Notice of Meeting

Surrey Pension Fund Committee

Date and Time	Place	Contact	Web:
Friday, 13 September 2024 11.15 am	Council Chamber, Woodhatch Place, 11 Cockshot Hill, Reigate, Surrey, RH2 8EF	Amelia Christopher, Committee Manager amelia.christopher@surreycc.gov.uk	Council and democracy Surreycc.gov.uk **X:** @SCCdemocracy

Committee Members:

Elected Members
Nick Harrison (Chairman), David Harmer, Trefor Hogg (Vice-Chairman), Robert Hughes, George Potter and Richard Tear

Co-opted Members
Cllr Nirmal Kang (Borough & Districts), Cllr Claire Malcomson (Borough & Districts), Kelvin Menon (Employers) and Duncan Eastoe (Employees)

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 email Amelia Christopher, Committee Manager on amelia.christopher@surreycc.gov.uk.

This meeting will be held in public at the venue mentioned above and may be webcast live. Generally the public seating areas are not filmed. However, by entering the meeting room and using the public seating area or attending online, you are consenting to being filmed and recorded, and to the possible use of those images and sound recordings for webcasting and/or training purposes. If webcast, a recording will be available on the Council's website post-meeting. The live webcast and recording can be accessed via the Council's website:
https://surreycc.public-i.tv/core/portal/home

If you would like to attend and you have any special requirements, please email Amelia Christopher, Committee Manager on amelia.christopher@surreycc.gov.uk. Please note that public seating is limited and will be allocated on a first come first served basis.

AGENDA

1 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

To receive any apologies for absence and substitutions.

2 MINUTES OF THE PREVIOUS MEETING [21 JUNE 2024] (Pages 1 - 16)

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

3 DECLARATIONS OF INTEREST

All Members present are required to declare, at this point in the meeting or as soon as possible thereafter

(i) Any disclosable pecuniary interests and / or
(ii) Other interests arising under the Code of Conduct in respect of any item(s) of business being considered at this meeting

NOTES:

- Members are reminded that they must not participate in any item where they have a disclosable pecuniary interest
- As well as an interest of the Member, this includes any interest, of which the Member is aware, that relates to the Member's spouse or civil partner (or any person with whom the Member is living as a spouse or civil partner)
- Members with a significant personal interest may participate in the discussion and vote on that matter unless that interest could be reasonably regarded as prejudicial.

4 QUESTIONS AND PETITIONS

To receive any questions or petitions.

Notes:

1. The deadline for Member's questions is 12.00pm four working days before the meeting (*9 September 2024)*.
2. The deadline for public questions is seven days before the meeting (*6 September 2024)*.
3. The deadline for petitions was 14 days before the meeting, and no petitions have been received.

5 GLOSSARY, ACTION TRACKER & FORWARD PROGRAMME OF WORK (Pages 17 - 42)

For Members to consider and comment on the Pensions Fund Committee's recommendations tracker and forward programme of work.

6	**IMPROVING THE GOVERNANCE OF THE SURREY PENSION FUND** Surrey County Council (SCC) has the dual role as Administering Authority for and a scheme employer of the Surrey Pension Fund (SPF). This dual role creates potential conflicts of interest. This report recommends ways in which the governance of the SPF can be improved to enable this conflict to be more effectively managed. It also explores areas in which the recognition of the autonomy of the SPF can enhance the effectiveness of its Strategic Plan.	(Pages 43 - 126)
7	**SUMMARY OF THE LOCAL PENSION BOARD** This report provides a summary of administration and governance issues reviewed by the Local Pension Board (the Board) at its last meeting (26 July 2024) for noting or actioning by the Pension Fund Committee (the Committee).	(Pages 127 - 134)
8	**SURREY PENSION TEAM OVERVIEW - QUARTER 1** This paper is an overview of the entire service at a macro level in order to set the context for the following micro level reports from each area.	(Pages 135 - 146)
9	**CHANGE MANAGEMENT UPDATE** This paper details the Change Team Quarterly Report of activity for the period April – June 2024.	(Pages 147 - 154)
10	**DRAFT ANNUAL REPORT 2023/24** This report provides an update to the production of the 2023/24 Pension Fund Annual Report.	(Pages 155 - 324)
11	**INVESTMENT MANAGER PERFORMANCE AND ASSET/LIABILITIES UPDATE** This report is a summary of manager issues for the attention of the Pension Fund Committee, as well as an update on investment performance and the values of assets and liabilities. *Note: Part 2 annexes at item 20.*	(Pages 325 - 344)
12	**COMPANY ENGAGEMENT & VOTING UPDATE** This report is a summary of various Environmental, Social & Governance (ESG) engagement and voting issues that the Surrey Pension Fund (the Fund), Local Authority Pension Fund Forum (LAPFF), Robeco, and Border to Coast Pensions Partnership (BCPP) have been involved in, for the attention of the Pension Fund Committee (Committee).	(Pages 345 - 382)

13 RESPONSIBLE INVESTMENT UPDATE (Pages 383 - 410)

The Fund continues to implement the agreed priorities of the Pension Fund Committee (Committee) in relation to Responsible Investment (RI). It was agreed that the Fund attempt to become a signatory to the UK Stewardship Code and continue to publish a Task Force on Climate-related Financial Disclosures (TCFD) report on an annual basis.

