chair present at least annually to appraise the chair's performance.

## **Non-executive Directors**

The role of non-executive directors is to challenge and scrutinise the performance of management in relation to company strategy and performance. To do this effectively they need to be independent; free from connections and situations which could impact their judgement. They must commit sufficient time to their role to be able to carry out their responsibilities. A senior independent non-executive director should be appointed to act as liaison between the other non-executives, the Chairman and other directors where necessary.

## **Diversity**

Board members should be recruited from as broad a range of backgrounds and experiences as possible. A diversity of directors will improve the representation and accountability of boards, bringing new dimensions to board discussions and decision making. Companies should broaden the search to recruit non-executives to include open advertising and the process for board appointments should be transparent and formalised in a board nomination policy. Companies should have a diversity policy which references gender, ethnicity, age, skills and experience and how this is considered in the formulation of the board. The policy should give insight into how diversity is being addressed not only at board level but throughout the company and be disclosed in the Annual Report.

We will vote against chairs of the nomination committee at FTSE350 companies where less than 30% of directors serving on the board are female. We will promote the increase of female representation on boards globally in line with best practice in that region and will generally expect companies to have at least one female on the board.

## **Succession planning**

We expect the board to disclose its policy on succession planning, the factors considered and where decision-making responsibilities lie. A succession policy should form part of the terms of reference for a formal nomination committee, comprised solely of independent directors and headed by the Chairman or Senior Independent Director except when it is appointing the Chairman's successor. External advisors may also be employed.

### **Directors' availability and attendance**

It is important that directors have sufficient time to devote to the company's affairs; therefore, full time executives should not hold more than one non-executive position in a FTSE 100 company, or similar size company in other regions; nor the chairmanship of such a company. In the remaining instances, directors working as full-time executives should serve on a maximum of two publicly listed company boards.

With regard to non-executive directors, there can be no hard and fast rule on the number of positions that are acceptable: much depends upon the nature of the post and the capabilities of the individual. Shareholders need to be assured that no individual director has taken on too many positions. Full disclosure should be made in the annual report of directors' other commitments and attendance records at formal board and committee meetings. A director should attend a minimum of 75% of applicable board and committee meetings to ensure commitment to responsibilities at board level.

### **Re-election**

For a board to be successful it needs to ensure that it is suitably diverse with a range of skills, experience and knowledge. There is a requirement for non-executive directors to be independent to appropriately challenge management. To achieve this, boards need to be regularly refreshed to deal with the issues of stagnant skill sets, lack of diversity and excessive tenure; therefore, all directors should be subject to re-election annually, or in-line with local best practice.

### **Board evaluation**

A requisite of good governance is that boards have effective processes in place to evaluate their performance and appraise directors at least once a year. The annual evaluation should consider its composition, diversity and how effectively members work together to achieve objectives. Individual director evaluation should demonstrate the effective contribution of each director. An internal evaluation should take place annually with an external evaluation required at least every three years.

### **Stakeholder engagement**

Companies should take into account the interests of and feedback from stakeholders which includes the workforce. Taking into account the differences in best practice across markets, companies should have an appropriate system in place to engage with employees.

Engagement and dialogue with shareholders on a regular basis is key for companies; being a way to discuss governance, strategy, and other significant issues.

### **Directors' remuneration**

Shareholders at UK companies have two votes in relation to pay; the annual advisory vote on remuneration implementation which is non-binding, and the triennial vote on forward-looking pay policy which is binding. If a company does not receive a majority of shareholder support for the pay policy, it is required to table a resolution with a revised policy at the next annual meeting.

It must be noted that remuneration structures are varied, with not one model being suitable for all companies; however, there are concerns over excessive remuneration and the overall quantum of pay. Research shows that the link between executive pay and company performance is negligible. Excessive rewards for poor performance are not in the best interests of a company or its shareholders. Remuneration levels should be sufficient to attract, motivate and retain quality management but should not be excessive compared to salary levels within the organisation and with peer group companies. There is a clear conflict of interest when directors set their own remuneration in terms of their duty to the company, accountability to shareholders and their own self-interest. It is therefore essential that the remuneration committee is comprised solely of non-executive directors and complies with the market independence requirement.

Remuneration has serious implications for corporate performance in terms of providing the right incentives to senior management, in setting performance targets, and its effect on the morale and motivation of employees. Corporate reputation is also at risk. Remuneration policy should be sensitive to pay and employee conditions elsewhere in the company, especially when determining annual salary increases.

Where companies are potentially subject to high levels of environmental and societal risk as part of its business, the remuneration committee should also consider linking relevant metrics and targets to remuneration to focus management on these issues.

The compensation provided to non-executive directors should reflect the role and responsibility. It should be structured in a manner that does not compromise independence, enhancing objectivity and alignment with shareholders' interests. Non-executive directors should therefore, not be granted performance-based pay. Although we would not expect participation in Long-term Incentive Plans (LTIPs), we are conscious that in some exceptional instances Non-executives may be awarded stock, however the proportion of pay granted in stock should be minimal to avoid conflicts of interest.

To ensure accountability there should be a full and transparent disclosure of directors' remuneration with the policy published in the annual report and accounts. The valuation of benefits received during the year, including share options, other conditional awards and pension benefits, should be provided.

- **Annual bonus**

Bonuses should reflect individual and corporate performance targets which are sufficiently challenging, ambitious and linked to delivering the strategy of the business and performance over the longer-term. Bonuses should be set at an appropriate level of base salary and should be capped. Provisions should be in place to reduce or forfeit the annual bonus where the company has experienced a significant negative event.

- **Long-term incentives**

Remuneration policies have over time become more and more complex making them difficult for shareholders to adequately assess. Border to Coast therefore encourages companies to simplify remuneration policies.

Performance-related remuneration schemes should be created in such a way to reward performance that has made a significant contribution to shareholder value. The introduction of incentive schemes to all employees within a firm is encouraged and supported as this helps all employees understand the concept of shareholder value. However, poorly structured schemes can result in senior management

receiving unmerited rewards for substandard performance. This is unacceptable and could adversely affect the motivation of other employees.

Incentives are linked to performance over the longer-term in order to create shareholder value. If restricted stock units are awarded under the plan, the vesting period should be at least three years to ensure that the interests of both management and shareholders are aligned in the long-term. Employee incentive plans should include both financial and non-financial metrics and targets that are sufficiently ambitious and challenging. Remuneration should be specifically linked to stated business objectives and performance indicators should be fully disclosed in the annual report.

The performance basis of all such incentive schemes under which benefits are potentially payable should be clearly set out each year, together with the actual performance achieved against the same targets. We expect clawback or malus provisions to be in place for all components of variable compensation.

### **Directors' contracts**

Directors' service contracts are also a fundamental part of corporate governance considerations. Therefore, all executive directors are expected to have contracts that are based upon no more than twelve months' salary. Retirement benefit policies of directors should not be excessive, and no element of variable pay should be pensionable. The main terms of the directors' contracts including notice periods on both sides, and any loans or third party contractual arrangements such as the provision of housing or removal expenses, should be declared within the annual report.

### **Corporate reporting**

Companies are expected to report regularly to shareholders in an integrated manner that allows them to understand the company's strategic objectives. Companies should be as transparent as possible in disclosures within the Report and Accounts. As well as reporting financial performance, business strategy and the key risks facing the business, companies should provide additional information on ESG issues that also reflect the directors' stewardship of the company. These could include, for example, information on a company's human capital management policies, its charitable and community initiatives and on its impact on the environment in which it operates.

Every annual report (other than those for investment trusts) should include an environmental section, which identifies key quantitative data relating to energy and water consumption, emissions and waste etc., explains any contentious issues and outlines reporting and evaluation criteria. It is important that the risk areas reported upon should not be limited to financial risks. We will encourage companies to report and disclose in line with the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) recommendations, and the Workforce Disclosure Initiative in relation to human capital reporting.

### **Audit**

The audit process must be objective, rigorous and independent if it is to provide assurance to users of accounts and maintain the confidence of the capital markets. To ensure that the audit committee can fulfil its fiduciary role, it should be established as an appropriate committee composition with at least three members who are all independent non-executive directors and have at least one director with a relevant audit or financial background. Any material links between the audit firm and the client need to be highlighted, with the audit committee report being the most appropriate place for such disclosures.

FTSE 350 companies should tender the external audit contract at least every ten years. Reappointment of the same firm with rotation of the audit partner, will not be considered as sufficient. If an auditor has been in place for more than ten fiscal years, their appointment will not be supported. Where an auditor has resigned, an explanation should be given. If the accounts have been qualified or there has been non-compliance with legal or regulatory requirements, this should be drawn to shareholders' attention in the main body of the annual report. If the appropriate disclosures are not made, the re-appointment of the audit firm will not be supported.

### **Non-Audit Fees**

There is concern over the potential conflict of interest between audit and non-audit work when conducted by the same firm for a client. Companies must therefore make a full disclosure where such a conflict arises. There can be legitimate reasons for employing the same firm to do both types of work, but these need to be identified. As a rule, the re-appointment of auditors will not be supported where non-audit fees are considerably in excess of audit fees in the year under review, and on a three-year aggregate basis, unless sufficient explanation is given in the accounts.

### **Political donations**

There are concerns over the reputational risks and democratic implications of companies becoming involved in funding political processes, both at home and abroad. Companies should disclose all political donations, demonstrate where they intend to spend the money and that it is the interest of the company and shareholders. Where these conditions are not met political donations will be opposed.

### **Lobbying**

A company should be transparent and publicly disclose direct lobbying, and any indirect lobbying through its membership of trade associations. We will assess shareholder proposals regarding lobbying on a case-by-case basis; however, we will generally support resolutions requesting greater disclosure of trade association and industry body memberships, any payments and contributions made, and where there are differing views on issues.

### **Shareholder rights**

As a shareowner, Border to Coast is entitled to certain shareholder rights in the companies in which it invests (Companies Act 2006). Boards are expected to protect such ownership rights.

#### **• Dividends**

Shareholders should have the chance to approve a company's dividend policy and this is considered best practice. The resolution should be separate from the resolution to receive the report and accounts. Failure to seek approval would elicit opposition to other resolutions as appropriate.

#### **• Voting rights**

Voting at company meetings is the main way in which shareholders can influence a company's governance arrangements and its behaviour. Shareholders should have voting rights in equal proportion to their economic interest in a company (one share, one vote). Dual share structures which have differential voting rights are disadvantageous to many shareholders and should be abolished. We will not support measures or proposals which will dilute or restrict our rights.

- **Authority to issue shares**

Companies have the right to issue new shares in order to raise capital but are required by law to seek shareholders' authority. Such issuances should be limited to what is necessary to sustain the company and not be in excess of relevant market norms.

- **Disapplication of Pre-emption Rights**

Border to Coast supports the pre-emption rights principle and considers it acceptable that directors have authority to allot shares on this basis. Resolutions seeking the authority to issue shares with and without pre-emption rights should be separate and should specify the amounts involved, the time periods covered and whether there is any intention to utilise the authority.

### **Share Repurchases**

Border to Coast does not necessarily oppose a company re-purchasing its own shares but it recognises the effect such buy backs might have on incentive schemes where earnings per share measures are a condition of the scheme. The impact of such measures should be reported on. It is important that the directors provide a full justification to demonstrate that a share repurchase is the best use of company resources, including setting out the criteria for calculating the buyback price to ensure that it benefits long-term shareholders.

### **Memorandum and Articles of Association**

Proposals to change a company's memorandum and articles of association should be supported if they are in the interests of Border to Coast, presented as separate resolutions for each change, and the reasons for each change provided.

### **Mergers and acquisitions**

Border to Coast will normally support management if the terms of the deal will create rather than destroy shareholder value and makes sense strategically. Each individual case will be considered on its merits. Seldom will compliance with corporate governance best practice be the sole determinant when evaluating the merits of merger and acquisition activity, but full information must be provided to shareholders on governance issues when they are asked to approve such transactions. Recommendations regarding takeovers should be approved by the full board.

### **Articles of Association and adopting the report and accounts**

It is unlikely that Border to Coast will oppose a vote to adopt the report and accounts simply because it objects to them per se; however, there may be occasions when we might vote against them to lodge dissatisfaction with other points raised within this policy statement. Although it is a blunt tool to use, it can be an effective one especially if the appropriate Chair or senior director is not standing for election.

If proposals to adopt new articles or amend existing articles might result in shareholders' interests being adversely affected, we will oppose the changes.

### **Virtual Shareholder General Meetings**

Many companies are considering using electronic means to reach a greater number of their shareholders. An example of this is via a virtual annual general meeting of shareholders where a meeting takes place exclusively using online technology, without a corresponding in-person meeting.

There are some advantages to virtual only meetings as they can increase shareholder accessibility and participation; however, they can also remove the one opportunity shareholders have to meet face to face with the Board to ensure they are held to account. We would expect an electronic meeting to be held in tandem with a physical meeting. Any amendment to a company's Articles to allow virtual only meetings will not be supported.

### **Shareholder Proposals**

We will assess shareholder proposals on a case by case basis. Consideration will be given as to whether the proposal reflects Border to Coast's Responsible Investment policy, is balanced and worded appropriately, and supports the long-term economic interests of shareholders.

### **Investment trusts**

Border to Coast acknowledges that issues faced by the boards of investment companies are often different to those of other listed companies. The same corporate governance guidelines do not necessarily apply to them; for example, investment companies can operate with smaller boards. However, the conventions applying to audit, board composition and director independence do apply.

The election of any representative of an incumbent investment manager onto the board of a trust managed or advised by that manager will not be supported. Independence of the board from the investment manager is key, therefore management contracts should not exceed one year and should be reviewed every year. In broad terms, the same requirements for independence, diversity and competence apply to boards of investment trusts as they do to any other quoted companies.

We may oppose the adoption of the report and accounts of an investment trust where there is no commitment that the trust exercises its own votes, and there is no explanation of the voting policy.

# Funding Strategy Statement

The FSS is reviewed in detail at least every three years as part of the triennial valuation. The full Funding Strategy Statement can be found using the link below;

## 1 Introduction

### 1.1 What is this document?

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

It has been prepared by the Administering Authority in collaboration with the Fund’s actuary, Hymans Robertson LLP, and after consultation with the Fund’s employers and investment adviser. It is effective from 1 April 2017.

### 1.2 What is the Surrey Pension Fund?

The Fund is part of the national Local Government Pension Scheme (LGPS). The LGPS was set up by the UK Government to provide retirement and death benefits for local government employees, and those employed in similar or related bodies, across the whole of the UK. The Administering Authority runs the Surrey Pension Fund, in effect the LGPS for the Surrey area, to make sure it:

- receives the proper amount of contributions from employees and employers, and any transfer payments;
- invests the contributions appropriately, with the aim that the Fund’s assets grow over time with investment income and capital growth; and
- uses the assets to pay Fund benefits to the members (as and when they retire, for the rest of their lives), and to their dependants (as and when members die), as defined in the LGPS Regulations. Assets are also used to pay transfer values and administration costs.

The roles and responsibilities of the key parties involved in the management of the Fund are summarised in [Appendix B](#).

### 1.3 Why does the Fund need a Funding Strategy Statement?

Employees’ benefits are guaranteed by the LGPS Regulations, and do not change with market values or employer contributions. Investment returns will help pay for some of the benefits, but probably not all, and certainly with no guarantee. Employees’ contributions are fixed in those Regulations also, at a level which covers only part of the cost of the benefits.

Therefore, employers need to pay the balance of the cost of delivering the benefits to members and their dependants.

The FSS focuses on how employer liabilities are measured, the pace at which these liabilities are funded, and how employers or pools of employers pay for their own liabilities. This statement sets out how the Administering Authority has balanced the conflicting aims of:

- affordability of employer contributions,
- transparency of processes,
- stability of employers’ contributions, and
- prudence in the funding basis.

There are also regulatory requirements for an FSS, as given in [Appendix A](#).

The FSS is a summary of the Fund's approach to funding its liabilities, and this includes reference to the Fund's other policies; it is not an exhaustive statement of policy on all issues. The FSS forms part of a framework which includes:

- the LGPS Regulations;
- the Rates and Adjustments Certificate (confirming employer contribution rates for the next three years) which can be found in an appendix to the formal valuation report;
- the Fund's policies on admissions, cessations and bulk transfers;
- actuarial factors for valuing individual transfers, early retirement costs and the costs of buying added service; and
- the Fund's Statement of Investment Principles / Investment Strategy Statement (see [Section 4](#))

#### **1.4 How does the Fund and this FSS affect me?**

This depends on who you are:

- to achieve and then maintain a funding target that requires assets equal to 100% of the present value of benefits based on completed service including provision for the effects of future salary growth and inflation up to retirement;
- a member of the Fund, i.e. a current or former employee, or a dependant: the Fund needs to be sure it is collecting and holding enough money so that your benefits are always paid in full;
- an employer in the Fund (or which is considering joining the Fund): you will want to know how your contributions are calculated from time to time, that these are fair by comparison to other employers in the Fund, and in what circumstances you might need to pay more. Note that the FSS applies to all employers participating in the Fund;
- an Elected Member whose council participates in the Fund: you will want to be sure that the council balances the need to hold prudent reserves for members' retirement and death benefits, with the other competing demands for council money;
- a Council Tax payer: your council seeks to strike the balance above, and also to minimise cross-subsidies between different generations of taxpayers.

#### **1.5 What does the FSS aim to do?**

The FSS sets out the objectives of the Fund's funding strategy, such as:

- to ensure the long-term solvency of the Fund, using a prudent long term view. This will ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment;
- to ensure that employer contribution rates are reasonably stable where appropriate, but, are set at an appropriate level to ensure the solvency of the pension fund and the long term cost-efficiency of the scheme, so far as relating to the pension fund;
- to minimise the long-term cash contributions which employers need to pay to the Fund, by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return (**NB** this will also minimise the costs to be borne by Council Tax payers);
- to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and

- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

## **1.6 How do I find my way around this document?**

In [Section 2](#) there is a brief introduction to some of the main principles behind funding, i.e. deciding how much an employer should contribute to the Fund from time to time.

In [Section 3](#) we outline how the Fund calculates the contributions payable by different employers in different situations.

In [Section 4](#) we show how the funding strategy is linked with the Fund's investment strategy.

In the [Appendices](#) we cover various issues in more detail if you are interested:

- A. the regulatory background, including how and when the FSS is reviewed,
- B. who is responsible for what,
- C. what issues the Fund needs to monitor, and how it manages its risks,
- D. some more details about the actuarial calculations required,
- E. the assumptions which the Fund actuary currently makes about the future,
- F. a [glossary](#) explaining the technical terms occasionally used here.

If you have any other queries please contact Neil Mason (Senior Specialist Advisor) in the first instance at [neil.mason@surreycc.gov.uk](mailto:neil.mason@surreycc.gov.uk) or on telephone number 020 8213 2739.

## 2 Basic Funding issues

(More detailed and extensive descriptions are given in [Appendix D](#)).

### 2.1 How does the actuary measure the required contribution rate?

In essence this is a three-step process:

- Calculate the funding target for that employer, i.e. the estimated amount of assets it should hold in order to be able to pay all its members' benefits. See [Appendix E](#) for more details of what assumptions we make to determine that funding target;
- Determine the time horizon over which the employer should aim to achieve that funding target. See the table in [3.3](#) and [Note \(c\)](#) for more details;
- Calculate the employer contribution rate such that it has at least a given probability of achieving that funding target over that time horizon, allowing for different likelihoods of various possible economic outcomes over that time horizon. See [2.3](#) below, and the table in [3.3 Note \(e\)](#) for more details.

### 2.2 What is each employer's contribution rate?

This is described in more detail in [Appendix D](#). Employer contributions are normally made up of two elements:

- a) the estimated cost of benefits being built up each year, after deducting the members' own contributions and including administration expenses. This is referred to as the "*Primary rate*", and is expressed as a percentage of members' pensionable pay; plus
- b) an adjustment for the difference between the Primary rate above, and the actual contribution the employer needs to pay, referred to as the "*Secondary rate*". In broad terms, payment of the Secondary rate will aim to return the employer to full funding over an appropriate period (the "time horizon"). The Secondary rate may be expressed as a percentage of pay and/or a monetary amount in each year.

The rates for all employers are shown in the Fund's Rates and Adjustments Certificate, which forms part of the formal Actuarial Valuation Report. Employers' contributions are expressed as minima, with employers able to pay contributions at a higher rate. Account of any higher rate will be taken by the Fund actuary at subsequent valuations, i.e. will be reflected as a credit when next calculating the employer's contributions.

### 2.3 What different types of employer participate in the Fund?

Historically the LGPS was intended for local authority employees only. However over the years, with the diversification and changes to delivery of local services, many more types and numbers of employers now participate. There are currently more employers in the Fund than ever before, a significant part of this being due to new academies.

In essence, participation in the LGPS is open to public sector employers providing some form of service to the local community. Whilst the majority of members will be local authority employees (and ex-employees), the majority of participating employers are those providing services in place of (or alongside) local authority services: academy schools, contractors, housing associations, charities, etc.

The LGPS Regulations define various types of employer as follows:

**Scheduled bodies** - councils, and other specified employers such as academies and further education establishments. These must provide access to the LGPS in respect of their employees who are not eligible to join another public sector scheme (such as the Teachers Scheme). These employers are so-called because they are specified in a schedule to the LGPS Regulations.

It is now possible for Local Education Authority schools to convert to academy status, and for other forms of school (such as Free Schools) to be established under the academies legislation. All such **academies (or Multi Academy Trusts)**, as employers of non-teaching staff, become separate new employers in the Fund. As academies are defined in the LGPS Regulations as “Scheduled Bodies”, the Administering Authority has no discretion over whether to admit them to the Fund, and the academy has no discretion whether to continue to allow its non-teaching staff to join the Fund. There has also been guidance issued by the DCLG regarding the terms of academies’ membership in LGPS Funds.

**Designating employers** - employers such as town and parish councils are able to participate in the LGPS via resolution (and the Fund cannot refuse them entry where the resolution is passed). These employers can designate which of their employees are eligible to join the scheme.

Other employers are able to participate in the Fund via an admission agreement, and are referred to as ‘admission bodies’. These employers are generally those with a “community of interest” with another scheme employer – **community admission bodies** (“CAB”) or those providing a service on behalf of a scheme employer – **transferee admission bodies** (“TAB”). CABs will include housing associations and charities, TABs will generally be contractors. The Fund is able to set its criteria for participation by these employers and can refuse entry if the requirements as set out in the Fund’s admissions policy are not met. (NB The terminology CAB and TAB has been dropped from recent LGPS Regulations, which instead combine both under the single term ‘admission bodies’; however, we have retained the old terminology here as we consider it to be helpful in setting funding strategies for these different employers).

#### **2.4 How does the measured contribution rate vary for different employers?**

All three steps above are considered when setting contributions (more details are given in [Section 3](#) and [Appendix D](#)).

1. The **funding target** is based on a set of assumptions about the future, (e.g. investment returns, inflation, pensioners’ life expectancies). However, if an employer is approaching the end of its participation in the Fund then its funding target may be set on a more prudent basis, so that its liabilities are less likely to be spread among other employers after its cessation;
2. The **time horizon** required is, in broad terms, the period over which any deficit is to be recovered. A shorter period will lead to higher contributions, and vice versa (all other things being equal). Employers may be given a lower time horizon if they have a less permanent anticipated membership, or do not have tax-raising powers to increase contributions if investment returns under-perform; and
3. The **probability of achieving** the funding target over that time horizon will be dependent on the Fund’s view of the strength of employer covenant and its funding profile. Where an employer is considered to be weaker, or potentially ceasing from the Fund, then the required probability will be set higher, which in turn will increase the required contributions (and vice versa).

For some employers it may be agreed to pool contributions, see [3.4](#).

Any costs of non ill-health early retirements must be paid by the employer, see [3.6](#).

Costs of ill-health early retirements are covered in [3.7](#) and [3.8](#).

## 2.5 How is a deficit (or surplus) calculated?

An employer's "funding level" is defined as the ratio of:

- the market value of the employer's share of assets (see [Appendix D](#), section [D5](#), for further details of how this is calculated), to
- the value placed by the actuary on the benefits built up to date for the employer's employees and ex-employees (the "liabilities"). The Fund actuary agrees with the Administering Authority the assumptions to be used in calculating this value.

If this is less than 100% then it means the employer has a shortfall, which is the employer's deficit; if it is more than 100% then the employer is said to be in surplus. The amount of deficit or shortfall is the difference between the asset value and the liabilities value.

It is important to note that the deficit/surplus and funding level are only measurements at a particular point in time, on a particular set of assumptions about the future. Whilst we recognise that various parties will take an interest in these measures, for most employers the key issue is how likely it is that their contributions will be sufficient to pay for their members' benefits (when added to their existing asset share and anticipated investment returns).

In short, deficits and funding levels are short term measures, whereas contribution-setting is a longer term issue.

## 2.6 How does the Fund recognise that contribution levels can affect council and employer service provision, and council tax?

The Administering Authority and the Fund actuary are acutely aware that, all other things being equal, a higher contribution required to be paid to the Fund will mean less cash available for the employer to spend on the provision of services. For instance:

- Higher Pension Fund contributions may result in reduced council spending, which in turn could affect the resources available for council services, and/or greater pressure on council tax levels;
- Contributions which Academies pay to the Fund will therefore not be available to pay for providing education; and
- Other employers will provide various services to the local community, perhaps through housing associations, charitable work, or contracting council services. If they are required to pay more in pension contributions to the LGPS then this may affect their ability to provide the local services at a reasonable cost.

Whilst all this is true, it should also be borne in mind that:

- The Fund provides invaluable financial security to local families, whether to those who formerly worked in the service of the local community who have now retired, or to their families after their death;
- The Fund must have the assets available to meet these retirement and death benefits, which in turn means that the various employers must each pay their own way. Lower contributions today will mean higher contributions tomorrow: deferring payments does not alter the employer's ultimate obligation to the Fund in respect of its current and former employees;
- Each employer will generally only pay for its own employees and ex-employees (and their dependants), not for those of other employers in the Fund;

- The Fund strives to maintain reasonably stable employer contribution rates where appropriate and possible. However, a recent shift in regulatory focus means that solvency within each generation is considered by the Government to be a higher priority than stability of contribution rates;
- The Fund wishes to avoid the situation where an employer falls so far behind in managing its funding shortfall that its deficit becomes unmanageable in practice: such a situation may lead to employer insolvency and the resulting deficit falling on the other Fund employers. In that situation, those employers' services would in turn suffer as a result;
- Council contributions to the Fund should be at a suitable level, to protect the interests of different generations of council tax payers. For instance, underpayment of contributions for some years will need to be balanced by overpayment in other years; the council will wish to minimise the extent to which council tax payers in one period are in effect benefitting at the expense of those paying in a different period.

Overall, therefore, there is clearly a balance to be struck between the Fund's need for maintaining prudent funding levels, and the employers' need to allocate their resources appropriately. The Fund achieves this through various techniques which affect contribution increases to various degrees (see [3.1](#)). In deciding which of these techniques to apply to any given employer, the Administering Authority takes a view on the financial standing of the employer, i.e. its ability to meet its funding commitments and the relevant time horizon.

The Administering Authority will consider a risk assessment of that employer using a knowledge base which is regularly monitored and kept up-to-date. This database will include such information as the type of employer, its membership profile and funding position, any guarantors or security provision, material changes anticipated, etc.

For instance, where the Administering Authority has reasonable confidence that an employer will be able to meet its funding commitments, then the Fund will permit options such as stabilisation (see [3.3 Note \(b\)](#)), a longer time horizon relative to other employers, and/or a lower probability of achieving their funding target. Such options will temporarily produce lower contribution levels than would otherwise have applied. This is permitted in the expectation that the employer will still be able to meet its obligations for many years to come.

On the other hand, where there is doubt that an employer will be able to meet its funding commitments or withstand a significant change in its commitments, then a higher funding target, and/or a shorter deficit recovery period relative to other employers, and/or a higher probability of achieving the target may be required.

The Fund actively seeks employer input, including to its funding arrangements, through various means: see [Appendix A](#).

## 3 Calculating contributions for individual Employers

### 3.1 General comments

A key challenge for the Administering Authority is to balance the need for stable, affordable employer contributions with the requirement to take a prudent, longer-term view of funding and ensure the solvency of the Fund. With this in mind, the Fund's three-step process identifies the key issues:

1. What is a suitably (but not overly) prudent funding target?
2. How long should the employer be permitted to reach that target? This should be realistic but not so long that the funding target is in danger of never actually being achieved.
3. What probability is required to reach that funding target? This will always be less than 100% as we cannot be certain of future market movements. Higher probability "bars" can be used for employers where the Fund wishes to reduce the risk that the employer ceases leaving a deficit to be picked up by other employers.

These and associated issues are covered in this Section.

The Administering Authority recognises that there may occasionally be particular circumstances affecting individual employers that are not easily managed within the rules and policies set out in the Funding Strategy Statement. Therefore the Administering Authority may, at its sole discretion, direct the actuary to adopt alternative funding approaches on a case by case basis for specific employers.

### 3.2 The effect of paying lower contributions

In limited circumstances the Administering Authority may permit employers to pay contributions at a lower level than is assessed for the employer using the three step process above. At their absolute discretion the Administering Authority may:

- extend the time horizon for targeting full funding;
- adjust the required probability of meeting the funding target;
- permit an employer to participate in the Fund's stabilisation mechanisms;
- permit extended phasing in of contribution rises or reductions;
- pool contributions amongst employers with similar characteristics; and/or
- accept some form of security or guarantee in lieu of a higher contribution rate than would otherwise be the case.

Employers which are permitted to use one or more of the above methods will often be paying, for a time, contributions less than required to meet their funding target, over the appropriate time horizon with the required likelihood of success. Such employers should appreciate that:

- their true long term liability (i.e. the actual eventual cost of benefits payable to their employees and ex-employees) is not affected by the pace of paying contributions;
- lower contributions in the short term will be assumed to incur a greater loss of investment returns on the deficit. Thus, deferring a certain amount of contribution may lead to higher contributions in the long-term; and
- it may take longer to reach their funding target, all other things being equal.

Overleaf [\(3.3\)](#) is a summary of how the main funding policies differ for different types of employer, followed by more detailed notes where necessary.

[Section 3.4](#) onwards deals with various other funding issues which apply to all employers.

## 3.3 The different approaches used for different employers

| Type of employer   | Scheduled Bodies   |   |  | Community Admission Bodies and Designating Employers                            |  | Transferee Admission Bodies   |
|--|--|---|--|---|--|---|
| Sub-type   | Local Authorities, Police and Town/Parish Councils   | Colleges  | Academies                              | Open to new entrants  | Closed to new entrants   | (all)   |
| Funding Target Basis used                                  | Ongoing, assumes long-term Fund participation (see <a href="#">Appendix E</a> )  |   |  | Ongoing, but may move to "gilts basis" - see <a href="#">Note (a)</a>           |  | Ongoing, assumes fixed contract term in the Fund (see <a href="#">Appendix E</a> )                                |
| Primary rate approach                                      | (see <a href="#">Appendix D – D.2</a> )  |   |  |   |  |   |
| Stabilised contribution rate?                              | Yes - see <a href="#">Note (b)</a>   | No  | No                                     | No  | No   | No  |
| Maximum time horizon – <a href="#">Note (c)</a>            | 20 years   | 17 years  | 20 years                               | Future working lifetime   | Future working lifetime  | Outstanding contract term   |
| Secondary rate – <a href="#">Note (d)</a>                  | Monetary amount  | Monetary amount   | % of payroll                           | Monetary amount/% of payroll  | Monetary amount/% of payroll   | Monetary amount/% of payroll  |
| Treatment of surplus                                       | Covered by stabilisation arrangement   | Preferred approach: contributions kept at Primary rate. However, reductions may be permitted by the Administering Authority |  |   | Preferred approach: contributions kept at future service rate. However, contractors may be permitted to reduce contributions by spreading the surplus over the remaining contract term |   |
| Probability of achieving target – <a href="#">Note (e)</a> | 66%  | 80%<br><br>75% if form of security offered  | 70% if part of a MAT/75% if standalone | 70% if guaranteed by LA<br><br>75% if form of security offered<br>80% otherwise | 70% if guaranteed by LA<br><br>75% if form of security offered<br>80% otherwise  | 70% if guaranteed by LA<br>75% if other form of security offered or has other guarantor (not LA)<br>80% otherwise |
| Phasing of contribution changes                            | Covered by stabilisation arrangement   | At the discretion of the Administering Authority  |  | None  | None   | None  |
| Review of rates – <a href="#">Note (f)</a>                 | Administering Authority reserves the right to review contribution rates and amounts, and the level of security provided, at regular intervals between valuations |   |  |   |  | To be reviewed in last 3 years of contract  |

|   |   |     |                          |  |  |
|---|---|-----|--------------------------|--|--|
| <b>New employer</b>                                       | n/a   | n/a | <a href="#">Note (g)</a> | <a href="#">Note (h)</a>   | <a href="#">Notes (h) &amp; (i)</a>  |
| <b>Cessation of participation: cessation debt payable</b> | Scheduled Bodies are legally obliged to participate in the LGPS. In the rare event of cessation occurring (machinery of Government changes for example), the cessation debt principles applied would be as per <a href="#">Note (i)</a> . |     |                          | Can be ceased subject to terms of admission agreement. Cessation debt will be calculated on a basis appropriate to the circumstances of cessation – see <a href="#">Note (i)</a> . | Participation is assumed to expire at the end of the contract. Cessation debt (if any) calculated on ongoing basis. Awarding Authority will be liable for future deficits and contributions arising. |

## Note (a) (Basis for CABs and Designating Employers closed to new entrants)

In the circumstances where:

- the employer is a Designating Employer, or an Admission Body but not a Transferee Admission Body, and
- the employer has no guarantor, and
- the admission agreement is likely to terminate, or the employer is likely to lose its last active member, within a timeframe considered appropriate by the Administering Authority to prompt a change in funding,

the Administering Authority may set a higher funding target (e.g. using a discount rate set equal to gilt yields) by the time the agreement terminates or the last active member leaves, in order to protect other employers in the Fund. This policy will increase regular contributions and reduce, but not entirely eliminate, the possibility of a final deficit payment being required from the employer when a cessation valuation is carried out.

The Administering Authority also reserves the right to adopt the above approach in respect of those Designating Employers and Admission Bodies with no guarantor, where the strength of covenant is considered to be weak but there is no immediate expectation that the admission agreement will cease or the Designating Employer alters its designation.

## Note (b) (Stabilisation)

Stabilisation is a mechanism where employer contribution rate variations from year to year are kept within a pre-determined range, thus allowing those employers' rates to be relatively stable. In the interests of stability and affordability of employer contributions, the Administering Authority, on the advice of the Fund Actuary, believes that stabilising contributions can still be viewed as a prudent longer-term approach. However, employers whose contribution rates have been "stabilised" (and may therefore be paying less than their theoretical contribution rate) should be aware of the risks of this approach and should consider making additional payments to the Fund if possible.

This stabilisation mechanism allows short term investment market volatility to be managed so as not to cause volatility in employer contribution rates, on the basis that a long term view can be taken on net cash inflow, investment returns and strength of employer covenant.

The current stabilisation mechanism applies to Surrey County Council, all District and Borough Councils and Surrey Police Authority:

- This is subject to there being no material events which cause the employer to become ineligible, e.g. significant reductions in active membership (due to outsourcing or redundancies), or changes in the nature of the employer (perhaps due to Government restructuring), or changes in the security of the employer.

On the basis of extensive modelling carried out for the 2016 valuation exercise (see [Section 4](#)), the stabilised details are as follows:

- Total contributions have been set to ensure that stabilised employers have at least a 66% chance of being fully funded in 20 years under the 2016 formal valuation assumptions.

- The stabilisation criteria and limits will be reviewed at the 31 March 2019 valuation, to take effect from 1 April 2020. However the Administering Authority reserves the right to review the stabilisation criteria and limits at any time before then, on the basis of membership and/or employer changes as described above.

### Note (c) (Maximum time horizon)

The maximum time horizon starts at the commencement of the revised contribution rate (1 April 2017 for the 2016 valuation). The Administering Authority may adopt a rolling time horizon or a reducing time horizon at successive triennial valuations depending on specific employer circumstances. The Administering Authority reserve the right to propose alternative time horizons, for example where there are no new entrants.

### Note (d) (Secondary rate)

For employers where stabilisation is not being applied, the Secondary contribution rate for each employer covering the three year period until the next valuation will generally be set as monetary amounts, with the exception of Academy rates. However, the Administering Authority reserves the right to amend this approach on a case by case basis where appropriate.

### Note (e) (Probability of achieving funding target)

Each employer has its funding target calculated, and a relevant time horizon over which to reach that target. Contributions are set such that, combined with the employer's current asset share and anticipated market movements over the time horizon, the funding target is achieved with a given minimum probability. A higher required probability bar will give rise to higher required contributions, and vice versa.

The way in which contributions are set using these three steps, and relevant economic projections, is described in further detail in [Appendix D](#).

Different probabilities are set for different employers depending on their nature and circumstances: in broad terms, a higher probability will apply due to one or more of the following:

- the Fund believes the employer poses a greater funding risk than other employers,
- the employer does not have tax-raising powers;
- the employer does not have a guarantor or other sufficient security backing its funding position; and/or
- the employer is likely to cease participation in the Fund in the short or medium term.

### Note (f) (Regular Reviews)

Such reviews may be triggered by significant events including but not limited to: significant reductions in payroll, altered employer circumstances, Government restructuring affecting the employer's business, or failure to pay contributions or arrange appropriate security as required by the Administering Authority.

The result of a review may be to require increased contributions (by strengthening the actuarial assumptions adopted and/or moving to monetary levels of deficit recovery contributions), and/or an increased level of security or guarantee.

## Note (g) (New Academy conversions)

At the time of writing, the Fund's policies on academies' funding issues are as follows:

- i. The new academy will be regarded as a separate employer in its own right and will not be pooled with other employers in the Fund. The only exception is where the academy is part of a Multi Academy Trust (MAT) in which case the academy's figures will be calculated as below but can be combined with those of the other academies in the MAT;
- ii. The new academy's past service liabilities on conversion will be calculated based on its active Fund members on the day before conversion. For the avoidance of doubt, these liabilities will include all past service of those members, but will exclude the liabilities relating to any ex-employees of the school who have deferred or pensioner status;
- iii. The new academy will be allocated an initial asset share from the ceding council's assets in the Fund. This asset share will be calculated using the estimated funding position of the ceding council at the date of academy conversion. The share will be based on the active members' funding level, having first allocated assets in the council's share to fully fund deferred and pensioner members. The asset allocation will be based on market conditions and the academy's active Fund membership on the day prior to conversion;
- iv. The new academy's initial contribution rate will be calculated using market conditions, the council funding position and membership data, all as at the day prior to conversion;
- v. As an alternative to (iv), the academy will have the option to elect to pay contributions initially in line with the MAT that they are joining. However, this election will not alter its asset or liability allocation as per (ii) and (iii) above. Ultimately, all academies remain responsible for their own allocated deficit.

The Fund's policies on academies are subject to change in the light of any amendments to DCLG guidance. Any changes will be notified to academies, and will be reflected in a subsequent version of this FSS. In particular, policies (iv) and (v) above will be reconsidered at each valuation.

## Note (h) (New Admission Bodies)

With effect from 1 October 2012, the LGPS 2012 Miscellaneous Regulations introduced mandatory new requirements for all Admission Bodies brought into the Fund from that date. Under these Regulations, all new Admission Bodies will be required to provide some form of security, such as a guarantee from the letting employer, an indemnity or a bond. The security is required to cover some or all of the following:

- the strain cost of any redundancy early retirements resulting from the premature termination of the contract;
- allowance for the risk of asset underperformance;
- allowance for the risk of a fall in gilt yields;
- allowance for the possible non-payment of employer and member contributions to the Fund; and/or
- the current deficit.

Transferee Admission Bodies: For all TABs, the security must be to the satisfaction of the Administering Authority as well as the letting employer, and will be reassessed on an annual basis. See also [Note \(i\)](#) below.

Community Admission Bodies: The Administering Authority will only consider requests from CABs (or other similar bodies, such as section 75 NHS partnerships) to join the Fund if they are sponsored by a Scheduled Body with tax raising powers, guaranteeing their liabilities and also providing a form of security as above.

The above approaches reduce the risk, to other employers in the Fund, of potentially having to pick up any shortfall in respect of Admission Bodies ceasing with an unpaid deficit.

### Note (i) (New Transferee Admission Bodies)

A new TAB usually joins the Fund as a result of the letting/outsourcing of some services from an existing employer (normally a Scheduled Body such as a council or academy) to another organisation (a “contractor”). This involves the TUPE transfer of some staff from the letting employer to the contractor. Consequently, for the duration of the contract, the contractor is a new participating employer in the Fund so that the transferring employees maintain their eligibility for LGPS membership. At the end of the contract the employees revert to the letting employer or to a replacement contractor.

Ordinarily, the TAB would be set up in the Fund as a new employer with responsibility for all the accrued benefits of the transferring employees; in this case, the contractor would usually be assigned an initial asset allocation equal to the past service liability value of the employees’ Fund benefits. The quid pro quo is that the contractor is then expected to ensure that its share of the Fund is also fully funded at the end of the contract: see [Note \(j\)](#).

Employers which “outsource” have flexibility in the way that they can deal with the pension risk potentially taken on by the contractor. In particular there are three different routes that such employers may wish to adopt. Clearly as the risk ultimately resides with the employer letting the contract, it is for them to agree the appropriate route with the contractor:

i) Pooling

Under this option the contractor is pooled with the letting employer. In this case, the contractor pays the same rate as the letting employer, which may be under a stabilisation approach.

ii) Letting employer retains pre-contract risks

Under this option the letting employer would retain responsibility for assets and liabilities in respect of service accrued prior to the contract commencement date. The contractor would be responsible for the future liabilities that accrue in respect of transferred staff. The contractor’s contribution rate could vary from one valuation to the next. It would be liable for any deficit at the end of the contract term in respect of assets and liabilities attributable to service accrued during the contract term.

iii) Fixed contribution rate agreed

Under this option the contractor pays a fixed contribution rate and does not pay any cessation deficit.



Subject to an assessment of the strength of the employer and appropriate safeguards in place, the Administering Authority is willing to administer any of the above options as long as the approach is documented in the Admission Agreement as well as the transfer agreement. The Admission Agreement should ensure that some element of risk transfers to the contractor where it relates to their decisions and it is unfair to burden the letting employer with that risk. For example the contractor should typically be responsible for pension costs that arise from:

- above average pay increases, including the effect in respect of service prior to contract commencement even if the letting employer takes on responsibility for the latter under (ii) above; and
- redundancy and early retirement decisions.

### Note (j) (Admission Bodies Ceasing)

Notwithstanding the provisions of the Admission Agreement, the Administering Authority may consider any of the following as triggers for the cessation of an admission agreement with any type of body:

- Last active member ceasing participation in the Fund (NB recent LGPS Regulation changes mean that the Administering Authority has the discretion to defer taking action for up to three years, so that if the employer acquires one or more active Fund members during that period then cessation is not triggered. The default position will be for a cessation to be triggered, but the Fund has the discretion on whether to be apply this in any given case.
- The insolvency, winding up or liquidation of the Admission Body;
- Any breach by the Admission Body of any of its obligations under the Agreement that they have failed to remedy to the satisfaction of the Fund;
- A failure by the Admission Body to pay any sums due to the Fund within the period required by the Fund; or
- The failure by the Admission Body to renew or adjust the level of the bond or indemnity, or to confirm an appropriate alternative guarantor, as required by the Fund.

On cessation, the Administering Authority will instruct the Fund actuary to carry out a cessation valuation to determine whether there is any deficit or surplus. Where there is a deficit, payment of this amount in full would normally be sought from the Admission Body; where there is a surplus it should be noted that current legislation does not permit a refund payment to the Admission Body.

For non-Transferee Admission Bodies whose participation is voluntarily ended either by themselves or the Fund, or where a cessation event has been triggered, the Administering Authority must look to protect the interests of other ongoing employers. The actuary will therefore adopt an approach which, to the extent reasonably practicable, protects the other employers from the likelihood of any material loss emerging in future:

- (a) Where a guarantor does not exist then, in order to protect other employers in the Fund, the cessation liabilities and final deficit will normally be calculated using a “gilts cessation basis”, which is more prudent than the ongoing basis. This has no allowance for potential future investment outperformance above gilt yields, and has added allowance for future improvements in life expectancy. This could give rise to significant cessation debts being required.

- (b) Where there is a guarantor for future deficits and contributions, the details of the guarantee will be considered prior to the cessation valuation being carried out. In some cases the guarantor is simply guarantor of last resort and therefore the cessation valuation will be carried out consistently with the approach taken had there been no guarantor in place. Alternatively, where the guarantor is not simply guarantor of last resort, the cessation may be calculated using the ongoing basis as described in [Appendix E](#);
- (c) Again, depending on the nature of the guarantee, it may be possible to simply transfer the former Admission Body's liabilities and assets to the guarantor, without needing to crystallise any deficit. This approach may be adopted where the employer cannot pay the contributions due, and this is within the terms of the guarantee.

Under (a) and (b), any shortfall would usually be levied on the departing Admission Body as a single lump sum payment. If this is not possible then the Fund would spread the payment subject to there being some security in place for the employer such as a bond indemnity or guarantee.

In the event that the Fund is not able to recover the required payment in full, then the unpaid amounts fall to be shared amongst all of the other employers in the Fund. This may require an immediate revision to the Rates and Adjustments Certificate affecting other employers in the Fund, or instead be reflected in the contribution rates set at the next formal valuation following the cessation date.

As an alternative, where the ceasing Admission Body is continuing in business, the Fund at its absolute discretion reserves the right to enter into an agreement with the ceasing Admission Body. Under this agreement the Fund would accept an appropriate alternative security to be held against any deficit, and would carry out the cessation valuation on an ongoing basis: deficit recovery payments would be derived from this cessation debt. This approach would be monitored as part of each triennial valuation: the Fund reserves the right to revert to a "gilts cessation basis" and seek immediate payment of any funding shortfall identified. The Administering Authority may need to seek legal advice in such cases, as the Body would have no contributing members.

### **3.4 Pooled contributions**

The Administering Authority can give consideration to setting up pools for employers with very similar characteristics. This will always be in line with its broader funding strategy. With the advice of the Actuary, the Administering Authority may allow smaller employers of similar types to pool their contributions in order to smooth out the effects of costly events, e.g., ill-health retirements or deaths in service.

Community Admission Bodies that are deemed by the Administering Authority to have closed to new entrants are not usually permitted to participate in a pool. Transferee Admission Bodies are usually also ineligible for pooling. Smaller admitted bodies may be pooled with the letting employer, provided all parties (particularly the letting employer) agree.

Academies who belong to a MAT are permitted to pool for contribution rate purposes from the 2016 valuation onwards.

Employers who are permitted to enter (or remain in) a pool at the 2016 valuation will not normally be advised of their individual contribution rate unless agreed by the Administering Authority. Schools generally are also pooled with their funding Council. However there may be exceptions for specialist or independent schools. Those employers which have been pooled are identified in the Rates and Adjustments Certificate.

### **3.5 Additional flexibility in return for added security**

The Administering Authority may permit greater flexibility to the employer's contributions if the employer provides added security to the satisfaction of the Administering Authority.

Such flexibility includes a reduced rate of contribution, an extended time horizon, a change of employer risk category or permission to join a pool with another body (e.g. the Local Authority).

Such security may include, but is not limited to, a suitable bond, a legally-binding guarantee from an appropriate third party, or security over an employer asset of sufficient value.

The degree of flexibility given may take into account factors such as:

- the extent of the employer's deficit;
- the amount and quality of the security offered;
- the employer's financial security and business plan; and
- whether the admission agreement is likely to be open or closed to new entrants.

### **3.6 Non ill health early retirement costs**

It is assumed that members' benefits are payable from the earliest age that the employee could retire without incurring a reduction to their benefit (and without requiring their employer's consent to retire). (NB the relevant age may be different for different periods of service, following the benefit changes from April 2008 and April 2014). Employers are required to pay additional contributions ('strain') immediately wherever an employee retires before attaining this age. The actuary's funding basis makes no allowance for premature retirement except on grounds of ill-health.

### **3.7 Ill health early retirement costs**

In the event of a member's early retirement on the grounds of ill-health, a funding strain will usually arise, which can be very large.

Admitted Bodies will usually have an 'ill health allowance'; Scheduled Bodies may have this also, depending on their agreement terms with the Administering Authority. The Fund monitors each employer's ill health experience on an ongoing basis. If the cumulative cost of ill health retirement in any financial year exceeds the allowance at the previous valuation, the cost will be recovered from the Fund's internal ill health insurance as outlined below.

### **3.8 Internal ill health insurance**

The Fund self-insures against ill health events which applies to all employers in the Fund such that:

- the employer's contribution to the Fund each year is reduced by the amount of that year's insurance premium, so that the total contribution is unchanged, and
- there is no need for monitoring of allowances.

### **3.9 Employers with no remaining active members**

In general an employer ceasing in the Fund, due to the departure of the last active member, will pay a cessation debt on an appropriate basis (see [3.3](#), [Note \(j\)](#)) and consequently have no further obligation to the Fund. Thereafter it is expected that one of two situations will eventually arise:

- a) The employer's asset share runs out before all its ex-employees' benefits have been paid. In this situation the other Fund employers will be required to contribute to pay all remaining

benefits: this will be done by the Fund actuary apportioning the remaining liabilities on a pro-rata basis at successive formal valuations;

- b) The last ex-employee or dependant dies before the employer's asset share has been fully utilised. In this situation the remaining assets would be apportioned pro-rata by the Fund's actuary to the other Fund employers.
- c) In exceptional circumstances the Fund may permit an employer with no remaining active members to continue contributing to the Fund. This would require the provision of a suitable security or guarantee, as well as a written ongoing commitment to fund the remainder of the employer's obligations over an appropriate period. The Fund would reserve the right to invoke the cessation requirements in the future, however. The Administering Authority may need to seek legal advice in such cases, as the employer would have no contributing members.

### **3.10 Policies on bulk transfers**

Each bulk transfer case will be treated on its own merits, but in general:

- The Fund will not pay bulk transfers greater than the lesser of (a) the asset share of the transferring employer in the Fund, and (b) the value of the past service liabilities of the transferring members;
- The Fund will not grant added benefits to members bringing in entitlements from another Fund unless the asset transfer is sufficient to meet the added liabilities; and
- The Fund may permit shortfalls to arise on bulk transfers if the Fund employer has suitable strength of covenant and commits to meeting that shortfall in an appropriate period. This may require the employer's Fund contributions to increase between valuations.

## 4 Funding strategy and links to investment strategy

### 4.1 What is the Fund's investment strategy?

The Fund has built up assets over the years, and continues to receive contribution and other income. All of this must be invested in a suitable manner, which is the investment strategy.

Investment strategy is set by the administering authority, after consultation with the employers and after taking investment advice. The precise mix, manager make up and target returns are set out in the Statement of Investment Principles (being replaced by an Investment Strategy Statement under new LGPS Regulations), which is available to members and employers.

The investment strategy is set for the long-term, but is reviewed from time to time. Normally a full review is carried out as part of each actuarial valuation, and is kept under review annually between actuarial valuations to ensure that it remains appropriate to the Fund's liability profile.

The same investment strategy is currently followed for all employers.

### 4.2 What is the link between funding strategy and investment strategy?

The Fund must be able to meet all benefit payments as and when they fall due. These payments will be met by contributions (resulting from the funding strategy) or asset returns and income (resulting from the investment strategy). To the extent that investment returns or income fall short, then higher cash contributions are required from employers, and vice versa

Therefore, the funding and investment strategies are inextricably linked.

### 4.3 How does the funding strategy reflect the Fund's investment strategy?

In the opinion of the Fund actuary, the current funding policy is consistent with the current investment strategy of the Fund. The asset outperformance assumption contained in the discount rate (see Appendix [E3](#)) is within a range that would be considered acceptable for funding purposes; it is also considered to be consistent with the requirement to take a "prudent longer-term view" of the funding of liabilities as required by the UK Government (see Appendix [A1](#)).

However, in the short term – such as the three yearly assessments at formal valuations – there is the scope for considerable volatility and there is a material chance that in the short-term and even medium term, asset returns will fall short of this target. The stability measures described in [Section 3](#) will damp down, but not remove, the effect on employers' contributions.

The Fund does not hold a contingency reserve to protect it against the volatility of equity investments.

### 4.4 How does this differ for a large stable employer?

The Actuary has developed four key measures which capture the essence of the Fund's strategies, both funding and investment:

- Prudence - the Fund should have a reasonable expectation of being fully funded in the long term;
- Affordability – how much can employers afford;
- Stewardship – the assumptions used should be sustainable in the long term, without having to resort to overly optimistic assumptions about the future to maintain an apparently healthy funding position; and
- Stability – employers should not see significant moves in their contribution rates from one year to the next, to help provide a more stable budgeting environment.

The key problem is that the key objectives often conflict. For example, minimising the long term cost of the scheme (i.e. keeping employer rates affordable) is best achieved by investing in higher returning assets e.g. equities. However, equities are also very volatile (i.e. go up and down fairly frequently in fairly large moves), which conflicts with the objective to have stable contribution rates.

Therefore, a balance needs to be maintained between risk and reward, which has been considered by the use of Asset Liability Modelling: this is a set of calculation techniques applied by the Fund's actuary to model the range of potential future solvency levels and contribution rates.