14 ASSET CLASS FOCUS - REAL ESTATE (Pages 411 - 420)

As part of good governance, the Committee periodically reviews the performance of the Fund's investments. There is a further focused review of different asset classes. This paper concentrates on Real Estate.

15 INVESTMENT CONSULTANT UPDATE (Pages 421 - 422)

This report provides an update on investment consultancy services to the Fund.

16 RECENT DEVELOPMENTS IN LGPS (BACKGROUND PAPER) (Pages 423 - 430)

This report considers recent developments in the Local Government Pension Scheme (LGPS).

17 INVESTMENT BENCHMARKING (Pages 431 - 446)

The Fund's investment returns and associated costs should be considered in relation to other pension funds, both private and Local Government Pension Schemes (LGPS).

Note: Part 2 annexe at item 19.

18 EXCLUSION OF THE PUBLIC

Recommendation: That under Section 100(A) of the Local Government Act 1972, the public be excluded from the meeting for the following items of business on the grounds that they involve the likely disclosure of exempt information under the relevant paragraphs of Part 1 of Schedule 12A of the Act.

19 INVESTMENT BENCHMARKING (Pages 447 - 482)

Part 2 Annexe 2 to item 17 attached.

20 INVESTMENT MANAGER PERFORMANCE AND ASSET/LIABILITIES UPDATE (Pages 483 - 488)

Part 2 Annexes 1 and 2 to item 11 attached.

21 BORDER TO COAST PENSIONS PARTNERSHIP UPDATE (Pages 489 - 538)

This Part 2 paper provides the Pension Fund Committee (Committee) with an update of current activity being undertaken by BCPP.

22 PUBLICITY OF PART 2 ITEMS

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

23 DATE OF NEXT MEETING

The next meeting of the Surrey Pension Fund Committee will be on 13 December 2024.

Terence Herbert
Chief Executive
Published: Wednesday, 4 September 2024

MOBILE TECHNOLOGY AND FILMING – ACCEPTABLE USE

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Thank you for your co-operation.

QUESTIONS AND PETITIONS

Cabinet and most committees will consider questions by elected Surrey County Council Members and questions and petitions from members of the public who are electors in the Surrey County Council area.

Please note the following regarding questions from the public:

1. Members of the public can submit one written question to a meeting by the deadline stated in the agenda. Questions should relate to general policy and not to detail. Questions are asked and answered in public and cannot relate to "confidential" or "exempt" matters (for example, personal or financial details of an individual); for further advice please contact the committee manager listed on the front page of an agenda.
2. The number of public questions which can be asked at a meeting may not exceed six. Questions which are received after the first six will be held over to the following meeting or dealt with in writing at the Chairman's discretion.
3. Questions will be taken in the order in which they are received.
4. Questions will be asked and answered without discussion. The Chairman or Cabinet members may decline to answer a question, provide a written reply or nominate another Member to answer the question.
5. Following the initial reply, one supplementary question may be asked by the questioner. The Chairman or Cabinet members may decline to answer a supplementary question.

MINUTES of the meeting of the **SURREY PENSION FUND COMMITTEE** held at 11.15 am on 21 June 2024 at Council Chamber, Woodhatch Place, 11 Cockshot Hill, Reigate, Surrey, RH2 8EF.

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

Elected Members:

*	Nick Harrison (Chairman)
*	David Harmer
*	Trefor Hogg (Vice-Chairman)
*	George Potter
*	Richard Tear
*	Robert Hughes

Co-opted Members:

*	Duncan Eastoe, Employees
	Robert King, Borough & Districts
	Steve Williams, Borough & Districts
*	Kelvin Menon, Employers

In attendance
Tim Evans, Chair of the Local Pension Board

24/24 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS [Item 1]

Apologies were received from Robert King and Steve Williams. Steve Williams attended online and left the meeting at 12.06pm at the end of item 8 on the agenda (Change Programme).

25/24 MINUTES OF THE PREVIOUS MEETING [22 MARCH 2024] [Item 2]

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

26/24 DECLARATIONS OF INTEREST [Item 3]

There were none.

27/24 QUESTIONS AND PETITIONS [Item 4]

There were four public questions submitted. These and the responses were published as a supplement to the agenda.

There were three supplementary questions:

sQ1 - Jackie Macey - Thank you for your reply, however, change happens, and the judgement given by the Supreme Court yesterday is an example of this. It recognised the significance of downstream emissions and why these cannot be dismissed. Perhaps it is time for Surrey Pension Fund to demand that its investment managers urgently assess the value of any investments in the UK fossil fuel sector to quantify the likely downside impact on valuation and assess the risk of holding potentially stranded assets.

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The Chair stated that the court judgement was only yesterday and that a written response would be sent.

sQ2 - Kevin Clarke – I don't believe the response really answered my question, which was focused on fossil fuels. Anyway, I'm thinking that to reassure pension members who will no doubt have learned from yesterday's court ruling, that surely the next newsletter should state how the Pension Fund is reacting to that decision. The Chair stated that if it was helpful to expand the next newsletter that would be done.

sQ3 - Jackie Macey on behalf of Lucianna Cole - It's good to hear Pensions for Purpose offer a wide range of educational materials; with the general election fast approaching and new developments such as those following the Horse Hill judgement, it would be good to know if there are plans in place to gain more knowledge and expertise. Actions will subsequently need to be taken as regulations change, such as reviewing the Responsible Investment policy and fund objective.
The Chair noted that this was a statement rather than a question and stated that we will be looking at communications and how the Fund is reacting to climate change and other factors, including policy revisions as a consequence of a possible change of government.