The Actuary was able to model the impact of these four key areas, for the purpose of setting a stabilisation approach ([see 3.3 Note \(b\)](#)). The modelling demonstrated that retaining the present investment strategy, coupled with constraining employer contribution rate changes as described in [3.3 Note \(b\)](#), struck an appropriate balance between the above objectives. In particular the stabilisation approach currently adopted meets the need for stability of contributions without jeopardising the Administering Authority's aims of prudent stewardship of the Fund.

Whilst the current stabilisation mechanism is to remain in place until 2020, it should be noted that this will need to be reviewed following the 2019 valuation.

#### **4.5 Does the Fund monitor its overall funding position?**

The Administering Authority monitors the relative funding position, i.e. changes in the relationship between asset values and the liabilities value, quarterly. It reports this to the regular Pensions Committee meetings.

## 5 Statutory reporting and comparison to other LGPS Funds

### 5.1 Purpose

Under Section 13(4)(c) of the Public Service Pensions Act 2013 (“Section 13”), the Government Actuary’s Department must, following each triennial actuarial valuation, report to the Department of Communities & Local Government (DCLG) on each of the LGPS Funds in England & Wales. This report will cover whether, for each Fund, the rate of employer contributions are set at an appropriate level to ensure both the solvency and the long term cost efficiency of the Fund.

This additional DCLG oversight may have an impact on the strategy for setting contribution rates at future valuations.

### 5.2 Solvency

For the purposes of Section 13, the rate of employer contributions shall be deemed to have been set at an appropriate level to ensure solvency if:

- (a) the rate of employer contributions is set to target a funding level for the Fund of 100%, over an appropriate time period and using appropriate actuarial assumptions (where appropriateness is considered in both absolute and relative terms in comparison with other funds); and either
- (b) employers collectively have the financial capacity to increase employer contributions, and/or the Fund is able to realise contingent assets should future circumstances require, in order to continue to target a funding level of 100%; or
- (c) there is an appropriate plan in place should there be, or if there is expected in future to be, a material reduction in the capacity of fund employers to increase contributions as might be needed.

### 5.3 Long Term Cost Efficiency

The rate of employer contributions shall be deemed to have been set at an appropriate level to ensure long term cost efficiency if:

- i. the rate of employer contributions is sufficient to make provision for the cost of current benefit accrual,
- ii. with an appropriate adjustment to that rate for any surplus or deficit in the Fund.

In assessing whether the above condition is met, DCLG may have regard to various absolute and relative considerations. A relative consideration is primarily concerned with comparing LGPS pension funds with other LGPS pension funds. An absolute consideration is primarily concerned with comparing Funds with a given objective benchmark.

Relative considerations include:

- 1. the implied deficit recovery period; and
- 2. the investment return required to achieve full funding after 20 years.

Absolute considerations include:

1. the extent to which the contributions payable are sufficient to cover the cost of current benefit accrual and the interest cost on any deficit;
2. how the required investment return under “relative considerations” above compares to the estimated future return being targeted by the Fund’s current investment strategy;
3. the extent to which contributions actually paid have been in line with the expected contributions based on the extant rates and adjustment certificate; and
4. the extent to which any new deficit recovery plan can be directly reconciled with, and can be demonstrated to be a continuation of, any previous deficit recovery plan, after allowing for actual Fund experience.

DCLG may assess and compare these metrics on a suitable standardised market-related basis, for example where the local funds’ actuarial bases do not make comparisons straightforward.

## Appendix A – Regulatory framework

### A1 Why does the Fund need an FSS?

The Department for Communities and Local Government (DCLG) has stated that the purpose of the FSS is:

- *“to establish a **clear and transparent fund-specific strategy** which will identify how employers’ pension liabilities are best met going forward;*
- *to support the regulatory framework to maintain **as nearly constant employer contribution rates as possible**; and*
- *to take a **prudent longer-term view of funding those liabilities.**”*

These objectives are desirable individually, but may be mutually conflicting.

The requirement to maintain and publish a FSS is contained in LGPS Regulations which are updated from time to time. In publishing the FSS the Administering Authority has to have regard to any guidance published by Chartered Institute of Public Finance and Accountancy (CIPFA) (most recently in 2016) and to its Statement of Investment Principles / Investment Strategy Statement.

This is the framework within which the Fund’s actuary carries out triennial valuations to set employers’ contributions and provides recommendations to the Administering Authority when other funding decisions are required, such as when employers join or leave the Fund. The FSS applies to all employers participating in the Fund.

### A2 Does the Administering Authority consult anyone on the FSS?

Yes. This is required by LGPS Regulations. It is covered in more detail by the most recent CIPFA guidance, which states that the FSS must first be subject to “consultation with such persons as the authority considers appropriate”, and should include “a meaningful dialogue at officer and elected member level with council tax raising authorities and with corresponding representatives of other participating employers”.

In practice, for the Fund, the consultation process for this FSS was as follows:

- a) A draft version of the FSS was issued to all participating employers on 1 February 2017 for comment;
- b) Comments will be requested within 30 days;
- c) Following the end of the consultation period the FSS will be updated where required and then published before 1 April 2017.

### A3 How is the FSS published?

The FSS is made available through the following routes:

- Published on the website
- A copy sent by email to each participating employer in the Fund;
- A copy to the Pension Fund Committee and Local Pensions Board
- A full copy annual report and accounts of the Fund;
- Copies sent to independent advisers;

- Copies made available on request.

#### **A4 How often is the FSS reviewed?**

The FSS is reviewed in detail at least every three years as part of the triennial valuation. This version is expected to remain unaltered until it is consulted upon as part of the formal process for the next valuation in 2019.

It is possible that (usually slight) amendments may be needed within the three year period. These would be needed to reflect any regulatory changes, or alterations to the way the Fund operates (e.g. to accommodate a new class of employer). Any such amendments would be consulted upon as appropriate:

- trivial amendments would be simply notified at the next round of employer communications,
- amendments affecting only one class of employer would be consulted with those employers,
- other more significant amendments would be subject to full consultation.

In any event, changes to the FSS would need agreement by the Pensions Committee and would be included in the relevant Committee Meeting minutes.

#### **A5 How does the FSS fit into other Fund documents?**

The FSS is a summary of the Fund's approach to funding liabilities. It is not an exhaustive statement of policy on all issues, for example there are a number of separate statements published by the Fund including the Statement of Investment Principles/Investment Strategy Statement, Governance Strategy and Communications Strategy. In addition, the Fund publishes an Annual Report and Accounts with up to date information on the Fund.

These documents can be found on the web at <http://www.surreypensionfund.org>

## Appendix B – Responsibilities of key parties

The efficient and effective operation of the Fund needs various parties to each play their part.

### **B1 The Administering Authority should:-**

- operate the Fund as per the LGPS Regulations;
- effectively manage any potential conflicts of interest arising from its dual role as Administering Authority and a Fund employer;
- collect employer and employee contributions, and investment income and other amounts due to the Fund;
- ensure that cash is available to meet benefit payments as and when they fall due;
- pay from the Fund the relevant benefits and entitlements that are due;
- invest surplus monies (i.e. contributions and other income which are not immediately needed to pay benefits) in accordance with the Fund's Statement of Investment Principles/Investment Strategy Statement (SIP/ISS) and LGPS Regulations;
- communicate appropriately with employers so that they fully understand their obligations to the Fund;
- take appropriate measures to safeguard the Fund against the consequences of employer default;
- manage the valuation process in consultation with the Fund's actuary;
- provide data and information as required by the Government Actuary's Department to carry out their statutory obligations (see [Section 5](#));
- prepare and maintain a FSS and a SIP/ISS, after consultation;
- notify the Fund's actuary of material changes which could affect funding (this is covered in a separate agreement with the actuary); and
- monitor all aspects of the fund's performance and funding and amend the FSS and SIP/ISS as necessary and appropriate.

### **B2 The Individual Employer should:-**

- deduct contributions from employees' pay correctly;
- pay all contributions, including their own as determined by the actuary, promptly by the due date;
- have a policy and exercise discretions within the regulatory framework;
- make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits, early retirement strain; and
- notify the Administering Authority promptly of all changes to its circumstances, prospects or membership, which could affect future funding.

### **B3 The Fund Actuary should:-**

- prepare valuations, including the setting of employers' contribution rates. This will involve agreeing assumptions with the Administering Authority, having regard to the FSS and LGPS Regulations, and targeting each employer's solvency appropriately;

- provide data and information as required by the Government Actuary's Department to carry out their statutory obligations (see [Section 5](#));
- provide advice relating to new employers in the Fund, including the level and type of bonds or other forms of security (and the monitoring of these);
- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters;
- assist the Administering Authority in considering possible changes to employer contributions between formal valuations, where circumstances suggest this may be necessary;
- advise on the termination of employers' participation in the Fund; and
- fully reflect actuarial professional guidance and requirements in the advice given to the Administering Authority.

**B4 Other parties:-**

- investment advisers (either internal or external) should ensure the Fund's SIP/ISS remains appropriate, and consistent with this FSS;
- investment managers, custodians and bankers should all play their part in the effective investment (and dis-investment) of Fund assets, in line with the SIP/ISS;
- auditors should comply with their auditing standards, ensure Fund compliance with all requirements, monitor and advise on fraud detection, and sign off annual reports and financial statements as required;
- governance advisers may be appointed to advise the Administering Authority on efficient processes and working methods in managing the Fund;
- legal advisers (either internal or external) should ensure the Fund's operation and management remains fully compliant with all regulations and broader local government requirements, including the Administering Authority's own procedures;
- the Department for Communities and Local Government (assisted by the Government Actuary's Department) and the Scheme Advisory Board, should work with LGPS Funds to meet Section 13 requirements.

## Appendix C – Key risks and controls

### C1 Types of risk

The Administering Authority has an active risk management programme in place. The measures that it has in place to control key risks are summarised below under the following headings:

- financial;
- demographic;
- regulatory; and
- governance.

### C2 Financial risks

| Risk   | Summary of Control Mechanisms  |
|--|--|
| Fund assets fail to deliver returns in line with the anticipated returns underpinning the valuation of liabilities over the long-term. | <p>Only anticipate long-term returns on a relatively prudent basis to reduce risk of under-performing.</p> <p>Assets invested on the basis of specialist advice, in a suitably diversified manner across asset classes, geographies, managers, etc.</p> <p>Analyse progress at three yearly valuations for all employers.</p> <p>Inter-valuation roll-forward of liabilities between valuations at whole Fund level.</p> |
| Inappropriate long-term investment strategy.   | <p>Overall investment strategy options considered as an integral part of the funding strategy. Used asset liability modelling to measure 4 key outcomes.</p> <p>Chosen option considered to provide the best balance.</p>  |
| Fall in risk-free returns on Government bonds, leading to rise in value placed on liabilities.   | <p>Stabilisation modelling at whole Fund level allows for the probability of this within a longer term context.</p> <p>Inter-valuation monitoring, as above.</p> <p>Some investment in bonds helps to mitigate this risk.</p>  |
| Active investment manager under-performance relative to benchmark.   | <p>Quarterly investment monitoring analyses market performance and active managers relative to their index benchmark.</p>  |
| Pay and price inflation significantly more than anticipated.   | <p>The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases.</p> <p>Inter-valuation monitoring, as above, gives early warning.</p>  |

| Risk   | Summary of Control Mechanisms   |
|--|---|
|  | <p>Some investment in bonds also helps to mitigate this risk.</p> <p>Employers pay for their own salary awards and should be mindful of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer-serving employees.</p> |
| Effect of possible increase in employer's contribution rate on service delivery and admission/scheduled bodies | An explicit stabilisation mechanism has been agreed as part of the funding strategy. Other measures are also in place to limit sudden increases in contributions.   |
| Orphaned employers give rise to added costs for the Fund   | <p>The Fund seeks a cessation debt (or security/guarantor) to minimise the risk of this happening in the future.</p> <p>If it occurs, the Actuary calculates the added cost spread pro-rata among all employers – (see <a href="#">3.9</a>).</p>            |

### C3 Demographic risks

| Risk   | Summary of Control Mechanisms   |
|--|---|
| Pensioners living longer, thus increasing cost to Fund.  | <p>Set mortality assumptions with some allowance for future increases in life expectancy.</p> <p>The Fund Actuary has direct access to the experience of over 50 LGPS funds which allows early identification of changes in life expectancy that might in turn affect the assumptions underpinning the valuation.</p> |
| Maturing Fund – i.e. proportion of actively contributing employees declines relative to retired employees. | Continue to monitor at each valuation, consider seeking monetary amounts rather than % of pay and consider alternative investment strategies.   |
| Deteriorating patterns of early retirements  | <p>Employers are charged the extra cost of non ill-health retirements following each individual decision.</p> <p>Employer ill health retirement experience is monitored, and insurance is an option.</p>  |
| Reductions in payroll causing insufficient deficit recovery payments                                       | In many cases this may not be sufficient cause for concern, and will in effect be caught at the next formal valuation. However, there are protections where there is concern, as follows:   |

| Risk | Summary of Control Mechanisms   |
|------|---|
|      | <p>Employers in the stabilisation mechanism may be brought out of that mechanism to permit appropriate contribution increases (see <a href="#">Note (b)</a> to <a href="#">3.3</a>).</p> <p>For other employers, review of contributions is permitted in general between valuations (see <a href="#">Note (f)</a> to <a href="#">3.3</a>) and may require a move in deficit contributions from a percentage of payroll to fixed monetary amounts.</p> |

#### C4 Regulatory risks

| Risk  | Summary of Control Mechanisms  |
|---|--|
| <p>Changes to national pension requirements and/or HMRC rules e.g. changes arising from public sector pensions reform.</p>                              | <p>The Administering Authority considers all consultation papers issued by the Government and comments where appropriate.</p> <p>The results of the most recent reforms were built into the 2013 valuation. Any changes to member contribution rates or benefit levels will be carefully communicated with members to minimise possible opt-outs or adverse actions.</p> |
| <p>Time, cost and/or reputational risks associated with any DCLG intervention triggered by the Section 13 analysis (see <a href="#">Section 5</a>).</p> | <p>Take advice from Fund Actuary on position of Fund as at prior valuation, and consideration of proposed valuation approach relative to anticipated Section 13 analysis.</p>  |
| <p>Changes by Government to particular employer participation in LGPS Funds, leading to impacts on funding and/or investment strategies.</p>            | <p>The Administering Authority considers all consultation papers issued by the Government and comments where appropriate.</p> <p>Take advice from Fund Actuary on impact of changes on the Fund and amend strategy as appropriate.</p>   |

**C5 Governance risks**

| Risk   | Summary of Control Mechanisms  |
|--|--|
| <p>Administering Authority unaware of structural changes in an employer's membership (e.g. large fall in employee members, large number of retirements) or not advised of an employer closing to new entrants.</p> | <p>The Administering Authority has a close relationship with employing bodies and communicates required standards e.g. for submission of data.</p> <p>The Actuary may revise the rates and Adjustments certificate to increase an employer's contributions between triennial valuations</p> <p>Deficit contributions may be expressed as monetary amounts.</p>   |
| <p>Actuarial or investment advice is not sought, or is not heeded, or proves to be insufficient in some way</p>  | <p>The Administering Authority maintains close contact with its specialist advisers.</p> <p>Advice is delivered via formal meetings involving Elected Members, and recorded appropriately.</p> <p>Actuarial advice is subject to professional requirements such as peer review.</p>  |
| <p>Administering Authority failing to commission the Fund Actuary to carry out a termination valuation for a departing Admission Body.</p>   | <p>The Administering Authority requires employers with Best Value contractors to inform it of forthcoming changes.</p> <p>Community Admission Bodies' memberships are monitored and, if active membership decreases, steps will be taken.</p>  |
| <p>An employer ceasing to exist with insufficient funding or adequacy of a bond.</p>   | <p>The Administering Authority believes that it would normally be too late to address the position if it was left to the time of departure.</p> <p>The risk is mitigated by:</p> <p>Seeking a funding guarantee from another scheme employer, or external body, where-ever possible (see <a href="#">Notes (h)</a> and <a href="#">(j)</a> to <a href="#">3.3</a>).</p> <p>Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice.</p> <p>Vetting prospective employers before admission.</p> <p>Where permitted under the regulations requiring a bond to protect the Fund from various risks.</p> <p>Requiring new Community Admission Bodies to have a guarantor.</p> |

| Risk | Summary of Control Mechanisms  |
|------|--|
|      | <p>Reviewing bond or guarantor arrangements at regular intervals (see <a href="#">Note (f)</a> to <a href="#">3.3</a>).</p> <p>Reviewing contributions well ahead of cessation if thought appropriate (see <a href="#">Note (a)</a> to <a href="#">3.3</a>).</p> |

## Appendix D – The calculation of Employer contributions

In [Section 2](#) there was a broad description of the way in which contribution rates are calculated. This Appendix considers these calculations in much more detail.

All three steps above are considered when setting contributions (more details are given in [Section 3](#) and [Appendix D](#)):

1. The **funding target** is based on a set of assumptions about the future, eg investment returns, inflation, pensioners' life expectancies. However, if an employer is approaching the end of its participation in the Fund then its funding target may be set on a more prudent basis, so that its liabilities are less likely to be spread among other employers after its cessation of participation;
2. The **time horizon** required is, in broad terms, the period over which any deficit is to be recovered. A shorter period will lead to higher contributions, and vice versa (all other things being equal). Employers may be given a lower time horizon if they have a less permanent anticipated membership, or do not have tax-raising powers to increase contributions if investment returns under-perform;
3. The required **probability of achieving** the funding target over that time horizon will be dependent on the Fund's view of the strength of employer covenant and its funding profile. Where an employer is considered to be weaker, or potentially ceasing from the Fund, then the required probability will be set higher, which in turn will increase the required contributions (and vice versa).

The calculations involve actuarial assumptions about future experience, and these are described in detail in [Appendix E](#).

### D1 What is the difference between calculations across the whole Fund and calculations for an individual employer?

Employer contributions are normally made up of two elements:

- a) the estimated cost of ongoing benefits being accrued, referred to as the "Primary contribution rate" (see [D2](#) below); plus
- b) an adjustment for the difference between the Primary rate above, and the actual contribution the employer needs to pay, referred to as the "Secondary contribution rate" (see [D3](#) below).

The contribution rate for each employer is measured as above, appropriate for each employer's funding position and membership. The whole Fund position, including that used in reporting to DCLG (see section 5), is calculated in effect as the sum of all the individual employer rates. DCLG currently only regulates at whole Fund level, without monitoring individual employer positions.

### D2 How is the Primary contribution rate calculated?

The Primary element of the employer contribution rate is calculated with the aim that these contributions will meet benefit payments in respect of members' **future** service in the Fund. This is based upon the cost (in excess of members' contributions) of the benefits which employee members earn from their service each year.

The Primary rate is calculated separately for all the employers, although employers within a pool will pay the contribution rate applicable to the pool as a whole. The Primary rate is calculated such that it is projected to:

1. meet the required funding target for all future years' accrual of benefits\*, excluding any accrued assets,
2. within the determined time horizon (see [note 3.3 Note \(c\)](#) for further details),
3. with a sufficiently high probability, as set by the Fund's strategy for the category of employer (see [3.3 Note \(e\)](#) for further details).

\* The projection is for the current active membership where the employer no longer admits new entrants, or additionally allows for new entrants where this is appropriate.

The projections are carried out using an economic modeller developed by the Fund's actuary Hymans Robertson: this allows for a wide range of outcomes as regards key factors such as asset returns (based on the Fund's investment strategy), inflation, and bond yields. The measured contributions are calculated such that the proportion of outcomes meeting the employer's funding target (by the end of the time horizon) is equal to the required probability.

The approach includes expenses of administration to the extent that they are borne by the Fund, and includes allowances for benefits payable on death in service and on ill health retirement.

### **D3 How is the Secondary contribution rate calculated?**

The combined Primary and Secondary rates aim to achieve the employer's funding target, within the appropriate time horizon, with the relevant degree of probability.

For the funding target, the Fund actuary agrees the assumptions to be used with the Administering Authority – see [Appendix E](#). These assumptions are used to calculate the present value of all benefit payments expected in the future, relating to that employer's current and former employees, based on pensionable service to the valuation date only (i.e. ignoring further benefits to be built up in the future).

The Fund operates the same target funding level for all employers of 100% of its accrued liabilities valued on the ongoing basis, unless otherwise determined (see [Section 3](#)).

The Secondary rate is calculated as the balance over and above the Primary rate, such that the total is projected to:

- meet the required funding target relating to combined past and future service benefit accrual, including accrued asset share (see [D5](#) below)
- within the determined time horizon (see [3.3 Note \(c\)](#) for further details)
- with a sufficiently high probability, as set by the Fund's strategy for the category of employer (see [3.3 Note \(e\)](#) for further details).

The projections are carried out using an economic modeller developed by the Fund Actuary Hymans Robertson: this allows for a wide range of outcomes as regards key factors such as asset returns (based on the Fund's investment strategy), inflation, and bond yields. The measured contributions are calculated such that the proportion of outcomes with at least 100% solvency (by the end of the time horizon) is equal to the required probability.

### **D4 What affects a given employer's valuation results?**

The results of these calculations for a given individual employer will be affected by:

1. past contributions relative to the cost of accruals of benefits;

2. different liability profiles of employers (e.g. mix of members by age, gender, service vs. salary);
3. the effect of any differences in the funding target, i.e. the valuation basis used to value the employer's liabilities;
4. any different time horizons;
5. the difference between actual and assumed rises in pensionable pay;
6. the difference between actual and assumed increases to pensions in payment and deferred pensions;
7. the difference between actual and assumed retirements on grounds of ill-health from active status;
8. the difference between actual and assumed amounts of pension ceasing on death;
9. the additional costs of any non ill-health retirements relative to any extra payments made; and/or
10. differences in the required probability of achieving the funding target.

#### **D5 How is each employer's asset share calculated?**

**Until 31 March 2016** the Administering Authority did not account for each employer's assets separately. Instead, the Fund's actuary apportioned the assets of the whole Fund between the employers, at each triennial valuation.

This apportionment uses the income and expenditure figures provided for certain cash flows for each employer. This process adjusts for transfers of liabilities between employers participating in the Fund, but does make a number of simplifying assumptions. The split is calculated using an actuarial technique known as "analysis of surplus".

Actual investment returns achieved on the Fund between each valuation are applied proportionately across all employers, to the extent that employers in effect share the same investment strategy. Transfers of liabilities between employers within the Fund occur automatically within this process, with a sum broadly equivalent to the reserve required on the ongoing basis being exchanged between the two employers.

The Fund actuary does not allow for certain relatively minor events, including but not limited to:

- member specific salary and pension increases but instead uses weighted averages
- differences in values placed on liabilities due to changes in assumptions at transfer dates and formal valuation dates
- the actual timing of employer contributions within any financial year;
- the effect of the premature payment of any deferred pensions on grounds of incapacity.

These effects are swept up within a miscellaneous item in the analysis of surplus, which is split between employers in proportion to their liabilities.

The methodology adopted until 31 March 2016 meant that there were inevitably some difference between the asset shares calculated for individual employers and those that would have resulted had they participated in their own ring-fenced section of the Fund.

The asset apportionment was capable of verification but not to audit standard. The Administering Authority recognised the limitations in the process, and while it considered that the Fund actuary's approach addressed the risks of employer cross-subsidisation to an acceptable degree, it decided to adopt a different apportionment approach going forward.

**With effect from 1 April 2016**, the Fund uses the Hymans Robertson Employer Asset Tracking model ("HEAT"), which apportions assets at individual employer level allowing for actual monthly Fund returns and monthly cashflows per employer (e.g. contributions received, benefits paid out, investment returns, transfers in and out, etc). This revised approach gives a greater degree of accuracy, for tracking employers' assets.

## Appendix E – Actuarial assumptions

### E1 What are the actuarial assumptions?

These are expectations of future experience used to place a value on future benefit payments (“the liabilities”). Assumptions are made about the amount of benefit payable to members (the financial assumptions) and the likelihood or timing of payments (the demographic assumptions). For example, financial assumptions include investment returns, salary growth and pension increases; demographic assumptions include life expectancy, probabilities of ill-health early retirement, and proportions of member deaths giving rise to dependants’ benefits.

Changes in assumptions will affect the measured funding target. However, different assumptions will not of course affect the actual benefits payable by the Fund in future.

The combination of all assumptions is described as the “basis”. A more optimistic basis might involve higher assumed investment returns (discount rate), or lower assumed salary growth, pension increases or life expectancy; a more optimistic basis will give lower funding targets and lower employer costs. A more prudent basis will give higher funding targets and higher employer costs.

### E2 What basis is used by the Fund?

The Fund’s standard funding basis is described as the “ongoing basis”, which applies to most employers in most circumstances. This is described in more detail below. It anticipates employers remaining in the Fund in the long term.

However, in certain circumstances, typically where the employer is not expected to remain in the Fund long term, a more prudent basis applies: see [Note \(a\)](#) to [3.3](#).

### E3 What assumptions are made in the ongoing basis?

- **Investment return / discount rate**

The key financial assumption is the anticipated return on the Fund’s investments. This “discount rate” assumption makes allowance for an anticipated out-performance of Fund returns relative to long term expectations of the Consumer Price Inflation (CPI) index. There is, however, no guarantee that Fund returns will out-perform the CPI index. The risk is greater when measured over short periods such as the three years between formal actuarial valuations, when the actual returns and assumed returns can deviate sharply.

Given the very long-term nature of the liabilities, a long term view of prospective asset returns is taken. The long term in this context would be 20 to 30 years or more.

For the purpose of the triennial funding valuation at 31 March 2016 and setting contribution rates effective from 1 April 2017, the Fund actuary has assumed that future investment returns earned by the Fund over the long term will be 2.1% per annum greater than CPI inflation at the time of the valuation. In the opinion of the Fund actuary, based on the current investment strategy of the Fund, this asset out-performance assumption is within a range that would be considered acceptable for the purposes of the funding valuation.

- **Salary growth**

Pay for public sector employees is currently subject to restriction by the UK Government until 2020. Although this “pay freeze” does not officially apply to local government and associated employers, it has been suggested that they are likely to show similar restraint in respect of pay awards. Based on long term historical analysis of the membership in LGPS funds, and continued austerity measures, the salary increase assumption at the 2016 valuation has been set to be a blended rate combined of:

1. 1% p.a. until 31 March 2020, followed by
2. Retail prices index (RPI) p.a. thereafter.

This gives a single “blended” assumption of RPI less 0.7%. This is a change from the previous valuation, which assumed a flat assumption of RPI plus 0.5% per annum. The change has led to a reduction in the funding target (all other things being equal).

- **Pension increases**

Since 2011 the consumer prices index (CPI), rather than RPI, has been the basis for increases to public sector pensions in deferment and in payment. Note that the basis of such increases is set by the Government, and is not under the control of the Fund or any employers.