28/24 GLOSSARY, ACTION TRACKER & FORWARD PLAN [Item 5]

Speakers:
Neil Mason, LGPS Senior Officer

Key points raised during the discussion:

1. The LGPS Senior Officer explained the piece of work that officers were undertaking regarding governance of the Fund and that the S151 Officer as well as Audit and Legal are being consulted. This item was due to be discussed in September, but a separate meeting may be needed to ensure enough time was given to it.

Actions/further information to be provided:
None.

Resolved:

1. That the report be noted. There were no recommendations to the Local Pension Board.
2. That progress on the action tracker was noted.
3. That the forward plan be noted.

29/24 SUMMARY OF THE LOCAL PENSION BOARD [Item 6]

Speakers:
Chair of the Pension Board, Tim Evans
Neil Mason, LGPS Senior Officer
Tom Lewis, Head of Service Delivery

Key points raised during the discussion:

1. The Chair of the Pension Board introduced the Board's summary report and particularly highlighted the slight postponement to the GMP reconciliation work, but that should be completed this year. He also explained that a number of meetings had taken place, since the Board meeting, to discuss the legacy reduction programme. The latest position is that the i-connect file was received; this was an important step forward in improving processes.
2. The Head of Service Delivery explained the latest position with the annual benefits statements and currently we were on track for issuing these by the statutory deadline (end of August). There were still some data discrepancies which were being worked on but progress had reduced the risk level.
3. A Member mentioned the work that the Resources and Performance Select Committee had undertaken on the My Surrey/Unit 4 systems, and that recommendations were due soon. He expressed concern about new starters not being added to the Pensions System. The Head of Service Delivery reported that new starter packs had now been distributed.
4. There was detailed discussion about the work undertaken with starters and leavers information in relation to employers, IT systems/data, timings and monitoring going forward.

Actions/further information to be provided:
None.

Resolved:

1. That the support of the Pension Board be noted, and
2. That no recommendations to the Pension Board were needed.

30/24 SURREY PENSION TEAM OVERVIEW - QUARTER 4 [Item 7]

Speakers:
Neil Mason, LGPS Senior Officer
Nicole Russell, Head of Change Management

Key points raised during the discussion:

1. The LGPS Senior Officer highlighted from the Dashboard report that there were three metrics below the desired target, but none were of material concern and fluctuations were expected.
2. A Member asked if the Fund was valued using the previous actuarial assumptions, would it still be over 100% funded? The LGPS Senior Officer explained that under 2022 assumptions the funding would be 98%. The in funding level in the last period was considered positive, as it was because of the asset growth rather than discount rate fluctuations.
3. A Member asked when the Dashboard information was to be made available for Committee members. The Head of Change Management explained that in the current format for this information was not available to anyone without an SCC email address. A new format was being investigated, but it was possible to provide a snapshot in time. She explained work being undertaken on improving communications.
4. Members were minded to request monthly snapshots for both the Committee and Board members.

Actions/further information to be provided:
That the Head of Change Management provide monthly snapshots of the data to Committee and Board Members.

Resolved:

That the report be noted.

31/24 CHANGE PROGRAMME UPDATE - QUARTER 4 [Item 8]

Speakers:
Nicole Russell, Head of Change Management

Key points raised during the discussion:

1. The Head of Change Management highlighted the following areas of the report:
   - The new member website had been launched
   - Members should have access to a resource SharePoint site
   - Engagement from the Team with the staff survey had increased for the third time in succession.
   - Lunch and Learn education sessions for the Team had been well received.
   - Bookings for speakers and finalisation of the agenda for the residential training was underway and would be shared with Members as soon as possible.
   - Resourcing for the 17 projects was explained.
2. In response to a Member query regarding the lunchtime session on cyber security, the Head of Change Management explained that this was session was mandatory and had been highlighted in an audit finding. A Member commented that Resources and Performance Committee had looked at performance statistics on cybersecurity and data breaches this week. Data breaches was extraordinarily low and Surrey County Council performed extremely well.
3. A Member requested that more information about the projects, which ones had gone back to business as usual, and which were the critical ones. This would help Members to understand the work.

Actions/further information to be provided:
That further information on the 17 projects be sent to the Members.

Resolved:

That the report be noted.

Steve Williams left the meeting at 12.06pm.

32/24 SURREY PENSION TEAM STRATEGIC PLAN OUT-TURN REPORT - 2023/24 FINANCIAL YEAR [Item 9]

Speakers:
Neil Mason, LGPS Senior Officer
Sara Undre, Deputy Head of Accounting & Governance
Lloyd Whitworth, Head of Investments & Stewardship
Tom Lewis, Head of Service Delivery

Key points raised during the discussion:

1. The LGPS Senior Officer introduced this report which provided performance against the first year's strategic plan of the new team, from April 2023 to April 2024.
2. In response to a query about recharges the Deputy Head of Accounting & Governance responded that recharges were being done monthly and quarterly and would be completed as business as usual now and historical undercharges had been collected.
3. In response to a query about the project to become a signatory to the Stewardship Code the Head of Investments & Stewardship explained that the application had been submitted. This was the first application for Surrey, and he noted the fail rate for first applications was high, however a response on Surrey's submission was still awaited.
4. The Chair noted the excellent work done on the legacy rollout and requested a report on it when it was nearing the end. The Head of Service Delivery explained that he was reluctant to put an end date to that but was hopeful it would be around October/November when most of the legacy cases would be resolved. There was detailed discussion about the history of this issue. The Head of Service Delivery stated that a more detailed report would be going to the Board and that would answer many of the Members' questions.