As at the previous valuation, we derive our assumption for RPI from market data as the difference between the yield on long-dated fixed interest and index-linked government bonds. This is then reduced to arrive at the CPI assumption, to allow for the “formula effect” of the difference between RPI and CPI. At this valuation, we have used a reduction of 1.0% per annum. This is a larger reduction than at 2013 (which was 0.8%), which will serve to reduce the funding target (all other things being equal). (Note that the reduction is applied in a geometric, not arithmetic, basis).

- **Life expectancy**

The demographic assumptions are intended to be best estimates of future experience in the Fund based on past experience of LGPS funds which participate in Club Vita, the longevity analytics service used by the Fund, and endorsed by the actuary.

The longevity assumptions that have been adopted at this valuation are a bespoke set of “VitaCurves”, produced by the Club Vita’s detailed analysis, which are specifically tailored to fit the membership profile of the Fund. These curves are based on the data provided by the Fund for the purposes of this valuation.

It is acknowledged that future life expectancy and, in particular, the allowance for future improvements in life expectancy, is uncertain. There is a consensus amongst actuaries, demographers and medical experts that life expectancy is likely to improve in the future. Allowance has been made in the ongoing valuation basis for future improvements in line with the 2013 version of the Continuous Mortality Investigation model published by the Actuarial Profession and a 1.25% per annum minimum underpin to future reductions in mortality rates. This is a similar allowance for future improvements than was made in 2013.

The combined effect of the above changes from the 2013 valuation approach, is to reduce life expectancy by around 0.5 years on average, which reduces the funding target all other things being equal. The approach taken is considered reasonable in light of the long term nature of the Fund and the assumed level of security underpinning members’ benefits.

- **General**

The same financial assumptions are adopted for most employers, in deriving the funding target underpinning the Primary and Secondary rates: as described in [\(3.3\)](#), these calculated figures are translated in different ways into employer contributions, depending on the employer's circumstances.

The demographic assumptions, in particular the life expectancy assumption, in effect vary by type of member and so reflect the different membership profiles of employers.

## Appendix F – Glossary

|                                    |   |
|------------------------------------|---|
| <b>Actuarial assumptions/basis</b> | The combined set of assumptions made by the actuary, regarding the future, to calculate the value of the <b>funding target</b> . The main assumptions will relate to the <b>discount rate</b> , salary growth, pension increases and longevity. More prudent assumptions will give a higher target value, whereas more optimistic assumptions will give a lower value.  |
| <b>Administering Authority</b>     | The council with statutory responsibility for running the Fund, in effect the Fund’s “trustees”.  |
| <b>Admission Bodies</b>            | Employers where there is an Admission Agreement setting out the employer’s obligations. These can be Community Admission Bodies or Transferee Admission Bodies. For more details (see <a href="#">2.3</a> ).  |
| <b>Covenant</b>                    | The assessed financial strength of the employer. A strong covenant indicates a greater ability (and willingness) to pay for pension obligations in the long run. A weaker covenant means that it appears that the employer may have difficulties meeting its pension obligations in full over the longer term.  |
| <b>Designating Employer</b>        | Employers such as town and parish councils that are able to participate in the LGPS via resolution. These employers can designate which of their employees are eligible to join the Fund.   |
| <b>Discount rate</b>               | The annual rate at which future assumed cashflows (in and out of the Fund) are discounted to the present day. This is necessary to provide a <b>funding target</b> which is consistent with the present day value of the assets. A lower discount rate gives a higher target value, and vice versa. It is used in the calculation of the <b>Primary and Secondary rates</b> .   |
| <b>Employer</b>                    | An individual participating body in the Fund, which employs (or used to employ) <b>members</b> of the Fund. Normally the assets and <b>funding target</b> values for each employer are individually tracked, together with its <b>Primary rate</b> at each <b>valuation</b> .   |
| <b>Funding target</b>              | The actuarially calculated present value of all pension entitlements of all <b>members</b> of the Fund, built up to date. This is compared with the present market value of Fund assets to derive the <b>deficit</b> . It is calculated on a chosen set of <b>actuarial assumptions</b> .   |
| <b>Gilt</b>                        | A UK Government bond, ie a promise by the Government to pay interest and capital as per the terms of that particular gilt, in return for an initial payment of capital by the purchaser. Gilts can be “fixed interest”, where the interest payments are level throughout the gilt’s term, or “index-linked” where the interest payments vary each year in line with a specified index (usually RPI). Gilts can be bought as assets by the Fund, but their main use in funding is as an objective measure of solvency. |
| <b>Guarantee / guarantor</b>       | A formal promise by a third party (the guarantor) that it will meet any pension obligations not met by a specified employer. The presence of a guarantor will mean, for instance, that the Fund can consider the employer’s <b>covenant</b> to be as strong as its guarantor’s.   |

|  |   |
|--|---|
| <b>Letting employer</b>                  | An employer which outsources or transfers a part of its services and workforce to another employer (usually a contractor). The contractor will pay towards the LGPS benefits accrued by the transferring members, but ultimately the obligation to pay for these benefits will revert to the letting employer. A letting employer will usually be a local authority, but can sometimes be another type of employer such as an Academy.  |
| <b>LGPS</b>                              | The Local Government Pension Scheme, a public sector pension arrangement put in place via Government Regulations, for workers in local government. These Regulations also dictate eligibility (particularly for Scheduled Bodies), members' contribution rates, benefit calculations and certain governance requirements. The LGPS is divided into 101 Funds which map the UK. Each LGPS Fund is autonomous to the extent not dictated by Regulations, e.g. regarding investment strategy, employer contributions and choice of advisers. |
| <b>Maturity</b>                          | A general term to describe a Fund (or an employer's position within a Fund) where the members are closer to retirement (or more of them already retired) and the investment time horizon is shorter. This has implications for investment strategy and, consequently, funding strategy.   |
| <b>Members</b>                           | The individuals who have built up (and may still be building up) entitlement in the Fund. They are divided into actives (current employee members), deferreds (ex-employees who have not yet retired) and pensioners (ex-employees who have now retired, and dependants of deceased ex-employees).  |
| <b>Primary contribution rate</b>         | The employer contribution rate required to pay for ongoing accrual of active members' benefits (including an allowance for administrative expenses). See Appendix D for further details.  |
| <b>Profile</b>                           | The profile of an employer's membership or liability reflects various measurements of that employer's <b>members</b> , ie current and former employees. This includes: the proportions which are active, deferred or pensioner; the average ages of each category; the varying salary or pension levels; the lengths of service of active members vs their salary levels, etc. A membership (or liability) profile might be measured for its <b>maturity</b> also.  |
| <b>Rates and Adjustments Certificate</b> | A formal document required by the LGPS Regulations, which must be updated at least every three years at the conclusion of the formal <b>valuation</b> . This is completed by the actuary and confirms the contributions to be paid by each employer (or pool of employers) in the Fund for the three year period until the next valuation is completed.   |
| <b>Scheduled Bodies</b>                  | Types of employer explicitly defined in the LGPS Regulations, whose employers must be offered membership of their local LGPS Fund. These include Councils, colleges, universities, academies, police and fire authorities etc, other than employees who have entitlement to a different public sector pension scheme (e.g. teachers, police and fire officers, university lecturers).   |
| <b>Secondary contribution rate</b>       | The difference between the employer's actual and <b>Primary contribution rates</b> . In broad terms, this relates to the shortfall of its asset share to its <b>funding target</b> . See <a href="#">Appendix D</a> for further details.  |

**Stabilisation**

Any method used to smooth out changes in employer contributions from one year to the next. This is very broadly required by the LGPS Regulations, but in practice is particularly employed for large stable employers in the Fund. Different methods may involve: probability-based modelling of future market movements; longer deficit recovery periods; higher discount rates; or some combination of these.

**Valuation**

An actuarial investigation to calculate the liabilities, future service contribution rate and common contribution rate for a Fund, and usually individual employers too. This is normally carried out in full every three years (last done as at 31 March 2016), but can be approximately updated at other times. The assets value is based on market values at the valuation date, and the liabilities value and contribution rates are based on long term bond market yields at that date also.

# Governance Compliance Statement

The Local Government Pension Scheme (England and Wales) (Amendment) (No 2) Regulations 2005 came into effect on 14 December 2005. The Regulations provided the statutory framework within which LGPS administering authorities were required to publish a governance policy statement by 1 April 2006. The policy intention was that the statement also described and explained the administering authority's arrangements for the representation and participation of Scheme stakeholders. A copy of the Surrey Pension Fund's current governance policy statement can be found on Surrey CC's website.

The Local Government Pension Scheme (Amendment)/(No 3) Regulations 2007 (SI 2007 No 1561) provided further statutory framework, including the provision that administering authorities produce a statement disclosing the degree to which it complies with best practice in its governance procedures. This statement is reproduced in full below:

## GOVERNANCE COMPLIANCE STATUTORY GUIDANCE

| Principle   | Surrey's Approach  | Compliance |
|---|--|------------|
| <b>STRUCTURE</b>  |  |            |
| The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.   | Surrey County Council delegates the management of the Surrey Pension Fund to the Pension Fund Committee. The Committee is responsible for these areas under the terms of reference contained in the Council's Constitution.  | Comply     |
| That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee. | Surrey is compliant with these principles. Employers and employee representatives are represented on the Pension Fund Committee. The Committee comprises county councilors, borough/district councilors, an external employer representative and a union representative to | Comply     |

|  |   |                   |
|--|---|-------------------|
|  | represent employees and pensioners. All Committee members have full voting rights.  |                   |
| That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.  | There is currently no secondary committee..   | n/a               |
| That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel. | There is currently no secondary committee..<br>Should a secondary committee be established, all members of that secondary committee would sit on the main Pension Fund Committee. | n/a               |
| <b>Principle</b>   | <b>Surrey's Approach</b>  | <b>Compliance</b> |
|  |   |                   |
| <b>REPRESENTATION</b>  |   |                   |
| That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include:                                | With over 150 employer bodies, not all stakeholders are directly represented on the Pension Fund Committee. All stakeholders are free to make representations in writing to       | Explain           |

|  |  |        |
|--|--|--------|
| <ul style="list-style-type: none"> <li>employing authorities (including non-scheme employers, e.g., admitted bodies);</li> </ul>   | <p>the Committee. The County Council, the eleven districts and boroughs, Office of the Police and Crime Commissioner and employees are directly represented on the Pension Fund Committee.</p>   |        |
| <ul style="list-style-type: none"> <li>scheme members (including deferred and pensioner scheme members);</li> </ul>  | <p>The Pension Fund Committee membership includes a trade union representative.</p>  | Comply |
| <ul style="list-style-type: none"> <li>independent professional observers; and</li> </ul>  | <p>The Committee employs an independent consultant who is an experienced ex Chief Investment Officer of an investment house. The consultant is present at all Committee meetings.</p>  | Comply |
| <ul style="list-style-type: none"> <li>expert advisors (on an ad hoc basis).</li> </ul>  | <p>Expert advisors attend the Committee as required, depending on the nature of the decisions to be taken. For example, the actuary attends when the valuation is being considered and the investment consultant attends when strategic asset allocation decisions and investment matters are being discussed.</p> | Comply |
| <p>That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights.</p> | <p>All members are treated equally in terms of access to papers and to training that is given as part of the Committee processes.</p>  | Comply |

| <b>Principle</b>   | <b>Surrey's Approach</b>  | <b>Compliance</b> |
|--|---|-------------------|
|  |   |                   |
| <b>SELECTION AND ROLE OF LAY MEMBERS</b>   |   |                   |
| That Committee or Panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.  | Committee members are given initial and ongoing training to support them in their role as trustees.   | Comply            |
| <b>VOTING</b>  |   |                   |
| The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.   | Surrey is fully compliant with this principle. Most decisions are reached by consensus, but voting rights remain with the Pension Fund Committee because the Council retains legal responsibility as the administering authority. | Comply            |
| <b>TRAINING/FACILITY TIME/EXPENSES</b>   |   |                   |
| That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process. | This falls within the County Council's normal approach to member expenses. Pension Fund Committee members receive expenses. Training has been referred to above.  | Comply            |
| That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.  | The policy applies equally to all members of the Pension Fund Committee. All members currently enjoy voting rights.   | Comply            |

| <b>Principle</b>   | <b>Surrey's Approach</b>   | <b>Compliance</b> |
|--|--|-------------------|
|  |  |                   |
| <b>MEETINGS (FREQUENCY/QUORUM)</b>   |  |                   |
| That an administering authority's main committee or committees meet at least quarterly.  | Surrey is fully compliant with this principle by holding quarterly and special appointment meetings. The Chief Finance Officer sends performance data and relevant information as appropriate. The quorum for the committee is three.  | Comply            |
| That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits.   | There is currently no secondary committee.   | n/a               |
| That administering authorities who do not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented                         | The Pension Fund holds an annual meeting in November each year to which all key stakeholders are invited. The meeting is a two-way process in which all delegates have the opportunity to ask questions and express their views. The Committee welcomes representations on any issue in writing at any time. | Comply            |
| <b>ACCESS</b>  |  |                   |
| That subject to any rules in the council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee. | All members of the Pension Fund Committee have equal access to committee papers, documents and advice.   | Comply            |

| <b>Principle</b>   | <b>Surrey's Approach</b>  | <b>Compliance</b> |
|--|---|-------------------|
|  |   |                   |
| <b>SCOPE</b>   |   |                   |
| That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements   | Surrey is fully compliant with this principle by bringing all investment, liability, benefit and governance issues to the Pension Fund Committee. An agenda will usually include a fund monitoring report, individual reports from managers, and reports on specific investment, administration and governance issues. A business plan is approved each year. | Comply            |
| <b>PUBLICITY</b>   |   |                   |
| That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements. | Surrey is fully compliant with this principle by publishing statements in the Annual Report and on its website.   | Comply            |

# Governance Policy Statement

Governance Policy Statement for the Purposes of The Local Government Pension Scheme (Amendment) (No 2) Regulations 2005

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

Contents

Overall governance framework

Delegation of functions and allocation of responsibility for:

- Administration
- Funding
- Investment
- Communication
- Risk management

Terms of reference and decision making:

- Structure of committees and representation
- Voting rights

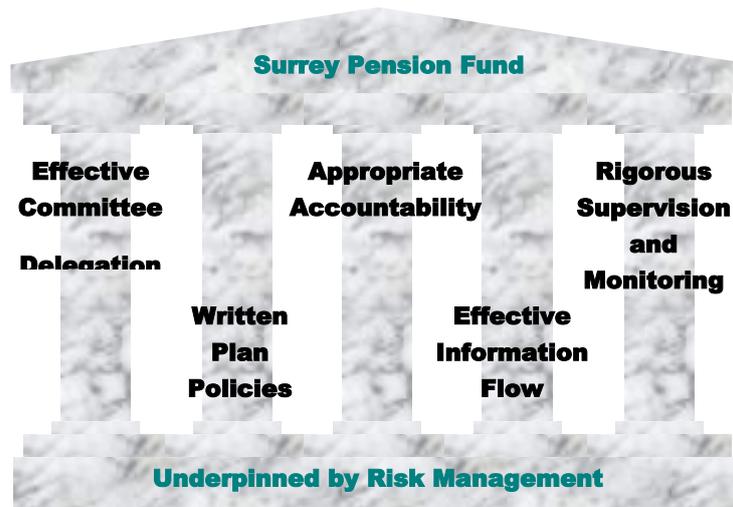
Operational procedures:

- Frequency of meetings
- Competencies, knowledge and understanding
- Reporting and monitoring

Review of this policy statement

## **1. Overall Governance Framework**

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



The governance framework focuses on:

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

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

## **2. Delegation of Functions**

The following functions are delegated by the Administering Authority:

### **Scheme Administration**

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

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

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

#### **Delegated to:**

Pension Fund Committee (monitoring)

Chief Finance Officer (Pension Fund administration implementation)

### **Funding**

**Governance Principles: Effective Committee delegation; appropriate accountability; written plan policies**

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

#### **Delegated to:**

Pension Fund Committee (policy approval)

Chief Finance Officer (maintaining FSS and policy implementation)

### **Investment**

**Governance Principles: Effective Committee delegation; appropriate accountability; written plan policies**

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

#### **Delegated to:**

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

Chief Finance Officer (Pension Fund investment implementation)

### **Communications**

**Governance Principle: Effective Information Flow; written plan policies**

Including setting of a communication strategy, issuing or arranging to be issued re benefit statements, annual newsletters and annual report. The Pension Fund Committee shall be responsible for maintaining the Communications Policy.

**Delegated to:**

Pension Fund Committee (policy approval)

Chief Finance Officer (Pension Fund policy implementation)

**Risk Management**

**Effective Committee delegation; appropriate accountability; written plan policies**

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

**Delegated to:**

Pension Fund Committee (policy approval)

Chief Finance Officer (Pension Fund policy implementation)

**3 Terms of Reference and Decision Making**

**Terms of Reference:**

**Governance Principle: Effective Committee delegation; written plan policies**

The Pension Fund Committee's Terms of Reference as approved by Full Council on 19 March 2013.

**Administration, Funding, Investment, Communications and Risk Management**

In line with the Council's Constitution, the Pension Fund Committee shall oversee Pension Fund investments, the overall management of the Fund, the governance surrounding the Fund, and the administration of the Pension Scheme.

**Structure of the Pension Fund Committee and representation:**

**Governance Principle: Effective Committee delegation**

The Pension Fund Committee shall be made up of:

4 Conservative members;

1 Liberal Democrat member;

1 Independent member;

2 Districts and Boroughs Members

1 Employer Representative;

1 Employee Representative

**Decision Making:**

**Governance Principle: Effective Committee delegation; rigorous supervision and monitoring**

The Pension Fund Committee shall have full decision-making powers. Each member of the Pension Fund Committee shall have full voting rights.

**4. Operational Procedures**

**Frequency of Meetings:**

**Governance Principle: Effective Committee delegation; effective information flow**

The Pension Fund Committee shall convene no less frequently than four times per year. The Pension Fund Committee shall receive full reports upon all necessary matters as decided by the Chief Finance Officer and any matters requested by members of the Pension Fund Committee.

Provision exists for the calling of special meetings if circumstances demand.

**Competencies, Knowledge and Understanding:**

**Governance Principle: Effective Committee delegation; appropriate accountability**

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

**Reporting and Monitoring:**

**Governance Principle: Rigorous supervision and monitoring; effective information flow**

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

**5 Review of this policy statement**

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

### **Pension Fund Committee: Terms of Reference**

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

|     |   |  |
|-----|---|--|
| F10 | Director of Finance/<br>Strategic Finance Manager<br>(Pensions) | Borrowing, lending and investment of County Council Pension Fund moneys, in line with strategies agreed by the Pension Fund Committee. Delegated authority to the Chief Finance Officer to take any urgent action as required between Committee meetings but such action only to be taken in consultation with and by agreement with the Chairman and/or Vice Chairman of the Pension Fund Committee and any relevant Consultant and/or Independent Advisor. |
| H4  | Lead Pensions Manager   |  |

|    |                     |  |
|----|---------------------|--|
| H5 | Director of Finance | <p>To exercise discretion (excluding decisions on admitted body status) in relation to the Local Government Pension Scheme where no policy on the matter has been agreed by the Council and included in the Discretionary Pension Policy Statement published by the Council, subject to any limitations imposed and confirmed in writing from time to time by the Chief Finance Officer.</p> <p>To determine decisions conferring 'admitted body' status to the Pension Fund where such requests are submitted by external bodies.</p> |
|----|---------------------|--|

# Statement of Responsibilities and Certification of Accounts

## The Responsibilities of the County Council

The County Council is required:

- to make arrangements for the proper administration of the financial affairs of the Fund and to secure that one of its officers has the responsibility for the administration of those affairs. In this Authority, that officer is the Chief Finance Officer & Deputy Director for Business Services (Chief Finance Officer).
- to manage the Fund's affairs to secure economic, efficient and effective use of resources and safeguard its assets; and
- to approve the statement of accounts.

## The Responsibilities of the Chief Finance Officer

The Chief Finance Officer is responsible for the preparation of the Fund's statement of accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in Great Britain ("the Code of Practice").

In preparing this statement of accounts, the Chief Finance Officer has:

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent;
- complied with the Code of Practice

The Chief Finance Officer has also:

- kept proper accounting records which were up to date;
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

I certify that the statement of accounts set out in this report present a true and fair view of the Surrey County Council Pension Fund at 31 March 2019 and its income and expenditure for the year then ended.

Leigh Whitehouse

SECTION 151 OFFICER

**Independent auditor's report to the members of Surrey County Council on the consistency of the pension fund financial statements included in the Surrey Pension Fund Annual Report**

**To be confirmed**

**Independent auditor's report to the members of Surrey County Council on the consistency of the pension fund financial statements included in the Surrey Pension Fund Annual Report**

**To be confirmed**

## Surrey Pension Fund Accounts 2018/19

The Pension Fund Draft Accounts 2018/19 were presented to and approved by the Pension Fund Committee on 7 June 2019. Upon review of the draft accounts, there have been no material misstatements in the financial statements and the external auditor (Grant Thornton) has issued an unqualified opinion having completed their audit. The audited accounts were then presented and approved by the Audit and Governance Committee on 29 July 2019.

The full Surrey Pension Fund Accounts can be found below

## Surrey Pension Fund - Fund account

| 2017/2018        |   | Note | 2018/2019        |
|------------------|---|------|------------------|
| £000             |   |      | £000             |
|                  | <b>Contributions and benefits</b>               |      |                  |
| 178,283          | Contributions receivable                        | 7    | 176,776          |
| <u>12,881</u>    | Transfers in                                    | 8    | <u>14,954</u>    |
| 191,164          |   |      | 191,730          |
| -144,146         | Benefits payable                                | 9    | -149,832         |
| -9,527           | Payments to and on account of leavers           | 10   | -10,946          |
| -12,222          | Investment and governance expenses              | 14   | -13,641          |
| <u>-1,626</u>    | Administration expenses                         |      | <u>-1,829</u>    |
| -167,521         |   |      | -176,248         |
|                  | <b>Net additions from dealings with members</b> |      |                  |
| <u>23,643</u>    |   |      | <u>15,482</u>    |
|                  | <b>Return on investments</b>                    |      |                  |
| 65,751           | Investment income                               | 16   | 59,055           |
| -1,032           | Taxes on income                                 |      | -785             |
| <u>98,662</u>    | Change in market value of investments           | 17   | <u>185,943</u>   |
| 163,381          | <b>Net return on investments</b>                |      | 244,213          |
|                  | <b>Net increase in the fund during the year</b> |      |                  |
| <u>187,024</u>   |   |      | <u>259,695</u>   |
|                  | <b>Net assets of the fund</b>                   |      |                  |
| 3,868,859        | At 1 April                                      |      | 4,055,883        |
| <u>4,055,883</u> | At 31 March                                     |      | <u>4,315,578</u> |

## Surrey Pension Fund - Net asset statement

| 31 Mar 2018      | Note                                      | 31 Mar 2019      |
|------------------|---|------------------|
| £000             |   | £000             |
|                  | 17  |                  |
|                  |   |                  |
| <b>601,208</b>   | Bonds                                     | <b>706,529</b>   |
| <b>2,413,734</b> | Equities                                  | <b>2,489,806</b> |
| <b>321,737</b>   | Property unit trusts                      | <b>283,240</b>   |
| <b>394,288</b>   | Diversified growth                        | <b>402,589</b>   |
| <b>155,782</b>   | Private equity                            | <b>255,964</b>   |
|                  | 17c                                       |                  |
|                  | Derivatives                               |                  |
|                  | - Futures                                 |                  |
| <b>1,327</b>     | - Foreign exchange contracts              | <b>1,329</b>     |
| <b>80,636</b>    | Cash                                      | <b>150,680</b>   |
| <b>60,000</b>    | Other short term investments              | <b>0</b>         |
| <b>4,740</b>     | Other investment balances                 | <b>3,407</b>     |
|                  |   |                  |
|                  | 17c                                       |                  |
|                  | Derivatives                               |                  |
| <b>0</b>         | - Futures                                 | <b>0</b>         |
| <b>-1</b>        | - Foreign exchange contracts              | <b>-1,452</b>    |
| <b>-3,393</b>    | Other investment balances                 | <b>-3,445</b>    |
| <b>0</b>         | Borrowings                                | <b>0</b>         |
| <b>4,030,058</b> | <b>Net investment assets</b>              | <b>4,288,647</b> |
|                  |   |                  |
| <b>7,260</b>     | <b>Long-term debtors</b>                  | <b>5,450</b>     |
|                  |   |                  |
| <b>29,861</b>    | <b>Current assets</b>                     | <b>30,635</b>    |
|                  |   |                  |
| <b>-11,296</b>   | <b>Current liabilities</b>                | <b>-9,154</b>    |
|                  |   |                  |
| <b>4,055,883</b> | <b>Net assets of the fund at 31 March</b> | <b>4,315,578</b> |

The financial statements do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial present value of promised retirement benefits valued on an International Accounting Standard (IAS) 19 basis is disclosed at note 25 of these accounts. Diversified growth is an investment in a separate pooled fund, which can invest in a variety of traditional and alternative asset classes to target a return comparable with other growth assets but with reduced volatility.

### **Note 1: Description of the fund**

The Surrey Pension Fund ('the fund') is part of the Local Government Pension Scheme (LGPS) and is administered by Surrey County Council. The Surrey Pension Fund is the reporting entity.

Surrey County Council is responsible for administering a pension fund for staff employed by the county council, the 11 borough and district councils in Surrey and over two hundred and fifty other local bodies. The fund includes local authority employees within Surrey, except teachers, police and firefighters for whom separate pension arrangements apply. The fund is overseen by the Surrey Pension Fund Committee, which is a committee of Surrey County Council.

The scheme is governed by the Public Service Pensions Act 2013. The fund is administered in accordance with the following secondary legislation:

- The Local Government Pension Scheme Regulations 2013 (as amended)
- The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

It is a contributory defined benefit pension scheme administered by Surrey County Council to provide pensions and other benefits for pensionable employees of Surrey County Council, the borough and district councils in Surrey and a range of other scheduled and admitted bodies within the county area. Teachers, police officers and firefighters are not included as they come within other national pension schemes.

a) Membership

Membership of the LGPS is voluntary and employees are free to choose whether to join the scheme, remain in the scheme or make their own personal arrangements outside the scheme.

Organisations participating in the Surrey Pension Fund include:

- Scheduled bodies, which are local authorities and similar bodies whose staff are automatically entitled to be members of the fund.
- Admitted bodies, which are other organisations that participate in the fund under an admissions agreement between the fund and the relevant organisation. Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing of services to the private sector.
- The number of employees in the fund and the number of pensioners as at 31 March 2018 and 31 March 2019 are:

| <b>Surrey Pension Fund</b>       | <b>31 Mar 2018</b> | <b>31 Mar 2019</b> |
|----------------------------------|--------------------|--------------------|
| <b>Total Number of Employers</b> | <b>251</b>         | <b>271</b>         |
| <b>Employees in the Scheme</b>   |                    |                    |
| Surrey County Council            | 18,148             | 17,151             |
| Other Employers                  | 17,654             | 17,141             |
| <b>Total</b>                     | <b>35,802</b>      | <b>34,292</b>      |
| <b>Pensioners</b>                |                    |                    |
| Surrey County Council            | 12,105             | 12,721             |
| Other Employers                  | 13,030             | 13,208             |
| <b>Total</b>                     | <b>25,135</b>      | <b>25,929</b>      |
| <b>Deferred Pensioners</b>       |                    |                    |
| Surrey County Council            | 28,678             | 31,342             |
| Other Employers                  | 16,401             | 18,632             |
| <b>Total</b>                     | <b>45,079</b>      | <b>49,974</b>      |
| <b>Total Number of Members</b>   | <b>106,016</b>     | <b>110,195</b>     |

b) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the fund in accordance with the LGPS (Benefits, Membership and Contributions) Regulations 2007 and ranged from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2019. Employee contributions are matched by employers' contributions which are set based on triennial actuarial funding valuations. The last such valuation was at 31 March 2016 and new rates applied from April 2017. Currently employer contribution rates range from 13.4% to 33.2% of pensionable pay.

c) Benefits

Prior to 1 April 2014, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service.

|                  | <b>Service pre 1 April 2008</b>   | <b>Service 1 April 2008 until 31 March 2014</b>                          |
|------------------|---|--|
| Basis of pension | <ul style="list-style-type: none"> <li>• 1/80<sup>th</sup> of final salary</li> </ul> | 1/60 <sup>th</sup> of final salary                                       |
| Lump sum         | Automatic lump sum 3 x pension<br><br>Trade £1 of annual pension for £12 lump sum     | No automatic lump sum<br><br>Trade £1 of annual pension for £12 lump sum |

There are a range of other benefits provided under the scheme including early retirement disability pensions and death benefits. For more details please refer to the Surrey Pension Fund website (<http://www.surreypensionfund.org>).

|                                    | <b>Service 1 April 2008 until 31 March 2014</b>  | <b>LGPS 2014 scheme</b>  |
|------------------------------------|--|--|
| Basis of pension                   | Final salary   | Career average revalued earnings   |
| Accrual rate                       | 1/60 <sup>th</sup> of salary   | 1/49 <sup>th</sup> of salary   |
| Revaluation rate                   | No revaluation: based on final salary  | Inflation rate: consumer prices index (CPI)  |
| Pensionable pay                    | Pay excluding non-contractual overtime and non-pensionable additional hours  | Pay including non-contractual overtime and additional hours for part time staff  |
| Employee contribution              | See below table  | See below table  |
| Normal pension age                 | 65   | Equal to the individual member's State Pension Age   |
| Lump sum trade off                 | Trade £1 of annual pension for £12 lump sum  | Trade £1 of annual pension for £12 lump sum  |
| Death in service lump sum          | 3x pensionable payroll   | 3x pensionable payroll   |
| Death in service survivor benefits | 1/160 <sup>th</sup> accrual based on Tier 1 ill health pension enhancement   | 1/160 <sup>th</sup> accrual based on Tier 1 ill health pension enhancement   |
| Ill Health Provision               | Tier 1 - Immediate payment with service enhanced to Normal Pension Age<br>Tier 2 - Immediate payment with 25% service enhancement to Normal Pension Age<br>Tier 3 - Temporary payment of pension for up to 3 years | Tier 1 - Immediate payment with service enhanced to Normal Pension Age<br>Tier 2 - Immediate payment with 25% service enhancement to Normal Pension Age<br>Tier 3 - Temporary payment of pension for up to 3 years |
| Indexation of pension in payment   | Inflation rate: CPI (RPI for pre-2011 increases)   | Inflation rate: CPI  |

| <b>Pre 2014 employee contribution rates</b> |                   |
|---|-------------------|
| Pensionable payroll banding                 | Contribution rate |
| Up to £13,700                               | 5.5%              |
| £13,701 to £16,100                          | 5.8%              |
| £16,101 to £20,800                          | 5.9%              |
| £20,801 to £34,700                          | 6.5%              |
| £34,701 to £46,500                          | 6.8%              |
| £46,501 to £87,100                          | 7.2%              |
| More than £87,100                           | 7.5%              |
|   |                   |
|   |                   |
| Estimated overall LGPS average              | 6.5%              |

| <b>LGPS 2014 employee contribution rates for 2018/19</b> |                   |
|--|-------------------|
| Pensionable payroll banding                              | Contribution rate |
| Up to £14,100  | 5.5%              |
| £14,101 to £22,000                                       | 5.8%              |
| £22,001 to £35,700                                       | 6.5%              |
| £35,701 to £45,200                                       | 6.8%              |
| £45,201 to £63,100                                       | 8.5%              |
| £63,101 to £89,400                                       | 9.9%              |
| £89,401 to £105,200                                      | 10.5%             |
| £105,201 to £157,800                                     | 11.4%             |
| More than £157,801                                       | 12.5%             |
| Estimated overall LGPS average                           | 6.5%              |

For additional information about the LGPS 2014 please refer to the Surrey Pension Fund website (<http://www.surreypensionfund.org>) or the LGPS 2014 scheme website (<http://www.lgps2014.org>).

## **Note 2: Basis of preparation**

The Statement of Accounts summarises the fund's transactions for the 2018/19 financial year and its position at the year end at 31 March 2019. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

Paragraph 3.3.1.2 of the Code requires disclosure of any accounting standards issued but not yet adopted. No such accounting standards have been identified for 2018/19.

The accounts summarise the transactions of the fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial present value of promised retirement benefits valued according to the International Accounting Standard (IAS) 19 is disclosed at note 25 of these accounts.

These accounts have been prepared on a going concern basis. The liabilities of the pension fund are ultimately backed by the employing organisations within the fund including government bodies with tax raising powers.

## **Note 3: Summary of significant accounting policies**

Pension fund management expenses are accounted for in accordance with CIPFA guidance on accounting for Local Government Scheme Management Costs.

### **Fund account – revenue recognition**

#### **a) Contribution income**

Normal contributions, both from the members and from the employer, are accounted for on an accruals basis in the payroll period to which they relate.

Employers' augmentation contributions and pension strain contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid will be classed as a current financial asset. Contributions due for forthcoming periods are not represented within the financial statements.

#### **b) Transfers to and from other schemes**

Transfer values represent the amounts received and paid during the year for members who have either joined or left the fund during the financial year and is calculated in accordance with the Local Government Pension Scheme Regulations.

Transfers in/leavers are accounted for when received or paid, which is normally when the member liability is accepted or discharged. Transfers in from members wishing to use the proceeds of their additional voluntary contributions to purchase scheme benefits are accounted for on a receipts basis and are included within transfers in.

Bulk (group) transfers are accounted for in accordance with the terms of the transfer agreement.

#### **c) Investment income**

- i) Interest income  
Interest income is recognised in the fund account as it accrues using the effective interest rate of the financial instrument as at the date of acquisition or origination. Income includes the amortisation of any discount premium, transaction costs or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis.
- ii) Dividend income  
Dividend income is recognised on the date the shares are quoted as ex-dividend. Any amount not received by the end of the reporting period is disclosed in the net asset statement as a current financial asset.
- iii) Distributions from pooled funds  
Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the net asset statement as a current financial asset.
- iv) Movement in the net market value of investments  
Changes in the net market value of investments (including investment properties) are recognised as income and comprise all realised and unrealised profits/losses during in the year.

d) Private equity

Distributions and drawdowns from private equity partnerships are accounted for according to guidance from the private equity manager as to the nature of the distribution or drawdown. Income and purchases and sales are recognised at the date the capital call or distribution falls due.

**Fund account – expense items**

e) Benefits payable

Pensions and lump-sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the net asset statement as current liabilities.

f) Taxation

The fund is a registered public service scheme under section 1 (1) of the Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments may be subject to withholding tax in the country of origin. Irrecoverable tax is accounted for as a fund expense as it arises. Tax on income due but unpaid at the 31 March 2019 is reported as a current liability.

g) Management expenses

Administrative expenses

Pension administrative expenses reflect the costs incurred in the payment of pensions and other benefits, the maintenance of member records and provision of scheme and entitlement information. Costs incurred in relation to specific employers are recharged to those individual organisations and therefore excluded from the accounts.

All administration expenses are accounted for on an accruals basis. The relevant staffing costs of the pension administration team are recharged to the fund. Management, accommodation and other overheads are apportioned to the fund in accordance with council policy.

#### Investment management expenses

All investment management expenses are accounted for on an accruals basis. Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under management and therefore increase or reduce as the value of these investments change.

#### Governance expenses

Governance costs reflect those expenses which fall outside the parameters of administrative or investment expenses. All oversight and governance expenses are accounted for on an accruals basis with associated staffing and overhead costs apportioned in accordance with council policy.

### **Net assets statement**

#### h) Financial assets

Investments in Border to Coast Pensions Partnership are valued at transaction price i.e. cost. The pool's main trading company, Border to Coast Pensions Partnership Limited, only became licensed to trade on 1 August 2018 and no reliable trading results or profit forecasts are as yet available. Consequently, the pension fund's view is that the market value of this investment at 31 March 2019 cannot be reasonably assessed and that cost is therefore an appropriate estimate of fair value.

All other financial assets are included in the financial statements on a fair value basis as at the reporting date, with the exception of loans and receivables which are held at amortised cost. A financial asset is recognised in the net assets statement on the date the fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in the fair value of the assets are recognised by the fund.

The values of investments as shown in the net assets statement have been determined as follows:

- i) Market quoted investments  
The value of an investment for which there is a readily available market price is determined by the bid market price ruling on the final day of the accounting period.
- ii) Fixed interest securities  
Fixed interest securities are recorded at net market value based on their current yields.
- iii) Unquoted investments  
The fair value of investments for which market quotations are not readily available is as follows:

- Valuations of delisted securities are based on the last sale price prior to delisting, or where subject to liquidation, the amount the fund expects to receive on wind-up, less estimated realisation cost.
  - Securities subject to takeover offer are valued at the consideration offered, less estimated realisation costs.
  - Directly held investments by limited partnerships, shares in unlisted companies, trusts and bonds. Other unquoted securities typically include pooled investments in property, infrastructure, debt securities and private equity. The valuation of these pools or directly held securities is undertaken by the investment manager or responsible entity and advised as a unit or security price. The valuation standards followed in these valuations adhere to industry guidelines or to standards set by the constituent documents of the pool or management agreement.
- iv) Investments in private equity funds and unquoted listed partnerships are valued based on the fund's share of the net assets in the private equity fund or limited partnership using the latest financial statements published by the respective fund managers in accordance with the guidelines set out by the International Private Equity and Venture Capital Guidelines, which follow the valuation principles of IFRS.
- v) Limited partnerships  
Fair value is based on the net asset value ascertained from periodic valuations provided by those controlling the partnership.
- vi) Pooled investment vehicles  
Pooled investment vehicles are valued at closing bid price if both bid and offer prices are published; or if singularly priced, at the closing single price.
- i) Foreign currency transactions  
Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the spot rate on the date of transaction. End-of-year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at the end of the reporting period.
- j) Derivatives  
The fund uses derivative financial instruments to manage its exposure to specific risks arising from its investment activities. The fund does not hold derivatives for speculation purposes.

Derivative contract assets are fair valued at bid prices and liabilities are fair valued at offer prices. Changes in fair value of derivative contracts are included in the change in market value.

The value of futures contracts is determined using exchange prices at the reporting date. Amounts due from or owed to the broker are the amounts outstanding in respect of the initial margin and variation margin.

The future value of forward currency contracts is based on the market forward exchange rates at the year-end date and determined as the gain or loss that would arise if the outstanding contract were matched at the year end with an equal and opposite contract.

k) Cash and cash equivalents

Cash comprises cash in hand and demand deposits. Cash equivalents are short-term highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal changes in value.

l) Loans and receivables

Financial assets classed as amortised cost are carried in the net asset statement at amortised cost, i.e. the outstanding principal receivable as at the year-end date plus accrued interest.

m) Financial liabilities

The fund recognises financial liabilities at fair value as at the reporting date. A financial liability is recognised in the net asset statement on the date the fund becomes party to the liability. From this date any gains or losses arising from changes in the fair value of the liability are recognised by the fund.

n) Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirement of IAS 19 and relevant actuarial standards.

As permitted under the Code, the fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the net asset statement.

o) Additional voluntary contributions

Surrey Pension Fund provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested separately from those in the pension fund. The fund has appointed Prudential as the AVC provider. A small number of members remain with the previous provider Equitable Life. AVCs are paid to the AVC provider by employers and are specifically for providing additional benefits for individual contributors. Each AVC contributor receives an annual statement showing the amounts held in their account and the movements in the year.

AVCs are not included in the accounts in accordance with Regulation 4(1)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 but are disclosed as a note only (Note 26).

#### **Note 4: Critical judgements in applying accounting policies**

##### **Unquoted private equity investments**

It is important to recognise the highly subjective nature of determining the fair value of private equity investments. They are inherently based on forward looking estimates and judgements involving many factors. Unquoted private equities are valued by the investment managers using the International Private Equity and Venture Capital Guidelines, which follow the valuation principles of IFRS. The value of unquoted private equities at 31 March 2019 was £256 million (£155.8 million at 31 March 2018).

##### **Pension Fund Liability**

The pension fund liability is calculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines and in accordance with IAS 19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in note 25. This estimate is subject to significant variances based on changes to the underlying assumptions.

No allowance has been made for the recent McCloud judgement which relates to age discrimination within the New Judicial Pension Scheme. It is currently unclear how this judgement may affect LGPS members' past or future service benefits. Discussions are ongoing between the governing bodies and the LGPS to understand how this may affect mechanisms within the scheme, however, at the time of producing the report no guidance or indication of the likely impact of this ruling has been provided.

##### **Investment in Border to Coast Pensions Partnership**

This investment has been valued at cost on the basis that fair value as at 31 March 2019 cannot be reliably estimated. Management have made this judgement because:

- Border to Coast Pensions Partnership only became licensed to trade on 1 August 2018
- no dividend to shareholders has as yet been declared
- no published trading results are as yet available which would allow fair value to be calculated on a net asset basis or enable the accuracy of profit and cash flow projections contained in the company's business plan to be assessed with confidence.

#### **Note 5: Assumptions made about the future and other major sources of estimation uncertainty**

The Statement of Accounts contains estimated figures that are based on assumptions made by the council about the future or that are otherwise uncertain. Estimates are made by taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the net assets statement or subsequent notes as at 31 March 2019 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

| <b>Item</b> | <b>Uncertainties</b> | <b>Effect if actual results differ from assumptions</b> |
|-------------|----------------------|---|
|-------------|----------------------|---|

|  |  |  |
|--|--|--|
| <p>Actuarial present value of promised retirement benefits</p> | <p>Estimation of the net liability to pay pension depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the fund with expert advice about the assumptions to be applied.</p> | <p>The net pension liability of the fund would change.</p> <p>a +0.5% increase in Pensions Increase Rate will increase liabilities by £574m</p> <p>a +0.5% increase in Salary Increase Rate will increase liabilities by £87m</p> <p>a +0.5% increase in the Discount Rate will increase liabilities by £674m</p> <p>a 1 year increase in life expectancy would approximately increase the liabilities by around 3-5%.</p> |
| <p>Private equity</p>  | <p>Private equity investments, both limited partnership and fund of funds, are disclosed at fair value, provided by the administrators of the funds. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.</p>  | <p>The total private equity investments in the financial statement are £256 million. There is a risk that this investment may be over or under stated in the accounts.</p>   |
| <p>Fund of fund investments</p>                                | <p>Where investments are made into a fund of fund structure there is an additional level of separation from the fund. There may be a lack of clarity over the classification of the sub funds and investment transactions</p>  | <p>The total private equity fund of fund investments are £99.7 million. There is a risk that asset or investment transaction misclassification may occur.</p>  |

**Note 6: Events after the balance sheet date**

The Statement of Accounts is adjusted to reflect events after the balance sheet date, both favourable and unfavourable, that occur between the end of the reporting date and the date when the Statement of Accounts is authorised for issue that provide evidence of conditions that existed at the end of the reporting period unless deemed insignificant to the true and fair value of the Fund's assets and liabilities. Those events taking place after the date of authorisation for issue will not be reflected in the statement of accounts.

**Note 7: Contributions receivable**

By category

| <b>2017/2018</b> |                                       | <b>2018/2019</b> |
|------------------|---------------------------------------|------------------|
| <b>£0</b>        |                                       | <b>£0</b>        |
| <b>38,121</b>    | <b>Total Employees' Contributions</b> | <b>38,502</b>    |
|                  | Employers' Contributions              |                  |
| 97,181           | Normal Contributions                  | 95,662           |
| 0                | Augmentation Contributions            | 0                |
| 42,981           | Employers deficit                     | 42,612           |
| <b>140,162</b>   | <b>Total Employers' Contributions</b> | <b>138,274</b>   |
| <b>178,283</b>   |                                       | <b>176,776</b>   |

| <b>2017/2018</b> |                         | <b>2018/2019</b> |
|------------------|-------------------------|------------------|
| <b>£000</b>      |                         | <b>£000</b>      |
| 83,861           | Administering authority | 80,839           |
| 86,022           | Scheduled bodies        | 87,698           |
| 8,400            | Admitted bodies         | 8,239            |
| <b>178,283</b>   |                         | <b>176,776</b>   |

The latest actuarial valuation carried out as at 31 March 2016, set contribution rates for fund employers with effect from April 2017. The financial year 2017/2018 is the first year of the revised employer contribution rates.

**Note 8: Transfers in from other pension funds**

| <b>2017/2018</b> |  | <b>2018/2019</b> |
|------------------|--|------------------|
| <b>£000</b>      |  | <b>£000</b>      |
| <b>12,881</b>    | Individual transfers in from other schemes | <b>14,954</b>    |
| <b>12,881</b>    |  | <b>14,954</b>    |

**Note 9: Benefits payable**

By category

| <b>2017/18</b> |  | <b>2018/19</b> |
|----------------|--|----------------|
| <b>£000</b>    |  | <b>£000</b>    |
| 119,064        | Pensions                                     | 126,014        |
| 21,606         | Commutation and lump sum retirement benefits | 19,571         |
| 3,399          | Lump sum death benefits                      | 4,146          |
| 77             | Interest on late payment of benefits         | 101            |
| <b>144,146</b> |  | <b>149,832</b> |

By employer

| <b>2017/2018</b> |                         | <b>2018/2019</b> |
|------------------|-------------------------|------------------|
| <b>£000</b>      |                         | <b>£000</b>      |
| 69,429           | Administering Authority | 70,690           |
| 63,619           | Scheduled Bodies        | 67,001           |
| 11,098           | Admitted Bodies         | 12,141           |
| <b>144,146</b>   |                         | <b>149,832</b>   |

**Note 10: Payments to and on account of leavers**

| <b>2017/2018</b> |  | <b>2018/2019</b> |
|------------------|--|------------------|
| <b>£000</b>      |  | <b>£000</b>      |
| 9,257            | Group transfers to other schemes           | 10,732           |
| 283              | Refunds of contributions                   | 217              |
| -13              | Payments for members joining state schemes | -3               |
| <b>9,527</b>     |  | <b>10,946</b>    |

## Note 11: Current assets

| 2017/2018     |                           | 2018/2019     |
|---------------|---------------------------|---------------|
| £000          |                           | £000          |
| 3,215         | Contributions - employees | 2,391         |
| 9,838         | Contributions - employer  | 10,847        |
| 16,808        | Sundry debtors            | 17,397        |
| <u>29,861</u> |                           | <u>30,635</u> |

### Analysis of current assets

| 2017/2018     |                                | 2018/2019     |
|---------------|--------------------------------|---------------|
| £000          |                                | £000          |
| 5,612         | Central government bodies      | 2,535         |
| 19,122        | Other local authorities        | 23,435        |
| 5,128         | Other entities and individuals | 4,665         |
| <u>29,861</u> |                                | <u>30,635</u> |

## Note 12: Long term debtors

| 2017/2018    |                           | 2018/2019    |
|--------------|---------------------------|--------------|
| £000         |                           | £000         |
| 7,260        | Central government bodies | 5,450        |
| <u>7,260</u> |                           | <u>5,450</u> |

On 1 April 2005 the Magistrates Court Service (an employer in the Surrey Pension Fund) became part of the Civil Service. Terms were agreed for the transfer of liabilities from the Local Government Pension Scheme (LGPS) to the Principal Civil Service Pension Scheme (PCSPS). The fund's actuary determined the value of the pensioner and deferred liabilities remaining with the fund and calculated the retained assets to match these liabilities. The actuary determined that the assets were insufficient to match the liabilities and that a balancing payment would be required.

On 11 March 2013 the total value of the shortfall was agreed as £18.150m, to be made in ten equal, annual instalments commencing on 15 April 2013. The full amount was recognised as contributions during 2012/13. A corresponding debtor was created. The first instalment of £1.815m was received on 26 March 2013 meaning that the remaining nine instalments were due in excess of one year from the 31 March 2013, the whole of the remaining balance was therefore included as a long term debtor in the accounts. The outstanding balance as at 31 March 2019 is £7.260m but £1.815m was due in 2018/19, leaving a long term debtor of £5.450m.

### Note 13: Current liabilities

| <b>2017/2018</b> |                  | <b>2018/2019</b> |
|------------------|------------------|------------------|
| <b>£000</b>      |                  | <b>£000</b>      |
| 11,094           | Sundry creditors | 8,885            |
| 202              | Benefits payable | 269              |
| <b>11,296</b>    |                  | <b>9,154</b>     |

#### Analysis of current liabilities

| <b>2017/2018</b> |                                | <b>2018/2019</b> |
|------------------|--------------------------------|------------------|
| <b>£000</b>      |                                | <b>£000</b>      |
| 1,418            | Central government bodies      | 1,345            |
| 6,254            | Other local authorities        | 4,424            |
| 3,624            | Other entities and individuals | 3,385            |
| <b>11,296</b>    |                                | <b>9,154</b>     |

### Note 14: Investment and governance expenses

| <b>2017/2018</b> |                                | <b>2018/2019</b> |
|------------------|--------------------------------|------------------|
| <b>£000</b>      |                                | <b>£000</b>      |
| 11,262           | Investment management fees     | 10,256           |
| 239              | Investment custody fees        | 171              |
| 721              | Oversight and governance costs | 3,214            |
| <b>12,222</b>    |                                | <b>13,641</b>    |

The investment management fees includes £569k in respect of transaction costs (2017/18: £1.1million).

As part of its oversight and governance costs in 2018/19, the fund had also spent £2m in respect of pooling costs as part of Surrey Pension Fund's transition into the Border to Coast Pensions Partnership (BCPP)

**Note 15: External Audit Costs**

| <b>2017/2018</b> |                                      | <b>2018/2019</b> |
|------------------|--------------------------------------|------------------|
| <b>£000</b>      |                                      | <b>£000</b>      |
| <u>31</u>        | Payable in respect of external audit | <u>21</u>        |
| <b>31</b>        |                                      | <b>21</b>        |

**Note 16: Investment income**

| <b>2017/2018</b>     |                           | <b>2018/2019</b>     |
|----------------------|---------------------------|----------------------|
| <b>£000</b>          |                           | <b>£000</b>          |
|                      | <b>Bonds</b>              |                      |
| <b>3,667</b>         | UK                        | <b>0</b>             |
| <b>7,468</b>         | Overseas                  | <b>5,491</b>         |
|                      | <b>Equities</b>           |                      |
| <b>24,959</b>        | UK                        | <b>23,526</b>        |
| <b>11,260</b>        | Overseas                  | <b>13,733</b>        |
| <b>9,062</b>         | Property unit trusts      | <b>11,101</b>        |
| <b>1,052</b>         | Diversified growth        | <b>1,693</b>         |
| <b>2,315</b>         | Private equity            | <b>2,821</b>         |
| <b>4,807</b>         | Interest on cash deposits | <b>519</b>           |
| <b>1,161</b>         | Other                     | <b>171</b>           |
| <u><b>65,751</b></u> |                           | <u><b>59,055</b></u> |

**Note 17a: Reconciliation of movements in investments and derivatives**

|                              | <b>Market value at 31 Mar 2018</b> | <b>Reclassified Asset</b> | <b>Purchases during the year and derivative payments</b> | <b>Sales during the year and derivative receipts</b> | <b>Market movements</b> | <b>Market value at 31 Mar 2019</b> |
|------------------------------|------------------------------------|---------------------------|--|--|-------------------------|------------------------------------|
|                              | <b>£000</b>                        | <b>£000</b>               | <b>£000</b>  | <b>£000</b>  | <b>£000</b>             | <b>£000</b>                        |
| Bonds                        | <b>601,208</b>                     |                           | 100,492  | 0  | 4,829                   | <b>706,529</b>                     |
| Equities                     | <b>2,413,734</b>                   |                           | 4,008,340  | -4,070,705   | 138,437                 | <b>2,489,806</b>                   |
| Property unit trusts         | <b>321,737</b>                     | -60,000                   | 81,225   | -65,569  | 5,847                   | <b>283,240</b>                     |
| Diversified growth           | <b>394,288</b>                     |                           | 12,111   | 0  | -3,810                  | <b>402,589</b>                     |
| Private equity               | <b>155,782</b>                     | 60,000                    | 80,374   | -91,286  | 51,094                  | <b>255,964</b>                     |
| Derivatives                  |                                    |                           |  |  |                         |                                    |
| - Futures                    |                                    |                           |  |  |                         |                                    |
| - Forex contracts            | <b>1,326</b>                       |                           | 66,507   | -37,130  | -30,826                 | <b>-123</b>                        |
|                              | <b>3,888,075</b>                   | <b>0</b>                  | <b>4,349,049</b>   | <b>-4,264,690</b>                                    | <b>165,571</b>          | <b>4,138,005</b>                   |
| Cash                         | <b>80,636</b>                      |                           |  |  |                         | <b>150,680</b>                     |
| Other Short Term Investments | <b>60,000</b>                      |                           |  |  |                         |                                    |
| Other investment balances    | <b>1,347</b>                       |                           |  |  |                         | <b>-38</b>                         |
|                              | <b>4,030,058</b>                   |                           |  |  | <b>20,372</b>           | <b>4,288,647</b>                   |

Having taken advice from its fund manager, the Fund had chosen to reclassify its two Darwin assets from Property Funds to Private Equity in 2018/19.