Actions/further information to be provided:
None

Resolved:

That the report be noted.

33/24 INVESTMENT MANAGER PERFORMANCE AND ASSET/LIABILITIES UPDATE [Item 10]

Speakers:
Lloyd Whitworth, Head of Investment & Stewardship

Key points raised during the discussion:

1. The Head of Investment & Stewardship introduced the report and highlighted the following points:
   a) the assets and funding ratio had both improved this quarter; the Fund was now worth about 5.8 billion.
   b) The market had been driven by equities in which the Fund has an allocation of nearly 60%.
   c) government bond markets were weak, but the Fund had a small allocation to that area.
   d) in terms of returns, the Fund was up over 5% in absolute terms.
   e) the underperformance relative to benchmark was driven by the private markets section of the portfolio where a listed equity benchmark is used as a proxy.
   f) there was underperformance from the active management funds at Border to Coast offset by some positive performance from Newton.
   g) In terms of transactions, we have now made the first investment into the Border to Coast global real estate mandate.
2. Members noted that real estate was to be discussed further under a Part 2 report later in the agenda and there was no further discussion at this point.

Actions/further information to be provided:
None.

Resolved:

That the main findings of the report in relation to the Fund's valuation and funding level, performance returns and asset allocation be noted.

34/24 COMPANY ENGAGEMENT & VOTING [Item 11]

Speakers:
Mel Butler, Deputy Head of Investment & Stewardship

Key points raised during the discussion:

1. The Deputy Head of Investment & Stewardship introduced the report and highlighted the following areas:
   - The LAPFF active engagement in the different SDGs this quarter had been on numbers 8, 16 and 17. Number 8 was "Decent Work and Economic Growth", number 16 was "Peace, Justice and Strong Institutions" and number 17 could be summarised as "Working in Partnership towards Sustainable Development". This included an initiative spearheaded by Rathbones to address and deal with modern slavery.
   - Annex 4, which was the ESG report from the Border to Coast Emerging Markets Equity Alpha Fund. When the decision was made to move from the index driven Emerging Markets fund into the actively managed Emerging Markets fund from Border to Coast, one of the goals was to reduce the carbon footprint. That has happened; the financed carbon emissions per million dollars are down over 70% and the weighted average carbon intensity (WACI) down by half.

Actions/further information to be provided:
None.

Resolved:

1. That it was reaffirmed that ESG Factors were fundamental to the Fund's approach, consistent with the Responsible Investment Policy through:
   a) Continuing to enhance its own RI approach and Sustainable Development Goal (SDG) alignment.
   b) Acknowledging the outcomes achieved for quarter ended 31 March 2024 by LAPFF and Robeco through their engagement.
   c) Noting the voting by the Fund in the quarter ended 31 March 2024.

35/24 INVESTMENT STRATEGY – FIDUCIARY DUTY AND INVESTMENT BELIEFS [Item 12]

Speakers:
Lloyd Whitworth, Head of Investment & Stewardship
Neil Mason, LGPS Senior Officer

Key points raised during the discussion:

1. The LGPS Senior Officer reminded Members about discussions at the last meeting about a series of training and reflection sessions over the summer, addressing the Fund's overall investment beliefs. He ran through the sample agenda for the proposed three sessions.
2. In response to Members comments, the Head of Investment & Stewardship explained that the first item was going to include a refresher of where the Fund had come with the SDGs.
3. The Chair explained that he wished the whole committee to be involved with the sub-committee

Actions/further information to be provided:
None.

Resolved:

1. That a sub-committee be established to consider how the Committee's fiduciary duty in law relates to the objectives of the Fund and reaffirm investment beliefs.
2. That the proposed agenda for the sub-committee sessions be accepted.
3. That any proposed changes to the investment beliefs by the sub-committee be brought back to Committee for consideration.

36/24 COMPETITION & MARKETS AUTHORITY (CMA): INVESTMENT CONSULTANT STRATEGIC OBJECTIVES [Item 13]

Speakers:
Lloyd Whitworth, Head of Investment & Stewardship
Steve Turner, Mercer

Key points raised during the discussion:

1. The Head of Investment & Stewardship introduced the report and explained that the CMA review of the investment consultant's objectives comes to each December meeting. At the last review in December, it was shown that there were several criteria and objectives that had been set in 2021 which were no longer as relevant to how we work together. As a result, the need for a review of those criteria and objectives was identified. Following that review, four of the criteria have been deleted, a couple of the objectives have been deleted and some have been merged and rewritten. The resulting criteria were more reflective of the work that Mercer were being asked to do.
2. Mercer agreed that the changes were relevant.

Actions/further information to be provided:
None.

Resolved:

That the updated Strategic Objectives for the Investment Consultant of the Fund in line with CMA requirements be approved.

37/24 LGPS UPDATE (BACKGROUND PAPER) [Item 14]

Speakers:
Neil Mason, LGPS Senior Officer
Sandy Armstrong, Technical Manager

Key points raised during the discussion:

1. The LGPS Senior Officer highlighted the letter from the outgoing minister which was written to chief executives and section 151 officers of all the pension fund administration authorities. A draft was being prepared to respond that the challenge the Minister set, to demonstrate the pace of progress to the pooling objective. Also, to consider how and if further efficiencies could be made. The Surrey Pension Fund was well placed to answer these questions favourably. The response would be shared with the Chair of the Committee and Board prior to it being sent to the new minister.
2. There was a detailed discussion on what the Cost Cap was, how it came about and its implications.
3. In response to a query about the new Pensions Regulator Code, and compliance with it, the LGPS Senior Officer explained that it was planned to present a compliance report to the Pension Board in November.

Actions/further information to be provided:
None.

Resolved:

That the report be noted.

38/24 RESPONSIBLE INVESTMENT UPDATE [Item 15]

Speakers:
Lloyd Whitworth, Head of Investment & Stewardship
David Crum, Minerva
Steve Turner, Mercer

Key points raised during the discussion:

1. The Head of Investment & Stewardship introduced the report and explained the three sections to it. These had all come from previous agreed actions for the Committee. These were:
   a) The RI policy annual review
   b) A review of the investable universe in relation to potential net zero dates
   c) The potential impact on the Fund of excluding the 25 largest fossil fuel companies

<u>Policy Review</u>

2. The Head of Investment & Stewardship stated that the policy holds up well against best practice so there had been very limited changes to some of the wording because the committee has now set a net zero date and we have brought in the new voting policy.
3. Minerva considered it from their perspective and got all the different stewardship experts to look at it from an external benchmarking perspective. He agreed the policy was in good shape.

<u>Investable Universe</u>

4. Mercer explained in detail the analysis done on several options for net zero dates. The result of which showed that the number of companies that were

aligning to 2030 and 2040 relative to 2050 were just too small in order to be able to construct a sensible diversified investment portfolio. It was therefore agreed to continue to do an annual update.

5. Mercer explained the analysis undertaken and the conclusion to the question: what does the market cap of available companies need to look like until we get to a point where we can perhaps have a more meaningful discussion about bringing forward the net zero date? Mercer's current thought was that the number of companies would need to get to around what they are for the 2050 date. It was accepted that the analysis wasn't perfect but provided a good basis on which to provide more information.
6. In response to a Member query about company interdependencies, Mercer explained that the analysis was purely factual based on the actual numbers of companies in the universe and the number of companies that have stated net zero dates.
7. A Member stated that the analysis showed the number of companies that had a 2050 date was relatively small and asked if that was because they were unable to meet at 2050 date or some other reason and what could change the situation. Mercer explained that it was a complex issue with many reasons but that it shouldn't be underestimated the amount of work and complexity that companies needed to do to put this in place.
8. The Committee discussed the moving trends shown in the analysis, with the view that due to movements the Fund should be looking at where the market will be, and not where it is now, when setting its own date.
9. The Committee went on to discuss powers of incentivisation as an investor for companies to lower their targets dates.

<u>Exclusion Exercise of 25 largest fossil fuel companies</u>

10. Mercer gave a detailed overview of the analysis undertaken. The list of companies analysed was pre agreed with the committee. Help with the analyses was sought from Border to Coast and Legal & General in order to quantify the impact on some investment and carbon metrics. Mercer looked at the impact of excluding the 25 companies from the relevant benchmarks for the equity funds, looking at the impact at the index level.
11. Mercer went on the explain the metrics, and statistical theory. The main headline was that the reduction in investable universe in terms of market cap for all the portfolios apart from UK was relatively modest, with the UK a bit more notable. The analysis then showed what impact exclusion of BP and Shell would have on returns versus the index, encapsulated by a system called "tracking error".
12. Mercer also explained that it is important to acknowledge that, if companies were excluded it could have a positive or negative effect. Acknowledging that this was a theoretical exercise to look at the impact of the investable universe, and then to think about what impact that could have on the ability to achieve expected returns and then to consider how that relates to what you need to achieve from a discount perspective. On this basis, then Mercer's view was that it was a relatively modest impact.
13. Members stated that the report merited further thought and discussion and wanted to see it on the agenda at a future meeting to discuss any divestment from fossil fuel and the impact of that as well as the process and cost of divestment. It was noted that the UK as an investment universe was overweighted towards fossil fuels compared to the global economy. It was noted that work would need to be undertaken with Managers.
14. The Committee had a detailed discussion about when and how this was to be taken forward for further discussion as it was important to discuss practicalities

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as well as principles. Changes to the recommendations was muted but it was agreed that they remain as they were, with the commitment from the Chair to include this item on future agendas and as part of the subcommittee discussions.

Actions/further information to be provided:
That the issue of divestment be raised at future meetings on the subcommittee and Committee.

Resolved:

The Committee:
a) Noted the alignment of the RI Policy to industry best practice.
b) Noted the report by Mercer, the Fund's investment consultant, on the investable universe in relation to potential Net Zero dates.
c) Noted the report by Mercer on the potential impact on the Fund from excluding the largest 25 fossil fuel companies globally from the Fund's investment universe.
d) Noted the Fund's current underlying exposure to the largest 25 fossil fuel companies.

39/24 EXCLUSION OF THE PUBLIC [Item 16]

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.

At 13.50pm the Committee adjourned for 12 minutes and reconvened at 14.02pm

Duncan Eastoe left the meeting at 13.50pm

PART TWO – IN PRIVATE

40/24 INVESTMENT MANAGER PERFORMANCE AND ASSET/LIABILITIES UPDATE [Item 17]

Resolved:

That the Part 2 annexe to item 10 on the agenda (Minute 33/24) be noted.