|                              | Market<br>value at<br>31 Mar<br>2017 | Purchases<br>during the<br>year and<br>derivative<br>payments | Sales<br>during<br>the year<br>and<br>derivative<br>receipts | Market<br>movements | Market<br>value at<br>31 Mar<br>2018 |
|------------------------------|--------------------------------------|---|--|---------------------|--------------------------------------|
|                              | £000                                 | £000  | £000   | £000                | £000                                 |
| Bonds                        | 583,327                              | 304,323   | -283,524   | -2,918              | 601,208                              |
| Equities                     | 2,288,136                            | 1,938,482   | -1,845,436   | 32,552              | 2,413,734                            |
| Property unit trusts         | 275,367                              | 88,284  | -54,202  | 12,288              | 321,737                              |
| Diversified growth           | 390,257                              | 2,327   | 0  | 1,704               | 394,288                              |
| Private equity               | 145,228                              | 53,184  | -50,680  | 8,050               | 155,782                              |
| Derivatives                  |                                      |   |  |                     |                                      |
| - Futures                    |                                      | 311   | -406   | 95                  |                                      |
| - Forex contracts            | -45                                  | 28,423  | -68,141  | 41,089              | 1,326                                |
|                              | <b>3,682,270</b>                     | <b>2,415,334</b>  | <b>-2,302,389</b>  | <b>92,860</b>       | <b>3,888,075</b>                     |
| Cash                         | 117,498                              |   |  |                     | 80,636                               |
| Other Short Term Investments | 42,000                               |   |  |                     | 60,000                               |
| Other investment balances    | 3,344                                |   |  |                     | 1,347                                |
|                              |                                      |   |  | <b>5,802</b>        |                                      |
|                              | <b>3,845,112</b>                     |   |  | <b>98,662</b>       | <b>4,030,058</b>                     |

## Note 17b: Analysis of investments

|   | 31 Mar 2018      | 31 Mar 2019      |           |
|---|------------------|------------------|-----------|
|   | £000s            | £000s            |           |
| <b>Fixed interest securities</b>        |                  |                  |           |
| UK public sector & quoted               | 205,115          | 211,246          | Level 2   |
| Overseas pooled fund                    | 396,093          | 495,283          | Level 1   |
|   | <b>601,208</b>   | <b>706,529</b>   |           |
| <b>Equities</b>                         |                  |                  |           |
| UK quoted                               | 605,423          | 219,113          | Level 1   |
| UK pooled funds                         | 418,042          | 492,713          | Level 1   |
| Overseas quoted                         | 320,896          | 309,803          | Level 1   |
| Overseas pooled funds                   | 1,069,373        | 1,468,177        | Level 1/2 |
|   | <b>2,413,734</b> | <b>2,489,806</b> |           |
| <b>Property unit trusts</b>             |                  |                  |           |
| UK property funds                       | 279,879          | 206,301          | Level 2/3 |
| Overseas property funds                 | 41,858           | 76,939           | Level 2/3 |
|   | <b>321,737</b>   | <b>283,240</b>   |           |
| <b>Diversified growth</b>               |                  |                  |           |
| Overseas diversified growth funds       | 394,288          | 402,589          | Level 1   |
|   | <b>394,288</b>   | <b>402,589</b>   |           |
| <b>Private equity</b>                   |                  |                  |           |
| UK limited partnerships                 | 22,717           | 104,877          | Level 3   |
| Overseas limited partnerships           | 41,411           | 51,366           | Level 3   |
| Overseas fund of funds                  | 91,654           | 99,721           | Level 3   |
|   | <b>155,782</b>   | <b>255,964</b>   |           |
| <b>Derivatives</b>                      |                  |                  |           |
| FX forward contracts                    | 1,326            | -123             | Level 2   |
|   | <b>1,326</b>     | <b>-123</b>      |           |
| <b>Cash deposits</b>                    | <b>80,636</b>    | <b>150,680</b>   | Level 1   |
| <b>Other short term investments</b>     | <b>60,000</b>    | <b>0</b>         |           |
| <b>Other investment balances</b>        |                  |                  |           |
| Outstanding sales                       | 357              | 1,137            | Level 2   |
| Outstanding purchases                   | -3,393           | -3,444           | Level 2   |
| Accrued income - dividends and interest | 4,383            | 2,269            | Level 2   |
|   | <b>1,347</b>     | <b>-38</b>       |           |
| <b>Total investments</b>                | <b>4,030,058</b> | <b>4,288,647</b> |           |

## Note 17c: Analysis of derivatives

### Futures

Futures contracts are exchange traded contracts to buy or sell a standard quantity of a specific asset at a pre-determined future date. As at 31 March 2019 the fund had no future contracts in place. At 31 March 2018 the fund had no future contracts in place

### Forward currency contracts

Forward foreign exchange contracts are over the counter contracts whereby two parties agree to exchange two currencies on a specified future date at an agreed rate of exchange. At 31 March 2019 the Fund had forward currency contracts in place with a net unrealised loss of -£123k (net unrealised gain of £1,327k at 31 March 2018).

| 2018/19         |              | Contract settlement date within |      | Currency     |            | Notional amount (local currency) |               | Asset | Liability |
|-----------------|--------------|---------------------------------|------|--------------|------------|----------------------------------|---------------|-------|-----------|
| No of contracts |              | Bought                          | Sold | Bought (000) | Sold (000) | £'000                            | £'000         |       |           |
| 1               | One Month    | GBP                             | JPY  | 143          | -20,803    | 0                                |               |       | -1        |
| 2               | One Month    | JPY                             | GBP  | 99,626       | -685       | 6                                |               |       | 0         |
| 3               | Three Months | GBP                             | JPY  | 77,360       | -11,150    | 0                                |               |       | -78       |
| 3               | Three Months | GBP                             | EUR  | 149,652      | -171,767   | 1,323                            |               |       | 0         |
| 7               | Three Months | GBP                             | USD  | 442,232      | 579,813    | 0                                |               |       | -1,373    |
|                 |              |                                 |      |              |            | <b>1,329</b>                     | <b>-1,452</b> |       |           |
| <hr/>           |              |                                 |      |              |            |                                  |               |       |           |
| 2017/18         |              | Contract settlement date within |      | Currency     |            | Notional amount (local currency) |               | Asset | Liability |
| No of contracts |              | Bought                          | Sold | Bought (000) | Sold (000) | £'000                            | £'000         |       |           |
| 1               | One Month    | GBP                             | JPY  | 137          | -20,650    | 0                                |               |       | 0         |
| 5               | Two Months   | GBP                             | EUR  | 118,450      | -134,064   | 702                              |               |       | 0         |
| 5               | Two Months   | GBP                             | JPY  | 66,837       | -9,954,387 | 19                               |               |       | 0         |
| 8               | Two Months   | GBP                             | USD  | 374,615      | -525,891   | 606                              |               |       | 0         |
|                 |              |                                 |      |              |            | <b>1,327</b>                     | <b>0</b>      |       |           |

### Stock Lending

Stock lending is the act of loaning a stock, derivative or other security to an investor or firm. During the financial year 2018/19 the fund operated a stock lending programme in partnership with the fund custodian. As at 29 March 2019 (the last working day) the value of quoted securities on loan was £53.8 million in exchange for collateral held by the fund custodian at fair value of £57.9 million

### Note 17d: Investments analysed by fund manager

Following on from Central Government's proposal for Local Authorities to pool their pension assets into regional asset pools, Border to Coast Pensions Partnership (BCPP) was established in 2018, of which Surrey is a partner fund. Surrey Pension Fund had transitioned its first asset into the BCPP UK Equity Alpha Fund in November 2018, and will continue to transition more of its active assets over the coming years.

Investments managed within Border to Coast Pensions Partnership Ltd;

| Market value<br>31 March 2018 |     | Manager                         | Market value<br>31 March 2019 |      |
|-------------------------------|-----|---------------------------------|-------------------------------|------|
| £000                          | %   |                                 | £000                          | %    |
| 0                             | 0.0 | Border to Coast UK Equity Alpha | 464,200                       | 11.1 |
| <b>0</b>                      |     |                                 | <b>464,200</b>                |      |

Investments managed outside of Border to Coast Pensions Partnership Ltd;

| £000             | %    |  | £000             | %    |
|------------------|------|--|------------------|------|
| 1,151,591        | 28.6 | Legal & General Investment Management (LGIM) | 1,190,723        | 28.3 |
| 373,811          | 9.3  | Majedie Asset Management                     | 243,621          | 5.8  |
| 311,993          | 7.7  | UBS Asset Management                         | 0                | 0    |
| 498,553          | 12.4 | Marathon Asset Management                    | 505,222          | 12.0 |
| 317,106          | 7.9  | Newton Investment Management                 | 333,760          | 7.9  |
| 322,509          | 8.0  | Western Multi Asset Credit                   | 422,967          | 10.1 |
| 73,663           | 1.8  | Franklin Templeton Investments               | 72,316           | 1.7  |
| 150,596          | 3.7  | Baillie Gifford Life Limited                 | 161,151          | 3.8  |
| 260,170          | 6.5  | CBRE Global Multi-Manager                    | 287,636          | 6.8  |
| 122,576          | 3.0  | Ruffer                                       | 121,748          | 2.9  |
| 121,117          | 3.0  | Aviva  | 119,691          | 2.8  |
| <b>3,703,685</b> |      |  | <b>3,458,835</b> |      |
| <b>3,703,685</b> |      |  | <b>3,923,035</b> |      |

The table above excludes the private equity portfolio as well as internal cash held within the Fund.

The following investments represent more than 5% of the net assets of the fund

| Market value 31<br>March 2018 |      | Security                          | Market value 31<br>March 2019 |      |
|-------------------------------|------|-----------------------------------|-------------------------------|------|
| £000                          | %    |                                   | £000                          | %    |
| 494,553                       | 12.2 | Marathon Global Contractual Fund  | 501,089                       | 11.6 |
| 114,467                       | 2.8  | LGIM - TLCV Bespoke (34048)       | 492,637                       | 11.4 |
| 0                             | 0    | Border to Coast UK Equity Alpha   | 464,200                       | 10.8 |
| 322,431                       | 8.0  | Western Multi-Asset Credit EUR AC | 422,967                       | 9.8  |
| 0                             | 0    | LGIM – MSCI World Low Carbon      | 352,109                       | 8.2  |
| 0                             | 0    | LGIM – Rafi Multi Factor          | 345,977                       | 8.0  |
| 496,453                       | 12.2 | LGIM World Developed Equity Index | 0                             | 0    |
| 376,553                       | 9.3  | Legal & General UK Equity Index   | 0                             | 0    |
| <b>1,804,457</b>              |      |                                   | <b>2,578,979</b>              |      |

## Note 18: Fair Value – Basis of Valuation

The basis of the valuation of each class of investment asset is set out below. There has been no change in the valuation techniques used during the year. All assets have been valued using fair value techniques which represent the highest and best price available at the reporting date.

| <b>Description of Asset</b>                                  | <b>Valuation Hierachy</b> | <b>Basis of Valuation</b>   | <b>Observable and unobservable inputs</b>                   | <b>Key sensitivities affecting the valuations provided</b>   |
|--|---------------------------|---|---|--|
| Market quoted investments                                    | Level 1                   | Published bid market price ruling on the final day of the accounting period                                   | Not required  | Not required   |
| Quoted bonds   | Level 1                   | Fixed interest securities are valued at a market value based on current yields                                | Not required  | Not required   |
| Futures and Options in UK Bonds                              | Level 1                   | Published exchange prices at the year-end   | Not required  | Not required   |
| Exchange Traded Pooled Investments                           | Level 1                   | Closing bid value on published exchanges  | Not required  | Not required   |
| Unquoted Bonds   | Level 2                   | Average of broker prices  | Evaluated price feeds                                       | Not required   |
| Forward Foreign Exchange Derivatives                         | Level 2                   | Market forward exchange rates at the year-end   | Exchange rate risk  | Not required   |
| Overseas bond options  | Level 2                   | Option pricing model  | Annualised volatility of counterparty credit risk           | Not required   |
| Pooled Investments - overseas unit trusts and property funds | Level 2                   | Closing bid price where bid and offer prices are published. Closing single price where single price published | NAV-based pricing set on a forward                          | Not required   |
| Pooled Investments - Hedge funds                             | Level 3                   | Closing bid price where bid and offer prices are published. Closing single price where single price published | NAV-based pricing set on a forward                          | Valuations could be affected by material events occurring between the date of the financial statements provided and the pension fund's reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts |
| Unquoted Equities  | Level 3                   | Comparable valuation  | EBITDA multiple<br>Revenue multiple<br>Discount for lack of | Valuations could be affected by material events occurring between  |

|  |   |                               |  |
|--|---|-------------------------------|--|
|  | of similar companies in accordance with <i>International Private Equity and Venture Capital Valuation Guidelines</i> (2012) | marketability Control premium | the date of the financial statements provided and the pension fund's own reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts |
|--|---|-------------------------------|--|

### Note 18a: Sensitivity of assets valued at level 3

Having analysed historical data and current market trends, and consulted with independent investment advisors, the fund has determined that the valuation methods described above are likely to be accurate to within the following ranges, and has set out below the consequent potential impact on the closing value of investments held at 31 March 2019.

|                | <b>Assessed<br/>Valuation Range<br/>(+/-)<br/>%</b> | <b>Value at 31<br/>March 2019<br/>£000</b> | <b>Value on<br/>Increase<br/>£000</b> | <b>Value on<br/>Decrease<br/>£000</b> |
|----------------|---|--|---------------------------------------|---------------------------------------|
| Private Equity | 10%   | 255,964                                    | 281,560                               | 230,368                               |
| Property funds | 10%   | 142,704                                    | 156,974                               | 128,433                               |
| <b>Total</b>   |   | <b>398,668</b>                             | <b>438,434</b>                        | <b>358,801</b>                        |

a) All movements in the assessed valuation range derive from changes to the value of the financial instrument being hedged against.

b) The potential movement of 10% represents a combination of the following factors, which could all move independently in different directions:

- Rental increases +/- 4%
- Vacancy levels +/- 2%
- Market prices +/- 3%
- Discount rates +/-1%

c) All movements in the assessed valuation range derive from changes in the underlying profitability of component companies, the range in the potential movement of 15% is caused by how this profitability is measured since different methods (listed in the first table of Note 16 above) produce different price results



|                  |                |  |                  |                |
|------------------|----------------|--|------------------|----------------|
| -1               |                | Derivatives                            | -1,452           |                |
| -3,393           |                | Other investment<br>balances           | -3,445           |                |
|                  | -11,296        | Creditors<br>Borrowings                |                  | -9,154         |
| <b>-3,394</b>    | <b>-11,296</b> | <b>Total financial<br/>liabilities</b> | <b>-4,897</b>    | <b>-9,154</b>  |
| <b>3,889,422</b> | <b>177,757</b> |  | <b>4,137,967</b> | <b>186,765</b> |
|                  |                |  |                  | <b>-9,154</b>  |

**Note 18d: Net gains and losses on financial instruments**

| 31 March 2018 |  | 31 March 2019  |
|---------------|--|----------------|
| £000          |  | £000           |
|               | <b>Financial Assets</b>                          |                |
| 92,860        | Designated at Fair Value through profit and loss | 196,397        |
| 5,802         | Loans and Receivables                            | 20,210         |
|               | <b>Financial Liabilities</b>                     |                |
| 0             | Fair Value through profit and loss               | -30,826        |
| 0             | Financial liabilities at amortised cost          |                |
| <b>98,662</b> | <b>Total</b>                                     | <b>185,781</b> |

**Note 18e: Fair Value Hierarchy**

| 31 March 2019                       | Quoted<br>market<br>price<br>Level 1<br>£000 | Using<br>observable<br>inputs<br>Level 2<br>£000 | With<br>significant<br>unobservable<br>inputs<br>Level 3<br>£000 | Total<br>£000    |
|-------------------------------------|--|--|--|------------------|
| Financial assets at Fair Value      | 2,420,590                                    | 1,332,588  | 398,668  | 4,151,846        |
| Loans and Receivables               | 52,520                                       | 1,230  | 0  | 53,750           |
| Financial Liabilities at Fair Value | 0  | -4,897   | 0  | -4,897           |
| <b>Net financial assets</b>         | <b>2,473,110</b>                             | <b>1,328,921</b>                                 | <b>398,668</b>   | <b>4,200,699</b> |

As per the advice of Legal & General Investment Management (LGIM), The Fund had chosen to reclassify its passive assets held as at 31 March 2019, from Level 1 to Level 2 investments. The value of the Fund's passive assets as at 31 March 2019 was £1.191bn, which had all been reclassified as Level 2.

| 31 March 2018 | Quoted<br>market<br>price | Using<br>observable<br>inputs | With<br>significant<br>unobservable<br>inputs | Total |
|---------------|---------------------------|-------------------------------|---|-------|
|---------------|---------------------------|-------------------------------|---|-------|

|                                     | <b>Level 1</b>   | <b>Level 2</b> | <b>Level 3</b> |                  |
|-------------------------------------|------------------|----------------|----------------|------------------|
|                                     | £000             | £000           | £000           | £000             |
| Financial assets at Fair Value      | 3,462,847        | 206,021        | 223,545        | 3,892,413        |
| Loans and Receivables               | 48,061           | 3,367          | 0              | 51,428           |
| Financial Liabilities at Fair Value | 0                | -3,393         | 0              | -3,393           |
| <b>Net financial assets</b>         | <b>3,510,908</b> | <b>205,995</b> | <b>223,545</b> | <b>3,940,448</b> |

#### **Note 18f: Book cost**

The book cost of all investments at 31 March 2019 is £3,164million (£3,055million at 31 March 2018).

#### **Note 19: Outstanding commitments**

At 31 March 2019 the Fund held part paid investments on which the liability for future calls amounted to £195.1million (£127million as at 31 March 2018)

#### **Note 20: Nature and extent of risks arising from financial instruments**

##### **Risk and risk management**

The fund's primary long-term risk is that the fund's assets will fall short of its liabilities (ie promised benefits to members). Therefore the aim of investment risk management is to minimise the risk of an overall reduction in the value of the fund and to maximise the opportunity for gain across the whole portfolio. The fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the fund manages its liquidity risk to ensure there is sufficient liquidity to meet the fund's forecast cash flows. The council manages these investment risks as part of its overall pension fund risk management programme.

Responsibility for the fund's risk management strategy rests with the Pension Fund. Risk management policies are established to identify and analyse the risks faced by the council's pensions operations. Policies are reviewed regularly to reflect changes in activity and in market conditions.

##### **a) Market risk**

Market risk is the risk of loss from fluctuations in equity prices, interest and foreign exchange rates and credit spreads. The fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price, yield and the asset mix.

To mitigate market risk, the pension fund is invested in a diverse pool of assets to ensure a reasonable balance between different asset categories, having taken external professional advice as necessary. The management of the assets is split between a number of investment fund managers with different benchmark performance targets and investment strategies. Managers are expected to maintain a diverse portfolio and each manager has investment guidelines in place that specify the manager's investment powers and

restrictions. Managers are required to report on any temporary breaches of their investment powers and are required to take corrective action as soon as is practicable.

### Other price risk

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market.

The fund is exposed to share and derivative price risk. This arises from investments held by the fund for which the future price is uncertain. All securities investments present a risk of loss of capital. The maximum risk resulting from a financial instrument is determined by the fair value of the instrument.

By diversifying investments across asset classes and managers, the fund aims to reduce the exposure to price risk. Statutory limits prescribed by Regulations are also in place to avoid concentration of risk in specific areas.

### Other price risk – Sensitivity Analysis

PIRC Ltd has provided the fund with an analysis of historical asset class returns to determine potential movements in the market price risk of investments during 2018/19 reporting period. The potential volatilities are consistent with a one standard deviation movement in the change in value of the assets over the latest three years.

| Asset type                      | Value at 31<br>March 2019<br>£000 | Change | Value on<br>increase<br>£000 | Value on<br>decrease<br>£000 |
|---------------------------------|-----------------------------------|--------|------------------------------|------------------------------|
| UK equities                     | 711,826                           | 9.90%  | 782,308                      | 641,344                      |
| Overseas equities               | 1,777,980                         | 9.28%  | 1,942,938                    | 1,613,022                    |
| Bonds                           | 495,283                           | 4.06%  | 515,368                      | 475,198                      |
| Index-linked                    | 211,246                           | 9.81%  | 231,966                      | 190,526                      |
| Cash                            | 150,680                           | 0.50%  | 151,433                      | 149,927                      |
| Other short term<br>investments | 0                                 | 0.50%  | 0                            | 0                            |
| Property                        | 283,240                           | 4.33%  | 295,504                      | 270,976                      |
| Alternatives                    | 255,964                           | 6.01%  | 271,348                      | 240,580                      |
| Diversified growth<br>fund      | 402,589                           | 4.14%  | 419,244                      | 385,934                      |
| Other assets                    | -161                              | 0.50%  | -162                         | -160                         |

|                                |           |       |           |           |
|--------------------------------|-----------|-------|-----------|-----------|
| <b>Total Investment Assets</b> | 4,288,647 | 4.60% | 4,485,771 | 4,091,523 |
|--------------------------------|-----------|-------|-----------|-----------|

| <b>Asset type</b>              | <b>Value at 31 March 2018<br/>£000</b> | <b>Change</b> | <b>Value on increase<br/>£000</b> | <b>Value on decrease<br/>£000</b> |
|--------------------------------|--|---------------|-----------------------------------|-----------------------------------|
| UK equities                    | 1,023,466                              | 9.35%         | 1,119,188                         | 927,744                           |
| Overseas equities              | 1,390,269                              | 9.54%         | 1,522,927                         | 1,257,611                         |
| Bonds                          | 396,093                                | 4.38%         | 413,439                           | 378,747                           |
| Index-linked                   | 205,115                                | 10.00%        | 225,627                           | 184,604                           |
| Cash                           | 80,636                                 | 0.03%         | 80,663                            | 80,609                            |
| Other short term investments   | 60,000                                 | 0.03%         | 60,020                            | 59,980                            |
| Property                       | 321,737                                | 3.46%         | 332,866                           | 310,608                           |
| Alternatives                   | 155,782                                | 6.61%         | 166,079                           | 145,485                           |
| Diversified growth fund        | 394,288                                | 3.74%         | 409,037                           | 379,539                           |
| Other assets                   | 2,625                                  | 0.03%         | 2,626                             | 2,624                             |
| <b>Total Investment Assets</b> | <b>4,030,011</b>                       | <b>6.01%</b>  | <b>4,272,248</b>                  | <b>3,787,774</b>                  |

(1) The percentage change for total investment assets includes the impact of correlation across asset classes. Therefore the impact upon total assets will not tally to the sum of each asset class' individual value on increase/decrease.

### **Interest rate risk**

The fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The fund is predominantly exposed to interest rate risk through its holdings in bonds. Western Asset Management, the Fund's appointed active bond manager, manages this risk. The fund also invests in pooled bond funds managed by Legal & General and Franklin Templeton.

The fund's direct exposure to interest rate movements as at 31 March 2019 and 31 March 2018 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

| <b>As at 31<br/>March 2018<br/>£000</b> |                              | <b>As at 31<br/>March 2019<br/>£000</b> |
|---|------------------------------|---|
| 80,636                                  | Cash & cash equivalents      | 150,680                                 |
| 60,000                                  | Other short term investments | 0                                       |
| <u>396,093</u>                          | Fixed interest securities    | <u>495,283</u>                          |
| <b><u>536,729</u></b>                   | <b>Total</b>                 | <b><u>645,963</u></b>                   |

### Interest rate risk sensitivity analysis

The council recognises that interest rates can vary and can affect both income to the fund and the value of the net assets available to pay benefits. Long term average interest rates are not particularly volatile from one year to the next so a potential move in interest rates of 100 basis points is deemed reasonable.

The analysis below assumes all other variables remain constant and shows the effect in the year on the net assets of a +/- 100 basis point change in interest rates.

| <b>Asset type</b>            | <b>Carrying<br/>amount<br/>as at 31<br/>March<br/>2019<br/>£000</b> | <b>Change in net assets</b> |                           |
|------------------------------|---|-----------------------------|---------------------------|
|                              |   | <b>+100 bps<br/>£000</b>    | <b>- 100 bps<br/>£000</b> |
| Cash & cash equivalents      | 150,680   | 1,507                       | -1,507                    |
| Other short term investments | 0   | 0                           | 0                         |
| Fixed interest securities    | 495,283   | 4,953                       | -4,953                    |
| <b>Total</b>                 | <b><u>645,963</u></b>   | <b><u>6,460</u></b>         | <b><u>-6,460</u></b>      |

| <b>Asset type</b>            | <b>Carrying<br/>amount<br/>as at 31<br/>March<br/>2018<br/>£000</b> | <b>Change in net assets</b> |                           |
|------------------------------|---|-----------------------------|---------------------------|
|                              |   | <b>+100 bps<br/>£000</b>    | <b>- 100 bps<br/>£000</b> |
| Cash & cash equivalents      | 80,636  | 806                         | -806                      |
| Other short term investments | 60,000  | 600                         | -600                      |
| Fixed interest securities    | 396,093   | 3,961                       | -3,961                    |
| <b>Total</b>                 | <b><u>536,729</u></b>   | <b><u>5,367</u></b>         | <b><u>-5,367</u></b>      |

An adjustment has been made for the 2018 Interest rate sensitivity analysis to show the monetary changes as 100bps as opposed to 10bps

### Currency risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The fund is exposed to currency risk on financial instruments that are

denominated in any currency other than sterling. The fund holds monetary and non-monetary assets denominated in currencies other than sterling.

The fund therefore has a policy to passively hedge up to 50% of the equity exposure to US Dollar, Yen and the Euro. Legal and General Investment Management manages this currency hedge. Individual fund managers may also use derivatives if permitted by their investment management agreements. Furthermore, fund managers will take account of currency risk in their investment decisions.

#### **Currency risk – sensitivity analysis**

PIRC Ltd has provided the fund with an analysis of historical exchange rate movements to determine potential changes in the fair value of assets during the 2018/19 reporting period due to exchange rate movements.

The analysis assumes all other variables remain constant.

| <b>Asset type</b>              | <b>Value at 31<br/>March 2019<br/>£000</b> | <b>%<br/>Change</b> | <b>Value on<br/>increase<br/>£000</b> | <b>Value on<br/>decrease<br/>£000</b> |
|--------------------------------|--|---------------------|---------------------------------------|---------------------------------------|
| Equities                       | 1,479,276                                  | 11.54%              | 1,649,999                             | 1,308,553                             |
| Fixed interest                 | 495,283                                    | 11.54%              | 552,443                               | 438,123                               |
| Property and Private<br>Equity | 228,026                                    | 11.54%              | 254,342                               | 201,710                               |
| Diversified Growth             | 402,589                                    | 11.54%              | 449,052                               | 356,126                               |
| Cash and Other Assets          | 14,026                                     | 11.54%              | 15,645                                | 12,407                                |
| <b>Total</b>                   | <b>2,619,200</b>                           | <b>11.54%</b>       | <b>2,921,481</b>                      | <b>2,316,919</b>                      |

| <b>Asset type</b>              | <b>Value at 31<br/>March 2018<br/>£000</b> | <b>%<br/>Change</b> | <b>Value on<br/>increase<br/>£000</b> | <b>Value on<br/>decrease<br/>£000</b> |
|--------------------------------|--|---------------------|---------------------------------------|---------------------------------------|
| Equities                       | 877,881                                    | 4.93%               | 921,173                               | 834,589                               |
| Fixed interest                 | 396,093                                    | 4.93%               | 415,626                               | 376,560                               |
| Property and Private<br>Equity | 174,923                                    | 4.93%               | 183,549                               | 166,297                               |
| Diversified Growth             | 394,288                                    | 4.93%               | 413,732                               | 374,844                               |
| Cash and Other Assets          | 7,397                                      | 4.93%               | 7,762                                 | 7,032                                 |
| <b>Total</b>                   | <b>1,850,582</b>                           | <b>4.93%</b>        | <b>1,941,842</b>                      | <b>1,759,322</b>                      |

#### **b) Credit risk**

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the fund to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the fund's financial assets and liabilities.

In essence the fund's entire investment portfolio is exposed to some form of credit risk, with the exception of the derivative positions, where the risk equates to the net market value of a positive derivative position. However, the selection of high quality counterparties, brokers and financial institutions minimises the credit risk that may occur through the failure to settle a transaction in a timely manner.

Contractual credit risk is represented by the net payment or receipt that remains outstanding, and the cost of replacing the derivative position in the event of a counterparty default. The residual risk is minimal due to the various insurance policies held by exchanges to cover defaulting counterparties.

The fund's cash balance is lent to borrowers in accordance with the county council's treasury management strategy. There are rigorous procedures in place to manage the security of all cash deposits, including criteria for the quality of counterparties and limits on the amount that can be placed with any one of those counterparties. The council operates a lowest common denominator approach to counterparty management which means that available counterparties must meet the minimum credit rating criteria with all three ratings agencies.

The fund held no fixed term deposits with other Local Authorities as at 31 March 2019.

| <b>Fixed Term Deposits</b>          | <b>No. of days</b> | <b>Balance at 31<br/>March 2019<br/>£000</b> |
|-------------------------------------|--------------------|--|
| <b>Other short term investments</b> |                    | <b>0</b>                                     |

The fund holds a separate bank account with HSBC, which holds AA long term credit ratings (or equivalent) with all three credit rating agencies (Fitch, Moody's, Standard and Poor's).

The fund has a call account with Natwest Bank and Lloyds Bank, an account with a money market fund, managed by Goldman Sachs Asset management and a term deposit placed with Nationwide Building society. In line with the treasury strategy, the maximum deposit level allowed with each counterparty is £25 million.

| <b>Balance at 31<br/>March 2018<br/>£000</b> |                                | <b>Balance at 31<br/>March 2019<br/>£000</b> |
|--|--------------------------------|--|
|  | <b>Call account</b>            |  |
| 20,000                                       | Lloyds                         | 19,000                                       |
|  | <b>Money market fund</b>       |  |
| 4,000  | Goldman Sachs                  | 25,000                                       |
| 5,500  | Aberdeen MMF                   | 25,000                                       |
|  | <b>Current account</b>         |  |
| 64   | HSBC                           | 18,948                                       |
| <b>29,564</b>                                | <b>Internally Managed Cash</b> | <b>87,948</b>                                |
| 51,072                                       | Externally Managed Cash        | 62,732                                       |
| <b>80,636</b>                                | <b>Total Cash</b>              | <b>150,680</b>                               |

The fund's cash holding under its treasury management arrangements as at 31 March 2019 was £87.9million (£29.6million at 31 March 2018).

### c) Liquidity risk

Liquidity risk represents the risk that the fund will not be able to meet its financial obligations as they fall due. The council therefore takes steps to ensure that the pension fund has adequate cash to meet its commitments. The fund needs to manage its cash flows to ensure pensioner payroll costs are met and sufficient cash is available to meet investment commitments.

The treasury management activities of the fund are managed by Surrey County Council on a daily basis. A cash flow forecast is updated daily to help understand and manage the timings of the fund's cash flows.

The fund has immediate access to the internally managed cash holdings and money market fund.

The fund is able to borrow cash to meet short-term cash requirements, no such instances occurred during 2017/18 or 2018/19

The fund currently has a long-term positive cash flow, which reflects the fact that contributions into the fund exceed benefits being paid out. Cash flow surpluses are invested with fund managers, given that the fund has an aim of being as fully invested as possible after allowing for the need to hold working balances. Regular rebalancing exercises take place, which involves assessing the level of internal cash available to be invested with managers.

#### d) Derivative risk

Some portfolios in which the fund invests may utilise financial derivative instruments to reduce risks or costs or to generate additional returns to meet the portfolio's objectives. Use of such derivatives does not guarantee a positive result for the portfolio.

Derivatives may invoke a small initial investment but carry the potential for a much greater liability. This is known as leverage. A small market movement could therefore have a proportionately larger impact either for or against the fund. Other specific risks include the inability of the portfolio manager to close out a derivative position due to illiquidity in the derivative market.

The employment of derivatives within the fund is limited to specific portfolios where their usage is primarily to manage volatility associated with other holdings. A significant movement to the detriment of the portfolio is intended to be balanced by positive movements in other areas of the portfolio. Fund managers will be expected to ensure a balanced, diverse pool of assets with internal exposure restrictions to limit the impact of potential market movements.

#### Note 21: Related party transactions

i) Employer pension contributions paid by Surrey County Council in 2018/19 amounted to £63,982k (£62,796k in 2017/18).

| <b>2017/2018</b><br><b>£000</b> |   | <b>2018/2019</b><br><b>£000</b> |
|---------------------------------|---|---------------------------------|
| 41,031                          | Employers' current service contributions  | 41,466                          |
| 21,286                          | Lump sum payments to recover the deficit in respect of past service                   | 21,299                          |
| 479                             | Payments into the fund to recover the additional cost of early retirement liabilities | 1,217                           |
| <u>62,796</u>                   |   | <u>63,982</u>                   |

ii) Surrey Pension Fund paid Surrey County Council £2,136k for services provided in 2018/19 (£1,847k in 2017/18).

| <b>2017/2018</b><br><b>£000</b> |   | <b>2018/2019</b><br><b>£000</b> |
|---------------------------------|---|---------------------------------|
| 221                             | Treasury management, accounting and managerial services | 307                             |
| <u>1,626</u>                    | Pension administration services                         | <u>1,829</u>                    |
| <u>1,847</u>                    |   | <u>2,136</u>                    |

iii) Net amounts owed by Surrey County Council to the fund as at 31 March 2019 were £4,619k (£5,218k at 31 March 2018).

## Note 22: Key management personnel

The below employees of Surrey County Council hold key positions in the financial management of the Surrey Pension Fund. Their financial relationship with the fund is disclosed as a proportion of salary costs, including employer pension contributions and national insurance contributions that can be attributed to the fund.

| 2017/18<br>£   | Position                      | 2018/19<br>£   |   |
|----------------|-------------------------------|----------------|---|
| 0              | Director of Resources         | 25,356         | 1 |
| 24,109         | Director of Corporate Finance | 26,485         | 1 |
| 80,681         | Head of Pensions              | 91,202         | 2 |
| 25,398         | Senior Specialist Advisor     | 23,599         | 2 |
| 49,059         | Senior Accountant             | 54,956         | 2 |
| <u>179,247</u> |                               | <u>221,598</u> |   |

2018/19

1. 15% of time allocated to pension fund
2. 100% of time allocated to pension fund

## Note 23: Custody

Custody arrangements for all securities and cash balances are provided by the fund's global custodian, The Northern Trust Company, excluding private equity investments and internally held cash. For the Fund's private equity investments, the custodial arrangements are managed by the individual private equity partnership with each custodian in charge of all private equity partnership assets, not just those of the Surrey Pension Fund.

Custodian arrangements for the managers responsible for private equity are as follows:

| Private Equity Manager       | Custody Provider  |
|------------------------------|---|
| BlackRock                    | PNC Bank  |
| Goldman Sachs                | State Street Global Advisors                            |
| HG Capital                   | Bank of New York Mellon                                 |
| Livingbridge (Formerly ISIS) | Lloyds Banking Group                                    |
| SL Capital                   | State Street Global Advisors, Deutsche Bank & JP Morgan |
| Capital Dynamics             | Bank of America   |
| Pantheon                     | State Street Bank & Trust Co. NA New York               |
| Glennmont Partners           | Augentius (Luxembourg) S.A.                             |

## **Note 24: Actuarial statement for 2018/19 - funding arrangements**

This statement has been prepared in accordance with Regulation 57(1)(d) of the Local Government Pension Scheme Regulations 2013. It has been prepared at the request of the Administering Authority of the Fund for the purpose of complying with the aforementioned regulation.

### **Description of Funding Policy**

The funding policy is set out in the Administering Authority's Funding Strategy Statement (FSS), effective from 1 April 2017. In summary, the key funding principles are as follows:

- to ensure the long-term solvency of the Fund using a prudent long term view. This will ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment;
- to ensure that employer contribution rates are reasonably stable where appropriate, but, are set at an appropriate level to ensure the solvency of the pension fund and the long term cost-efficiency of the scheme, so far as relating to the pension fund;
- to minimise the long-term cash contributions which employers need to pay to the Fund by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return (NB this will also minimise the costs to be borne by Council Tax payers);
- to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

The FSS sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable. For employers whose covenant was considered by the Administering Authority to be sufficiently strong, contributions have been stabilised to return their portion of the Fund to full funding over 20 years if the valuation assumptions are borne out. Asset-liability modelling has been carried out which demonstrate that if these contribution rates are paid and future contribution changes are constrained as set out in the FSS, there is still around a 66% chance that the Fund will return to full funding over 20 years.

### **Funding Position as at the last formal funding valuation**

The most recent actuarial valuation carried out under Regulation 62 of the Local Government Pension Scheme Regulations 2013 was as at 31 March 2016. This valuation revealed that the Fund's assets, which at 31 March 2016 were valued at £3,892 million, were sufficient to meet 83% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2016 valuation was £679 million.

Each employer had contribution requirements set at the valuation, with the aim of achieving full funding within a time horizon and probability measure as per the FSS. Individual employers' contributions for the period 1 April 2017 to 31 March 2020 were set in accordance with the Fund's funding policy as set out in its FSS.

## Principal Actuarial Assumptions and Method used to value the liabilities

Full details of the methods and assumptions used are described in the 2016 valuation report.

### Method

The liabilities were assessed using an accrued benefits method which takes into account pensionable membership up to the valuation date, and makes an allowance for expected future salary growth to retirement or expected earlier date of leaving pensionable membership.

### Assumptions

A market-related approach was taken to valuing the liabilities, for consistency with the valuation of the Fund assets at their market value.

The key financial assumptions adopted for the 2016 valuation were as follows:

| <b>Financial assumptions</b>      | <b>31 March 2016</b> |
|-----------------------------------|----------------------|
| Discount rate                     | 4.2%                 |
| Salary increase assumption        | 2.4%                 |
| Benefit increase assumption (CPI) | 2.1%                 |

The key demographic assumption was the allowance made for longevity. The life expectancy assumptions are based on the Fund's VitaCurves with improvements in line with the CMI 2013 model, assuming the current rate of improvements has reached a peak and will converge to long term rate of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are as follows:

|                    | <b>Males</b> | <b>Females</b> |
|--------------------|--------------|----------------|
| Current Pensioners | 22.5 years   | 24.6 years     |
| Future Pensioners* | 24.1 years   | 26.4 years     |

\*Aged 45 at the 2016 Valuation.

Copies of the 2016 valuation report and Funding Strategy Statement are available on request from the Administering Authority to the Fund.

### Experience over the period since 31 March 2016

Since the last formal valuation, real bond yields have fallen placing a higher value on the liabilities but there have been strong asset returns over the 3 years. Both events are of broadly similar magnitude with regards to the impact on the funding position.

The next actuarial valuation will be carried out as at 31 March 2019. The Funding Strategy Statement will also be reviewed at that time.

Gemma Sefton FFA

For and on behalf of Hymans Robertson LLP

2 May 2019

Hymans Robertson LLP, 20 Waterloo Street, Glasgow, G2 6DB

## Note 25: Actuarial present value of future retirement benefits

CIPFA's Code of Practice on Local Authority Accounting 2018/19 requires Administering Authorities of LGPS funds that prepare pension fund accounts to disclose what IAS26 refers to as the actuarial present value of promised retirement benefits. I have been instructed by the Administering Authority to provide the necessary information for the Surrey Pension Fund ("the Fund").

The actuarial present value of promised retirement benefits is to be calculated similarly to the Defined Benefit Obligation under IAS19. There are three options for its disclosure in the pension fund accounts:

- showing the figure in the Net Assets Statement, in which case it requires the statement to disclose the resulting surplus or deficit;
- as a note to the accounts; or
- by reference to this information in an accompanying actuarial report.

If an actuarial valuation has not been prepared at the date of the financial statements, IAS26 requires the most recent valuation to be used as a base and the date of the valuation disclosed. The valuation should be carried out using assumptions in line with IAS19 and not the Fund's funding assumptions.

### Present value of promised retirement benefits

| Year ended            | 31/03/2019   | 31/03/2018   |
|-----------------------|--------------|--------------|
| Active members (£m)   | 3,148        | 2,559        |
| Deferred members (£m) | 1,523        | 1,359        |
| Pensioners (£m)       | 1,923        | 1,921        |
|                       | <b>6,594</b> | <b>5,839</b> |

The promised retirement benefits at 31 March 2019 have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2016. The approximation involved in the roll forward model means that the split of benefits between the three classes of member may not be reliable. However, I am satisfied that the total figure is a reasonable estimate of the actuarial present value of benefit promises.

Note that the above figures include an allowance for the "McCloud ruling", i.e. an estimate of the potential increase in past service benefits arising from this case affecting public service pension schemes. The figures also include an approximate allowance for the impact of GMP equalisation.

The above figures include both vested and non-vested benefits, although the latter is assumed to have a negligible value. Further, I have not made any allowance for unfunded benefits.

It should be noted the above figures are appropriate for the Administering Authority only for preparation of the pension fund accounts. They should not be used for any other purpose (i.e. comparing against liability measures on a funding basis or a cessation basis).

### Assumptions

The assumptions used are those adopted for the Administering Authority's IAS19 report and are different as at 31 March 2019 and 31 March 2018. I estimate that the impact of the change in financial assumptions to 31 March 2019 is to increase the actuarial present value

by £491m. There is no impact from any change in the demographic and longevity assumptions because they are identical to the previous period.

## Financial assumptions

| Year ended (% p.a.)   | 31 March 2019 | 31 March 2018 |
|-----------------------|---------------|---------------|
| Pension Increase Rate | 2.5%          | 2.4%          |
| Salary Increase Rate  | 2.8%          | 2.7%          |
| Discount Rate         | 2.4%          | 2.7%          |

## Longevity assumptions

Life expectancy is based on the Fund's VitaCurves with improvements in line with the CMI 2013 model, assuming the current rate of improvements has reached a peak and will converge to a long term rate of 1.25% p.a.. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

|  | Males      | Females    |
|--|------------|------------|
| Current pensioners   | 22.5 Years | 24.6 Years |
| Future pensioners (assumed to be aged 45 at the latest formal valuation) | 24.1 Years | 26.4 Years |

Please note that the longevity assumptions have not changed since the previous IAS26 disclosure for the Fund.

## Commutation assumptions

An allowance is included for future retirements to elect to take 25% of the maximum additional tax-free cash up to HMRC limits for pre-April 2008 service and 63% of the maximum tax-free cash for post-April 2008 service.

## Sensitivity Analysis

CIPFA guidance requires the disclosure of the sensitivity of the results to the methods and assumptions used. The sensitivities regarding the principal assumptions used to measure the liabilities are set out below:

| Sensitivity to the assumptions for the year ended 31 March 2019 | Approximate % increase to liabilities | Approximate monetary amount (£m) |
|---|---------------------------------------|----------------------------------|
| 0.5% p.a. increase in the Pension Increase Rate                 | 8%                                    | 549                              |
| 0.5% p.a. increase in the Salary Increase Rate                  | 1%                                    | 87                               |
| 0.5% p.a. decrease in the Real Discount Rate                    | 10%                                   | 676                              |

The principal demographic assumption is the longevity assumption. For sensitivity purposes, I estimate that a 1 year increase in life expectancy would approximately increase the liabilities by around 3-5%.

## Professional notes

This paper accompanies our covering report titled 'Actuarial Valuation as at 31 March 2019 for accounting purposes'. The covering report identifies the appropriate reliances and limitations for the use of the figures in this paper, together with further details regarding the professional requirements and assumptions. This replaces our paper dated 30 April 2019, as this now includes allowance for the "McCloud ruling" and GMP equalisation.

Gemma Sefton FFA (For and on behalf of Hymans Robertson LLP)

9 July 2019

## Note 26: Additional Voluntary Contributions

| <b>Market Value<br/>2017/18<br/>£000</b> | <b>Position</b> | <b>Market Value<br/>2018/19<br/>£000</b> |
|--|-----------------|--|
| 13,621                                   | Prudential      | 14,520                                   |
| <b>13,621</b>                            |                 | <b>14,520</b>                            |

Additional Voluntary Contributions, net of returned payments, of £2.6million were paid directly to Prudential during the year (£2.8million during 2017/18).

## Note 27: Investment Strategy Statement

Full details of the fund's investment policy are documented in the Investment Strategy Statement. This is published in the pension fund's full annual report and on the Surrey Pension Fund website.

## Note 28: Annual report

The Surrey Pension Fund Annual Report 2018/2019 provides further details on the management, investment performance and governance of the Fund.

## Scheme Advisory Board Statistics

### Financial Performance and Forecast:

|  | 2018/19<br>Budget<br>£000 | 2018/19<br>Actuals<br>£000 | 2018/19<br>Variance<br>£000 | 2019/20<br>Budget<br>£000 |
|--|---------------------------|----------------------------|-----------------------------|---------------------------|
| <b>Income</b>                                |                           |                            |                             |                           |
| Employers contributions                      | 145,067                   | 138,274                    | -6,793                      | 139,783                   |
| Members contributions                        | 38,693                    | 38,502                     | -191                        | 38,117                    |
| <b>Total contributions</b>                   | <b>183,760</b>            | <b>176,776</b>             | <b>-6,984</b>               | <b>177,900</b>            |
| Transfers in                                 | 8,416                     | 14,954                     | 6,538                       | 17,361                    |
| Investment income                            | 77,691                    | 59,055                     | -18,636                     | 60,236                    |
| <b>Total income</b>                          | <b>269,867</b>            | <b>250,785</b>             | <b>-19,082</b>              | <b>255,496</b>            |
| <b>Expenditure</b>                           |                           |                            |                             |                           |
| Pensions                                     | -127,825                  | -126,014                   | 1,811                       | -134,198                  |
| Commutation and lump sum retirement benefits | -19,300                   | -19,571                    | -271                        | -20,100                   |
| Other benefits                               | -3,732                    | -4,247                     | -515                        | -4,523                    |
| <b>Total benefits</b>                        | <b>-150,857</b>           | <b>-149,832</b>            | <b>1,025</b>                | <b>-158,821</b>           |
| Leavers                                      | -7661                     | -10,946                    | -3,285                      | -12,576                   |
| Administrative expenses                      | -1,467                    | -1,829                     | -362                        | -2,225                    |
| Oversight and governance costs               | -1006                     | -3,214                     | -2,208                      | -2,717                    |
| Investment expenses                          | -17,690                   | -10,427                    | 7,263                       | -9,559                    |
| Taxes on income                              | -1,476                    | -785                       | 691                         | -1,144                    |
| <b>Total expenditure</b>                     | <b>-180,157</b>           | <b>-177,033</b>            | <b>3,124</b>                | <b>-187,042</b>           |
| <b>Net income</b>                            | <b>89,710</b>             | <b>73,752</b>              | <b>-15,958</b>              | <b>68,454</b>             |
| <b>Change in market value</b>                | <b>80,601</b>             | <b>185,943</b>             | <b>105,342</b>              | <b>85,773</b>             |
| <b>Net increase in Fund Value</b>            | <b>170,311</b>            | <b>259,695</b>             | <b>89,384</b>               | <b>154,227</b>            |
| <b>Net Asset Value</b>                       | <b>4,226,194</b>          | <b>4,315,578</b>           |                             | <b>4,469,805</b>          |

## Surrey Pension Fund 2019-20 Operational Budget

| <b>2019/20 Operational Budget</b>                   | <b>£000</b>     |
|---|-----------------|
| <b>Orbis Pensions Administration Baseline</b>       |                 |
| Staffing  | 1,250           |
| Non-Staffing  | 300             |
| Overheads   | 280             |
| <b>Total Orbis Pensions Administration Baseline</b> | <b>1,830</b>    |
|   |                 |
| <b>Orbis Pensions Administration Projects</b>       |                 |
| Backlog   | 300             |
| I-Connect   | 60              |
| GMP Reconciliation                                  | 35              |
| <b>Total Orbis Pensions Administration Projects</b> | <b>395</b>      |
|   |                 |
| <b>Oversight &amp; Governance</b>                   |                 |
| Fund Officers & Management                          | 307.2           |
| Advisers  | 224.3           |
| Audit   | 21              |
| Memberships and Benchmarking                        | 137.8           |
| Legal Costs   | 23.5            |
| Pooling Costs (including Governance)                | 2,000           |
| Training Budget                                     | 3               |
| <b>Total Oversight &amp; Governance</b>             | <b>2,716.8</b>  |
|   |                 |
| <b>Investment &amp; Custody</b>                     |                 |
| Custody Fees  | 150             |
| Investment Management Fees                          | 9,339           |
| <b>Total Investment &amp; Custody</b>               | <b>9,489</b>    |
|   |                 |
| <b>Total 2019/20 Operational Budget</b>             | <b>14,430.8</b> |

The most significant variances between budget and actuals for 2018/19 financial year were related to employer contributions, transfers into the fund, investment management expenses and the change in market value of investments.

Investment management expenses incurred was below forecast, weaker investment performance for the year led to a reduction of performance fees.

**Three Year Forecast:**

|                          | 2019/20<br>Budget<br>£000 | 2020/21<br>Budget<br>£000 | 2021/22<br>Budget<br>£000 | 2019/22<br>Budget<br>£000 |
|--------------------------|---------------------------|---------------------------|---------------------------|---------------------------|
| <b>Income</b>            |                           |                           |                           |                           |
| Contributions            | 177,900                   | 177,445                   | 177,759                   | <b>533,104</b>            |
| Transfers in             | 17,361                    | 20,155                    | 23,398                    | <b>60,913</b>             |
| Investment income        | 60,236                    | 61,441                    | 62,670                    | <b>184,347</b>            |
| <b>Total income</b>      | <b>255,496</b>            | <b>259,040</b>            | <b>263,827</b>            | <b>778,364</b>            |
| <b>Expenditure</b>       |                           |                           |                           |                           |
| Benefits                 | 158,821                   | 167,954                   | 177,231                   | <b>504,006</b>            |
| Transfer out             | 12,576                    | 14,450                    | 16,602                    | <b>43,628</b>             |
| Management expenses      | 15,646                    | 14,932                    | 14,296                    | <b>44,874</b>             |
| <b>Total expenditure</b> | <b>187,042</b>            | <b>197,336</b>            | <b>208,129</b>            | <b>592,508</b>            |
| <b>Net income</b>        | <b>68,454</b>             | <b>61,704</b>             | <b>55,698</b>             | <b>185,856</b>            |

A table of the active employers with employee and employer contributions made during the year is shown below.