41/24 ACTUARIAL UPDATE [Item 18]

Speakers:
Sara Undre, Acting Deputy Head of Accounting & Governance
Colette Hollands, Senior Pensions Programme Manager

Key points raised during the discussion:

1. The Acting Deputy Head of Accounting & Governance introduced the Part 2 report and explained the reasons for requesting an extension to the actuary contract with Hymans Robertson who are content with this proposal.

Actions/further information to be provided:
None.

Resolved:

That the extension of the contract with Hymans Robertson for the provision of actuarial services to the Surrey Pension Fund; from 1 October 2024 until 30 September 2026 be approved.

42/24 ASSET CLASS FOCUS – EQUITY [Item 19]

Speakers:
Lloyd Whitworth, Head of Investment & Stewardship - introduce
Anthony Fletcher, Apex Group
Joe McDonnell, Border to Coast

Key points raised during the discussion:

1. The Independent Advisor gave a precis of the Part 2 report which focussed on equity as an asset class. He highlighted:
   a) Performance against targets for Newton, Legal & General, and Border to Coast.
   b) The longer term versus the shorter term performance and some idea of the magnitude of underperformance and outperformance.
   c) The conversation with Border to Coast had improved but highlighted areas he thought were lacking.
   d) He advised that Border to Coast must be held to account in the same way as any other investor that was used to manage our funds and three years was a reasonable period over which to assess the performance of individual managers.
2. Border to Coast explained that underperformance was a difficult situation for any asset manager and gave a brief explanation of what was happening in the portfolio. They were addressing this issue with portfolio adjustments. The representative sought to assure the Committee that he was very much focused on getting the portfolio to where it needed to be and making sure that there was better performance in a forward-looking basis.
3. The Committee discussed pools, the structure of them and comparisons between them as well as similarities of problems they faced.
4. Based on the discussions a further recommendation was added which the committee agreed.

Actions/further information to be provided:
None.

Resolved:

1. It is recommended that the Committee note the Fund's Equity holdings, their performance and the review from the Fund's Independent Investment Adviser.
2. That officers and advisors engage with the Border to Coast CIO to explore understanding and options for change.

43/24 REAL ESTATE UPDATE [Item 20]

Speakers:
Lloyd Whitworth, Head of Investment & Stewardship

Steve Turner, Mercer

Key points raised during the discussion:

1. The Head of Investment & Stewardship introduced the Part 2 report with an update on changes since March.
2. Mercer presented their Part 2 report differentiating between strategy related issues and implementation issues. In terms of strategy, Mercer were happy to support the proposals.

Actions/further information to be provided:
None.

Resolved:

1. That the review by the investment consultant of the BCPP UK Real Estate funds be noted.
2. That delegation of authority to the Interim Executive Director, Finance and Corporate Services, in consultation with the Assistant Director – LGPS Senior Officer and the Chair of the Pension Fund to invest in the BCPP UK Real Estate Main Fund, subject to necessary conditions being met was approved.

44/24 BORDER TO COAST UPDATE [Item 21]

Speakers:
Neil Mason, LGPS Senior Officer
Joe McDonnell, Ewan McCulloch and Sharmila Sikdar, Border to Coast

Key points raised during the discussion:

1. Border to Coast presented slides to the Committee that covered the development of the partnership; challenges faced, partnership evolution and the three strands to the Strategy 2030. They explained the extra services that could be provided by Border to Coast to support investment management services. This was a natural evolution for an asset owner to have the main asset manager provide these extra services. These were optional, but it was important for them to build them out for the partnership as a whole.

Actions/further information to be provided:
None.

Resolved:

1. That the further details of development of the proposed Border to Coast 2030 Strategy be noted.
2. That the minutes of the Border to Coast Joint Committee meeting of 26 March 2024, included in the background papers be noted.

45/24 PUBLICITY OF PART 2 ITEMS [Item 22]

Resolved:

That items considered under Part 2 of the agenda should not be made available to the Press and public.

46/24 DATE OF NEXT MEETING [Item 23]

The next meeting of the Surrey Pension Fund Committee will be on 13 September 2024.

VOTE OF THANKS

The Committee were informed that the Committee Manager, Angela Guest, was retiring and thanked her for the support she had provided to the Committee.

Meeting ended at: 14.58 pm

Chairman

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27/24 QUESTIONS AND PETITIONS [Item 4]

Surrey Pension Fund Committee – 21 June 2024

Item 4b - Public Questions

Written Response to supplementary question(s)

Extract from the minutes:

sQ1 - Jackie Macey - Thank you for your reply, however, change happens, and the judgement given by the Supreme Court yesterday is an example of this. It recognised the significance of downstream emissions and why these cannot be dismissed. Perhaps it is time for Surrey Pension Fund to demand that its investment managers urgently assess the value of any investments in the UK fossil fuel sector to quantify the likely downside impact on valuation and assess the risk of holding potentially stranded assets.

The Chair stated that the court judgement was only yesterday and that a written response would be sent.

RESPONSE from Border to Coast:

The supreme court's ruling referenced in the query (and attached) rules that the downstream emissions from the eventual combustion of the oil produced in The Horse Hill Oil Well Site are the direct effect of the project and should be assessed as part of the project's environmental impact assessment (EIA).

In substance, the supreme court ruling aligns with the spirit of responsible investment and the principle of integrating all material risks into decision making. As a responsible investor we expect the assessment of financially material risks to be integrated into investment decision making. Where downstream (scope 3) emissions are significant and indicate material risks (i.e. regulatory risks or carbon pricing risks associated with high emitting products) Border to Coast expect both internal and external managers to integrate appropriate risk assessment into decision making.

Internally, for both listed and private market investments, Border to Coast integrate the analysis of ESG factors (including scope 3 emissions where data is available) and associated financially material risks into our research and investment decision making. The consideration of material climate risks and the risks of stranded assets is therefore integrated into our approach when scoping potential investments. As with all financially material risks, our risk management processes monitor existing and arising climate risks that may impact valuation. Border to Coast expect external managers to also integrate the assessment and monitoring of financially material risks (including climate risks) into their investment approach and have review mechanisms to ensure that managers meet our expectations.

Engagement is integral to our approach in managing financially material risks. A focus of Border to Coasts engagement with the fossil fuel sector is medium term targets (including the setting of relevant scope 3 absolute targets). Border to Coast have engaged with Shell and TotalEnergies to set such targets and with BP to challenge the weakening of their interim emissions

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targets. Border to Coast is escalating our engagement with the fossil fuel sector. For example, at Shell's 2024 AGM, Border to Coast voted against the re-election of the Chair due to inadequate targets and decarbonisation strategy. In line with our voting policy, we also supported a shareholder proposal calling for a medium-term target that covers Scope 3 emissions and that is aligned with the Paris Agreement. As part of engagement escalation, we signalled our concern by publicly pre-declaring these votes ahead of the AGM.

The impact of climate risks (including downstream emissions) is integrated into our investment and stewardship approach to all investments including our investments in the UK fossil fuel sector.

SURREY COUNTY COUNCIL

PENSION FUND COMMITTEE

DATE:	**13 SEPTEMBER 2024**
LEAD OFFICER:	**ANNA D'ALESSANDRO, EXECUTIVE DIRECTOR, FINANCE AND CORPORATE SERVICES**
SUBJECT:	**GLOSSARY, ACTION TRACKER & FORWARD PROGRAMME OF WORK**

SUMMARY OF ISSUE:

For Members to consider and comment on the Pensions Fund Committee's (Committee) recommendations tracker and forward programme of work.

RECOMMENDATIONS:

It is recommended that the Committee is asked to: -:

1. Note the content of this report and make recommendations to the Local Pension Board if appropriate.
2. Monitor progress on the implementation of recommendations from previous meetings in Annexe 2.
3. Review and note any changes on the Forward Programme of Work in Annexe 3.

REASON FOR RECOMMENDATIONS:

A glossary has been provided as Annexe 1 so the Committee is able to reference the abbreviations and acronyms throughout the reports and agenda.

A recommendations tracker recording actions and recommendations from the previous. meetings are attached as Annexe 2, and the Committee is asked to review progress on the items listed. The Committee's workplan is attached as Annexe 3 for noting.

Contact Officer: Neil Mason, Assistant Director, LGPS Senior Officer

Annexes:

1. Annexe 1 - Glossary
2. Annexe 2 - Action Tracker
3. Annexe 3 - Forward Programme of Work

Sources/background papers:

1. None

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Glossary

FOR SURREY LOCAL PENSION BOARD REPORTS & SURREY PENSION FUND COMMITTEE

Surrey Pension Team

Surrey Pension Team

Providing our customers with a better tomorrow

Glossary

Explanation of Abbreviations and Acronyms

The following is a list of abbreviations and acronyms that have occurred in reports to the Surrey Local Pension Board or Surrey Pension Fund Committee, It is not intended to be an exhaustive list of those used throughout the Surrey Pension Fund, however it will be reviewed prior each Meeting and updated should new examples occur.

Definition - A to Z

A B C D E F G H I J

K L M N O P Q R S T

U V W X Y Z

Index	Definition
A	Back to Index
AAF	Audit and Assurance Faculty
ABS	Annual Benefit Statement
ACGA	Asian Corporate Governance Association
ACS	Authorised Contractual Scheme, the collective investment scheme used by Border to Coast for asset pooling
AI	Artificial intelligence
AICPA	American Institute of Certified Public Accountants
AIFM	Alternative Investment Fund Manager
APR	Annual Percentage Rate

ARE	Asia Research Engagements
ASB	**Accounting Standards Board:** UK body that sets accounting standards. A subsidiary body of the Financial Reporting Council
AUM	Assets Under Management
AVC	Additional Voluntary Contributions

B

[Back to Index]

B of E	Bank of England
BAU	Business as usual
BBB	British Business Bank
BCE	Benefit Crystallisation Events
BCP	Business Continuity Plan
BCPP	Border to Coast Pensions Partnership
BIA	Business Impact Assessments

C

[Back to Index]

CARE	Career Average Revalued Earnings
CAY	Compensatory Added Years
CBRE	Coldwell Banker Richard Ellis
CCB	China Construction Bank
CDP	Climate Disclosure Projects
CETV	Cash Equivalent Transfer Value
CI	Continuous Improvements
CIO	Chief Investment Officer
CIPFA	The Chartered Institute of Public Finance and Accountancy

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CLG	Communities and Local Government (former name of MHCLG)
CMA	Competition and Markets Authority
COD	Contracted Out Deduction
COO	Chief Operating Officer
COP	Conference of Parties, A UN conference on climate change
CPI	Consumer Price Index
CRC	Compliance and Reporting Committee
CRT	Customer Relationship Team
CRR	Council Risk and Resilience Forum
CSR	Corporate Social Responsibility, a term under which companies report their social, environmental, and ethical performance