| <b>Employing Organisation</b>           | <b>Employees Contributions<br/>£000</b> | <b>Employers Contributions<br/>£000</b> |
|---|---|---|
| A2 Dominion                             | 9                                       | 230                                     |
| Ability Housing Association             | 5                                       | 17                                      |
| Academy of Contemporary Music           | 5                                       | 15                                      |
| Achieve Lifestyle                       | 13                                      | 45                                      |
| Amey LTD (Mole Valley)                  | 3                                       | 6                                       |
| Ash Parish Council                      | 7                                       | 23                                      |
| Ashley CofE Aided Primary School        | 30                                      | 108                                     |
| Auriol Junior School                    | 21                                      | 71                                      |
| Babcock 4S                              | 128                                     | 176                                     |
| Banstead Infant School                  | 10                                      | 35                                      |
| Barnsbury Primary School                | 28                                      | 91                                      |
| Beaufort Primary School                 | 35                                      | 114                                     |
| Bisley Parish Council                   | 2                                       | 5                                       |
| Blenheim High School                    | 56                                      | 218                                     |
| Bletchingley Village Primary School     | 19                                      | 75                                      |
| Boxgrove Primary School                 | 46                                      | 192                                     |
| Bramley Parish Council (Quarterly)      | 2                                       | 5                                       |
| Broadmere Primary Academy               | 22                                      | 68                                      |
| Brooklands College                      | 149                                     | 706                                     |
| Brookwood Primary School                | 16                                      | 53                                      |
| Burstow Parish Council                  | 2                                       | 5                                       |
| Busy Bees Daycare (Caring Daycare)      | 2                                       | 6                                       |
| Cardinal Newman Catholic Primary School | 20                                      | 70                                      |
| Care Quality Commission                 | 4                                       | -                                       |
| Carwarden House Community School        | 27                                      | 92                                      |

|   |     |     |
|---|-----|-----|
| Catalyst (Southern Addictions Advisory Service (SADAS)) | 22  | 85  |
| Chaldon Village Council                                 | -   | -   |
| Chartwood   | 13  | 54  |
| Chertsey High School                                    | 6   | 25  |
| Chiddingfold Parish Council                             | 3   | 6   |
| Childhood First (Pepper Harrow Foundation)              | 18  | 84  |
| Christ's College  | 34  | 116 |
| Clarion Housing Group                                   | 11  | 48  |
| Cleves Academy Trust                                    | 30  | 115 |
| Cobham Free School                                      | 29  | 86  |
| Collingwood College                                     | 88  | 314 |
| Compass Contract Services                               | 4   | 17  |
| Connaught Junior School                                 | 22  | 80  |
| Cordwalles Junior School                                | 10  | 33  |
| Cranleigh Parish Council                                | 8   | 23  |
| Crawley Ridge Infant School                             | 9   | 33  |
| Crawley Ridge Junior School                             | 16  | 62  |
| Cross Farm Infant School                                | 9   | 33  |
| Crowhurst Parish Council                                | 0   | -   |
| Cuddington Com Prim Sch                                 | 10  | 33  |
| Cuddington Croft Primary School                         | 20  | 68  |
| Danetree Primary School                                 | 34  | 116 |
| De Stafford School                                      | 39  | 122 |
| Dormansland Parish Council                              | 1   | 3   |
| Dovers Green School                                     | 32  | 120 |
| Dunstable Parish Council                                | 0   | 2   |
| East Horsley Parish Council                             | 2   | 4   |
| East Surrey College                                     | 176 | 720 |
| East Surrey Rural Transport                             | 3   | 11  |
| Eastwick infant   | 48  | 169 |

|   |       |       |
|---|-------|-------|
| Effingham Parish Council (6 Months)           | 1     | 6     |
| Elmbridge Borough Council                     | 705   | 2,924 |
| Elmbridge Building Control                    | 18    | 49    |
| Elmbridge Housing Trust                       | -     | 60    |
| Energykidz Ltd                                | -     | -     |
| Epsom & Ewell Borough Council                 | 528   | 2,082 |
| Epsom and Ewell High School                   | 65    | 187   |
| Esher Church of England High School           | 89    | 310   |
| Esher Church School                           | 15    | 50    |
| Esher College                                 | 68    | 241   |
| Farnham Heath End                             | 35    | 111   |
| Farnham Town Council                          | 22    | 47    |
| Freedom Leisure - Guildford (Wealden Leisure) | 39    | 89    |
| Freedom Leisure - Woking (Wealden Leisure)    | 19    | 49    |
| Frensham Parish Council                       | 1     | 2     |
| Fullbrook School                              | 69    | 259   |
| Fusion Lifestyle                              | 2     | 7     |
| George Abbot School                           | 119   | 440   |
| GLF   | 103   | 267   |
| Glyn School                                   | 62    | 192   |
| Godalming College                             | 74    | 229   |
| Godalming Town Council                        | 15    | 37    |
| Godstone Parish Council                       | -     | -     |
| Goldsworth Primary School                     | 41    | 129   |
| Good Shepherd Trust                           | 15    | 37    |
| Gordons School Academy Trust                  | 29    | 109   |
| Guildford Borough council                     | 1,481 | 5,420 |
| Guildford College                             | 305   | 1,497 |
| Guildford County School                       | 52    | 185   |
| Guildford Grove Primary School                | 50    | 206   |

|  |    |     |
|--|----|-----|
| Hammond School                                   | 8  | 26  |
| Hamsey Green Primary                             | 23 | 93  |
| Hanover Housing Association                      | 94 | 790 |
| Haslemere Town Council                           | 5  | 10  |
| Hawkedale School                                 | 6  | 25  |
| Heathside School                                 | 59 | 215 |
| Hillcroft Primary School                         | 28 | 92  |
| Hinchley Wood School                             | 71 | 274 |
| Hoe Valley Free School                           | 28 | 67  |
| Holly Lodge Primary School                       | 16 | 62  |
| Holmesdale Comm Inf Sch                          | 19 | 71  |
| Holy Family Catholic Primary School              | 10 | 35  |
| Holy Trinity C of E Primary Sch                  | 16 | 59  |
| Horley Town Council                              | 7  | 17  |
| Howard of Effingham School                       | 49 | 163 |
| IESE ltd   | 72 | 129 |
| Innovate (Weydon MAT)                            | 0  | -   |
| Jubilee High School                              | 38 | 119 |
| Kenyngton Manor Primary Schl (Academy)           | 32 | 108 |
| Kier (May Gurney)                                | 8  | 37  |
| Kings College Gldfrd                             | 26 | 110 |
| Knaphill School                                  | 17 | 51  |
| Lakeside Primary School                          | 21 | 81  |
| Leatherhead Trinity School and Children's Centre | 37 | 158 |
| Lightwater Village School                        | 13 | 42  |
| Lime Tree Primary School                         | 28 | 92  |
| Linden Bridge School                             | 64 | 240 |
| Lingfield Parish Council                         | 1  | 3   |
| Loseley Fields Primary School                    | 19 | 81  |
| Lumen Learning Trust                             | 45 | 126 |

|  |     |       |
|--|-----|-------|
| Marden Lodge Primary School and Nursery        | 20  | 63    |
| Meadhurst Primary school                       | 10  | 34    |
| Meadow Primary School                          | 24  | 83    |
| Merstham Park School                           | 1   | 4     |
| Merstham Primary School                        | 10  | 35    |
| Merton & Sutton Joint Cemetery Board           | 0   | 1     |
| Mole Valley Borough Council                    | 535 | 1,687 |
| Moor House School                              | 36  | 223   |
| Morrisson Facilities                           | -   | -     |
| Mytchett Primary School                        | 15  | 55    |
| Nescot   | 271 | 1,095 |
| New Haw Community Junior School                | 24  | 82    |
| New Monument Primary Academy                   | 19  | 58    |
| Northmead Junior                               | 12  | 56    |
| Northmead Junior                               | 12  | 56    |
| Oaks Academy Trust                             | 10  | 35    |
| Ottershaw Cof E Infant & Juniors               | 2   | 6     |
| Oxted Parish Council                           | -   | -     |
| Oxted School                                   | 70  | 231   |
| Pabulum Ltd                                    | 2   | 9     |
| Peaslake Free School                           | 3   | 13    |
| Pine Ridge Infant School                       | 25  | 82    |
| Pinnacle Housing                               | 8   | 29    |
| Pirbright Village School                       | 12  | 47    |
| Pond Meadow School                             | 59  | 195   |
| Potters Gate C Of E Prm                        | 26  | 92    |
| Pycroft Grange Primary School                  | 21  | 72    |
| Pyrford Church of England Aided Primary School | 36  | 127   |
| Queen Eleanor's Church of England School       | 15  | 55    |
| Ravenscote Junior School                       | 24  | 81    |

|                                    |     |       |
|------------------------------------|-----|-------|
| Reef Cleaning Solutions (GSO Ltd)  | 0   | 1     |
| Reigate School                     | 60  | 206   |
| Reigate & Banstead Borough Council | 885 | 3,682 |
| Reigate College                    | 96  | 328   |
| Reigate Grammar School             | 115 | 457   |
| Riverbridge Primary School         | 25  | 73    |
| Riverside Housing                  | -   | 186   |
| Rodborough                         | 41  | 165   |
| Rosebery Housing Association       | 4   | 208   |
| Rosebery School                    | 53  | 162   |
| Runnymede Borough Council          | 726 | 2,550 |
| Russell Education Trust            | 26  | 71    |
| Rydens Enterprise School           | 38  | 129   |
| S Farnham Ed Tt                    | 66  | 195   |
| Salesian School, Chertsey          | 91  | 271   |
| Salfords Primary School            | 16  | 54    |
| Sandcross Primary School           | 37  | 150   |
| Sandfield Primary School           | 13  | 52    |
| Sandringham School                 | 11  | 45    |
| SAVI                               | 13  | 53    |
| Saxon Primary School               | 19  | 56    |
| Sayes Court School                 | 19  | 63    |
| Send Parish Council                | 2   | 5     |
| SERCO                              | 18  | 72    |
| Shalford Parish Council            | 1   | 5     |
| Shere Parish Council               | -   | -     |
| Sir William Perkins School         | 17  | 82    |
| Skanska Construction Ltd           | 22  | 81    |
| Skanska Rashleigh Weather Foil     | -   | -     |
| South Camberley Prm and Nursery    | 57  | 205   |

|  |        |        |
|--|--------|--------|
| Spelthorne Borough Council                                   | 691    | 2,695  |
| Springfield Primary School                                   | 24     | 81     |
| St Alban's Catholic Primary School                           | 16     | 57     |
| St Andrew;s CofE Primary School                              | 14     | 51     |
| St Andrew's Church of England Infant School                  | 6      | 21     |
| St Anne's Catholic Primary School                            | 22     | 75     |
| St Augustine's Catholic Primary School                       | 22     | 74     |
| St Charles Borromeo Catholic Primary School, Weybridge       | 14     | 49     |
| St Cuthbert Mayne  | 4      | 13     |
| St Hugh of Lincoln Catholic Primary School                   | 8      | 29     |
| St John the Baptist Catholic Comprehensive School,<br>Woking | 72     | 230    |
| St John's Church of England Primary School                   | 23     | 83     |
| St John's Pri Sch  | 3      | 10     |
| St Lawrence Primary School                                   | 12     | 41     |
| St Mary's C of E (Aided) Junior School (Oxted)               | 26     | 112    |
| St Mary's CofE Junior School                                 | 9      | 33     |
| St Matthews CoE Sch  | 26     | 102    |
| St Paul's Catholic College/ Pavilion - yqwY&g8d              | 51     | 198    |
| St Paul's CofE Primary School                                | 23     | 78     |
| St Stephens CoE Sch  | 21     | 82     |
| Stanwell Fields CofE Primary School                          | 18     | 55     |
| Staywell   | 6      | 30     |
| Stoughton Infant School                                      | 11     | 41     |
| Surrey Choices   | 61     |        |
| Strodes College  | -      | -      |
| Surrey County Council Pool                                   | 19,516 | 62,371 |
| Sunbury Manor School   | 62     | 216    |
| Surrey Heath   | 583    | 2,168  |
| Surrey Hills Pri Sch   | 4      | 15     |
| Surrey Police  | -      | -      |

|   |     |       |
|---|-----|-------|
| Surrey Sports Park                        | 9   | 20    |
| Surrey Wildlife Trust                     | 4   | 19    |
| Sythwood Primary School                   | 56  | 187   |
| Tandridge District Council                | 632 | 2,735 |
| Tatsfield Primary School                  | 8   | 35    |
| Thamesmead School                         | 60  | 216   |
| The Abbey School                          | 14  | 49    |
| The Ashcombe School                       | 59  | 187   |
| The Beacon School                         | 54  | 166   |
| The Bishop David Brown School             | 42  | 152   |
| The Bishop Wand Church of England School  | 44  | 161   |
| The Echelford Primary School              | 19  | 55    |
| The Grove Primary School                  | 23  | 87    |
| The Hermitage School                      | 21  | 67    |
| The Horsell Village School                | 18  | 57    |
| The Howard Partnership Trust              | 133 | 379   |
| The Kite Academy Tru                      | 23  | 75    |
| The Magna Carta School                    | 48  | 182   |
| The Marist Catholic Primary Schl          | 27  | 94    |
| The Matthew Arnold School                 | 39  | 124   |
| The Oaktree School                        | 20  | 65    |
| The Raleigh School                        | 15  | 43    |
| The Ridgeway School                       | 52  | 180   |
| The Royal Grammar School                  | 28  | 167   |
| The Vale Primary School                   | 4   | 15    |
| The Warwick School                        | 49  | 158   |
| The Weald CofE Primary School             | 13  | 45    |
| Therfield School                          | 41  | 128   |
| Thomas Knyvett College                    | 35  | 115   |
| Tomlinscote School and Sixth Form College | 74  | 269   |

|                                   |     |       |
|-----------------------------------|-----|-------|
| Tongham PC                        | -   | -     |
| University of Creative Arts       | 980 | 3,400 |
| University of Surrey              | 589 | 3,046 |
| Wallace Fields Junior School      | 18  | 78    |
| Warlingham Parish Council         | 1   | 2     |
| Warlingham School                 | 84  | 316   |
| Warlingham Village Primary School | 13  | 41    |
| Warren MD CFS B'nstd              | 1   | 4     |
| Warren Mead Infant School         | 10  | 35    |
| Waverley Borough Council          | 794 | 3,403 |
| Waverley Abbey CofE Junior School | 17  | 61    |
| Waverley Hoppa Transport          | 10  | 37    |
| West End PC                       | 2   | 5     |
| West Ewell Primary School         | 26  | 87    |
| West Hill School                  | 21  | 78    |
| Westfield Primary School          | 20  | 72    |
| Weydon School                     | 71  | 233   |
| Weyfield Academy                  | 23  | 73    |
| Whyteleafe Primary School         | 17  | 58    |
| Whyteleafe Village Council        | 1   | 2     |
| WilsonJones                       | 1   | 4     |
| Windlesham Parish Council         | 4   | 8     |
| Windlesham Village Infant School  | 6   | 22    |
| Wishmore Cross Academy            | 32  | 108   |
| Witley Parish Council             | 4   | 12    |
| Woking Borough Council            | 710 | 3,173 |
| Woking College                    | 37  | 147   |
| Woking Community Transport        | -   | 53    |
| Woking High School                | 67  | 258   |
| Woodlea Primary School            | 9   | 35    |

|                            |    |    |
|----------------------------|----|----|
| Woolmer Hill School        | 24 | 80 |
| Worplesdon Parish Council  | 4  | 12 |
| Wray Common Primary School | 25 | 91 |
| Wyke Primary School        | 7  | 26 |

# Contacts

## Benefits and Contributions

Enquiries should be directed in writing to Pension Services at the following address:

Pensions Unit  
Room 218  
Kingston Upon Thames  
Surrey KT1 2EB  
Telephone: 020 8541 9289 or 9292  
E Mail: [mypensions@surreycc.gov.uk](mailto:mypensions@surreycc.gov.uk)  
Fax: 020 8541 9287

## Accounts and Investments

Information regarding the accounts and investments can be obtained from The Pension Fund Team at  
[Pension.fund@surreycc.gov.uk](mailto:Pension.fund@surreycc.gov.uk)

## Pension Scheme Regulations

1997 Regulations S.I. 1997/1612  
Copies may be obtained from:

The Stationery Office Ltd  
2nd Floor, St Crispins  
Duke Street  
Norwich  
NR3 1PD

Website:  
[www.opsi.gov.uk/si/si1997/19971612.htm](http://www.opsi.gov.uk/si/si1997/19971612.htm)

## Useful Addresses

Occupational Pensions Board

PO Box 1NN  
Newcastle upon Tyne  
NE99 1NN  
Tel: 0191 225 6316

The Pensions Advisory Service  
(TPAS)  
11 Belgrave Road  
London  
SW1V 1RB

Tel: 0845 601 2923  
Email: [enquiries@pensionsadvisoryservice.org.uk](mailto:enquiries@pensionsadvisoryservice.org.uk)

Pensions Ombudsman  
11 Belgrave Road  
London  
SW1V 1RB

Tel: 0207 630 2200  
Email: [enquiries@pensions-ombudson.org.uk](mailto:enquiries@pensions-ombudson.org.uk)

## Employee and Employer Guides

The Department for Community and Local Government has produced guides to the Pension Scheme Regulations. These are available on request from Pension Services.

**National Website**  
[www.lgps.org.uk](http://www.lgps.org.uk)

# Glossary of Terms

## **Active Management**

**A style of management where the fund manager aims to outperform a benchmark by superior asset allocation, market timing or stock selection (or a combination of these). Compare with** passive management

## **Actuary**

An independent consultant who advises the County Council on the financial position of the Fund. See **actuarial valuation**.

## **Actuarial Valuation**

This is an assessment done by an **actuary**, usually every three years. The actuary will work out how much money needs to be put into a pension fund to make sure pensions can be paid in the future.

## **Additional Voluntary Contribution (AVC)**

An option available to individuals to secure additional pensions benefits by making regular payments in addition to the 5.5%-7.5% of basic earnings payable.

## **Admitted Bodies**

Employers whose staff can become members of the Fund by virtue of an admission agreement made between the administering authority and the employer.

## **Asset Allocation**

The apportionment of a fund's assets between asset classes and/or world markets. The long-term strategic asset allocation of a fund will reflect the fund's investment objectives. In the short term, the fund manager

can aim to add value through **tactical asset allocation** decisions.

## **Benchmark**

A yardstick against which the investment policy or performance of a fund manager can be compared. The Surrey Fund's benchmark is customised, meaning that it is tailored to the Fund's **liability profile**.

## **Bond**

A debt investment with which the investor loans money to an entity (company or government) that borrows the funds for a defined period of time at a specified interest rate.

## **Book cost**

The value of an asset as it appears on a balance sheet, equivalent to how much was paid for the asset (less liabilities due). Book cost often differs substantially from **market value**.

## **Broker**

An individual or firm that charges a fee or commission for executing buy and sell orders submitted by an investor.

## **Commission**

A service charge assessed by an agent in return for arranging the purchase or sale of a security or real estate. The commission must be fair and reasonable, considering all the relevant factors of the transaction. (Underwriting commission)

## **Corporate Bond**

A debt security issued by a corporation, as opposed to those issued by the government.

### **Corporate Governance**

The system by which companies are run, and the means by which they are responsible to their shareholders, employees and other stakeholders.

### **Creditors**

Amounts owed by the pension fund.

### **Custody**

Safe-keeping of securities by a financial institution. The custodian keeps a record of the client's investments and may also collect income, process tax reclaims and provide other services such as performance measurement.

### **Debtors**

Amounts owed to the pension fund.

### **Derivative**

Used to describe a specialist financial instrument such as **options** or **futures contracts**. Financial instruments are agreements to buy or sell something, under terms laid out in a contract.

### **Diversification**

A risk management technique that mixes a wide variety of investments within a portfolio. It is designed to minimize the impact of any one security on overall portfolio performance.

### **Dividend**

Distribution of a portion of a company's earnings, decided by the board of directors, to a class of its shareholders. The

amount of a dividend is quoted in the amount each share receives or in other words dividends per share.

### **Dividend Yield**

An indication of the income generated by a share, calculated as Annual Dividend per Share/Price per Share

### **Emerging Markets**

There are about 80 stock markets around the world of which 22 markets are generally considered to be mature. The rest are classified as emerging markets.

### **Equity**

Stock or any other security representing an ownership interest.

### **Ex-dividend**

Purchase of shares without entitlement to current dividends. This entitlement remains with the seller of the shares.

### **Final Salary Scheme**

An employer pension scheme, the benefits of which are linked to length of service and the final salary of the member (also known as defined benefit).

### **Fixed interest**

A loan with an interest rate that will remain at a predetermined rate for the entire term of the loan. See bond.

### **FTSE All-Share**

An arithmetically weighted index of leading UK shares (by market capitalisation) listed on the London Stock Exchange (LSE). The FTSE 100 Index covers only the largest 100 companies.

### **Funding Level**

A comparison of a scheme's assets and liabilities.

### **Futures Contract**

A contract to buy goods at a fixed price and on a particular date in the future. Both the buyer and seller must follow the contract by law.

### **Gilts**

The familiar name given to sterling, marketable securities (or bonds) issued by the British Government.

### **Hedge**

Making an investment to reduce the risk of adverse price movements in an asset. Normally, a hedge consists of taking an offsetting position in a related security, such as a **futures contract**.

### **Index Linked**

A **bond** which pays a **coupon** that varies according to some underlying index, usually the Consumer Price Index.

### **LGPS**

Local Government Pension Scheme.

### **LSE**

London Stock Exchange

### **Mandate**

The agreement between a client and investment manager laying down how the portfolio is to be managed, including performance targets.

### **Market Value**

A security's last reported sale price (if on an exchange) i.e. the price as determined dynamically by buyers and

sellers in an open market. Also called market price.

### **Option**

The name for a contract where somebody pays a sum of money for the right to buy or sell goods at a fixed price by a particular date in the future. However, the goods do not have to be bought or sold.

### **Passive Management**

A style of fund management that aims to construct a portfolio to provide the same return as that of a chosen index. Compare with **active management**.

### **Pension Fund**

A fund established by an employer to facilitate and organise the investment of employees' retirement funds contributed by the employer and employees. The **pension fund** is a common asset pool meant to generate stable growth over the long term, and provide pensions for employees when they reach the end of their working years and commence retirement.

### **Private Equity**

When equity capital is made available to companies or investors, but not quoted on a stock market. The funds raised through private equity can be used to develop new products and technologies, to expand working capital, to make acquisitions, or to strengthen a company's balance sheet. Also known as **development capital**.

### **Property Unit Trusts**

Pooled investment vehicles that enable investors to hold a stake in a diversified portfolio of properties.

### **Return**

Synonymous with profit, be it income received, capital gain or income and capital gain in combination. Usually expressed as a percentage of the nominal value of the asset.

### **Risk**

The likelihood of performance deviating significantly from the average. The wider the spread of investment in an investment sector or across investment sectors, i.e. the greater the diversification, the lower the risk.

### **Scheme Employers**

Local authorities and other similar bodies whose staff automatically qualify to become members of the pension fund.

### **Security**

An investment instrument, other than an insurance policy or fixed annuity, issued by a corporation, government, or other organisation, which offers evidence of debt or equity.

### **Socially Responsible Investment (SRI)**

Investments or funds containing stock in companies whose activities are considered ethical.

### **Specialist Manager**

A fund management arrangement whereby a number of different managers each concentrate on a different asset class. A specialist fund manager is concerned primarily with **stock selection** within the specialist asset class. **Asset**

**allocation** decisions are made by the investment committee, their consultant or by a specialist tactical asset allocation manager (or combination of the three).

### **Stock**

A type of security that signifies ownership in a corporation and represents a claim on part of the corporation's assets and earnings. Also known as shares or **equity**.

### **Stock Selection**

The process of deciding which stocks to buy within an asset class.

### **Tracking Error**

An unplanned divergence between the price behaviour of an underlying stock or portfolio and the price behaviour of a benchmark. Reflects how closely the make-up of a portfolio matches the make-up of the index that it is tracking.

### **Transaction Costs**

Those costs associated with managing a portfolio, notably brokerage costs and taxes.

### **Transfer Value**

The amount transferred to/from another pension fund should a member change employment. The amount transferred relates to the current value of past contributions.

### **Transition**

To move from one set of investment managers to another.

### **Underwriting**

The process by which investment bankers raise

investment capital from investors on behalf of corporations and governments

**Unit Trust**

A pooled fund in which investors can buy and sell units on an ongoing basis.

**Unlisted Security**

A security which is not traded on an **exchange**.

**Unrealised Gains/(losses)**

The increase/(decrease) at year-end in the market value of investments held by the fund since the date of their purchase.

**Yield**

The rate of income generated from a stock in the form of dividends, or the effective rate of interest paid on a bond, calculated by the coupon rate divided by the bond's market price. Furthermore, for any investment, yield is the annual rate of return expressed as a

that are issuing securities (both equity and debt).

percentage.

| <b>Savings Analysis from Asset Pooling</b>  |  |                 | <b>Rounded<br/>to nearest<br/>£1000</b> |
|---|--|-----------------|---|
| <b>Calculating price and quantity variances for an asset<br/>portfolio transferred to BCPP UK Equity Alpha Fund<br/>using 31/10/2018 valuations, as at 31/03/2019</b> |  |                 |   |
|   |  | %               |   |
| Value of UK Equities as at as at 31/10/2018   | £316m                                      | 70.38%          |   |
| Value of UK Equities as at as at 31/10/2018   | £133m                                      | 29.62%          |   |
| <b>Total Value of UK Equities</b>   | <b>£449m</b>                               | <b>100.00%</b>  |   |
| <b>Ad valorem fee rate</b>  |  |                 |   |
| Fund Manager 1  | 24bps per £1m                              |                 |   |
| Fund Manager 2  | 35bps per £1m                              |                 |   |
| Value of Assets as at 31/03/2019  | £464m                                      |                 |   |
| Ad valorem fee rate   | 33bps per £1m                              |                 |   |
| <b>Price Variance Workings</b>  |  |                 |   |
|   | (£464m x 70.38%) x                         |                 |   |
| <b>Current Fund Values at old fee rate:</b>   | £0.0024                                    |                 | £784,000                                |
|   | (£464m x 29.62%) x                         |                 |   |
|   | £0.0035                                    |                 | £481,000                                |
|   |  |                 | <b>£1,265,000</b>                       |
|   | <b>Current Fund Value at new fee rate:</b> | £464m x £0.0033 | <b>£1,531,000</b>                       |
| <b>Price Variance</b>   |  |                 | <b>£266,000</b>                         |
| <b>Quantity Variance Workings</b>   |  |                 |   |
|   | £0.0024 x (£449m - £464m) x                |                 |   |
| <b>Old fee rate x (old fund value - new fund value):</b>  | 70.38%                                     |                 | -£25,000                                |
|   | £0.0035 x (£449m - £464m) x                |                 |   |
|   | 29.62%                                     |                 | -£16,000                                |
| <b>Quantity Variance</b>  |  |                 | <b>-£41,000</b>                         |
| <b>Total Variance Workings</b>  |  |                 |   |
|   | £1,224,000 -                               |                 |   |
| <b>Old fees - new fees:</b>   | £1,531,000=                                |                 | -£307,000                               |
| <b>Total Variance</b>   |  |                 | <b>-£307,000</b>                        |

#### Annex 1: Techniques for Calculating Fee Savings from BCPP UK Equity Alpha Fund

**Savings Analysis from Asset Pooling**  
**Calculating price and quantity variances for an asset portfolio transferred to BCPP UK Equity Alpha Fund using 31/10/2018 valuations, as at 31/03/2019**

**Rounded to £000s**

|   |              |                |  |
|---|--------------|----------------|--|
|   |              | %              |  |
| Value of UK Equities as at as at 31/10/2018 | £316m        | 70.38%         |  |
| Value of UK Equities as at as at 31/10/2018 | £133m        | 29.62%         |  |
| <b>Total Value of UK Equities</b>           | <b>£449m</b> | <b>100.00%</b> |  |

Ad valorem old fee rate

|                |               |
|----------------|---------------|
| Fund Manager 1 | 24bps per £1m |
| Fund Manager 2 | 35bps per £1m |

|                                  |              |
|----------------------------------|--------------|
| Value of Assets as at 31/03/2019 | £464m        |
| Ad valorem new fee rate          | 0bps per £1m |

**Price Variance Workings**

|   |                               |                 |
|---|-------------------------------|-----------------|
| <b>Current Fund Values at old fee rate:</b> | (£464m x 70.38%) x<br>£0.0024 | £653,000        |
|   | (£464m x 29.62%) x<br>£0.0035 | £137,000        |
|   |                               | <b>£790,000</b> |

|  |                    |           |
|--|--------------------|-----------|
| <b>Current Fund Value at new fee rate:</b> | £464m x £0.0000bps | <b>£0</b> |
|--|--------------------|-----------|

|                       |                  |
|-----------------------|------------------|
| <b>Price Variance</b> | <b>-£790,000</b> |
|-----------------------|------------------|

**Quantity Variance Workings**

|  |                                       |          |
|--|---------------------------------------|----------|
| <b>Old fee rate x (old fund value - new fund value):</b> | £0.0024 x (£449m - £464m) x<br>70.38% | -£25,000 |
|  | £0.0035 x (£449m - £464m) x<br>29.62% | -£16,000 |

|                          |                 |
|--------------------------|-----------------|
| <b>Quantity Variance</b> | <b>-£41,000</b> |
|--------------------------|-----------------|

**Total Variance Workings**

|                             |                 |          |
|-----------------------------|-----------------|----------|
| <b>Old fees - new fees:</b> | £790,000 - £0 = | £749,000 |
|-----------------------------|-----------------|----------|

|                       |                 |
|-----------------------|-----------------|
| <b>Total Variance</b> | <b>£749,000</b> |
|-----------------------|-----------------|

|  |                 |
|--|-----------------|
| <b>Total Manager Fee Savings per annum</b> | <b>£442,000</b> |
|--|-----------------|

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