D

Back to Index

DAA	Dynamic Asset Allocation
DCU	Deferred choice underpin
DGF	Diversified Growth Fund
DLUHC	Department for Levelling up, Housing and Communities
DWP	Department for Work and Pensions

E

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ECB	European Central Bank
ELT	Extended Leadership Team
EM	Emerging Markets
EMEA	Europe, The Middle East & Africa
EMT	Emergency Management Team

ESG	Environmental, Social and Governance – factors in assessing an investments sustainability
ESOG	Effective System of Governance
EU	European Union
EY	Ernst and Young

F [Back to Index]

FAIRR	Farm Animal Investment Risk and Return
FED	Federal Reserve
FCA	Financial Conduct Authority
FOI	Freedom of Information
FRC	Financial Reporting Council
FSS	Funding Strategy Statement
FTA	FTSE Actuaries UK Gilts Index Series
FTSE	Financial Times Stock Exchange
FX	Foreign Exchange

G [Back to Index]

GAAP	Generally Accepted Accounting Practice
GAD	Government Actuary's Department
GDP	Gross Domestic Product
GEM	Global Emerging Markets
GMP	Guaranteed Minimum Pension
GRESB	Global ESG Benchmark for Real Assets

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H	[Back to Index]
HMRC	His Majesty’s Revenue and Customs
HMT	His Majesty’s Treasury
I	[Back to Index]
IAASB	International Auditing and Assurance Standards Board
ICARA	Internal Capital and Risk Assessment
ICGN	International Corporate Governance Network
IDRP	Internal Dispute Resolution Procedure
IFAC	International Federation of Accountants
IIGCC	Institutional Investor Group on Climate Change
INFRA.	Infrastructure
IPDD	Investor Policy Dialogue on Deforestation
IRR	Internal Rate of Return
ISAE3402	The International Standard on Assurance Engagements (ISAE) number 3402 supersedes SAS70, “Assurance Reports on Controls at a Service Organisation”, was introduced in December 2009 by the International Auditing and Assurance Standards Board (IAASB), which is part of the International Federation of Accountants (IFAC).
ISSB	International Sustainability Standards Board
ISS	Investment Strategy Statement
ISP	integrated service providers
J	[Back to Index]
JC	Joint Committee

K	**Back to Index**
KOSPI	Korea Composite Stock Price Index
KPIs	Key Performance Indicators
KRX	Korea Exchange
L	**Back to Index**
LAC	Lifetime Allowance Charge
LAEF	Lifetime Allowance Enhancement Factor
LAPFF	Local Authority Pension Fund Forum
LGA	Local Government Association
LGE	Local Government Employers
LGIM	Legal and General Investment Management
LGPS	Local Government Pension Scheme
LIBOR	London Inter Bank Offered Rate, a benchmark interest rate at which global banks lend to one another
LOLA	Local Government Pension (LGPS) Scheme Online Learning Academy
LPB	Local Pension Board
LSA	Lump Sum Allowance
LSDBA	Lump Sum and Death Benefit Allowance
LSE	London Stock Exchange
LTA	Lifetime Allowance
M	**Back to Index**
MAC	Multi Asset Credit
MaPS	Money and Pensions Service

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MHCLG	Ministry of Housing, Communities and Local Government
MI	Management Information
MSCI	Formerly Morgan Stanley Capital International, publisher of global indexes

N

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NED	Non-Executive Director
NRA	Normal Retirement Age
NT	Northern Trust, Global Custodian

O

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OECD	Organisation for Economic Co-operation and Development
OOG	Officer Operations Group
ORA	Own Risk Assessment
OTA	Overseas Transfer Allowance

P

Back to Index

PASA	Pension Administration Standards Association
PCLS	Pension Commencement Lump Sum
PDP	Pensions Dashboard Programme
PF	Pension Fund
PFC	Pension Fund Committee
PLSA	Pensions and Lifetime Savings Association
PMI	Purchasing Managers' Index
PRI	The UN-supported Principles for Responsible Investment
PSLT	Pension Senior Leadership Team

PSPS	Public Service Pension Scheme
Q	**Back to Index**
QROPS	Qualifying Recognised Overseas Pension Schemes
R	**Back to Index**
RBCE	Relevant Benefit Crystallisation Events
RI	Responsible Investment
RPI	Retail Price Index
S	**Back to Index**
S&P	Standard and Poors, ratings agency and provider of equity indices
S151	An officer with responsibilities under s151 of the Local Government Act 1972.
SAB	Scheme Advisory Board
SAS70	Statement on Auditing Standards (SAS) No. 70 – relating to service organisation control reports – successor reports include information about a service organisation's controls and risk management procedures relating to financial reporting (SSAE16/ISAE3402) or to security, availability, processing integrity, confidentiality and privacy (SOC2)
SCC	Surrey County Council
SCAPE	Superannuation Contributions Adjusted for Past Experience
SDG	Sustainable Development Goals
SEC	Security and Exchange Commission
SLA	Service Level Agreements
SLA	Standard Lifetime Allowance
SILB	Sterling Index Linked Bonds

SOC2	System and Organisation Controls type 2 - SOC 2, aka Service Organization Control Type 2, is a cybersecurity compliance framework developed by the American Institute of Certified Public Accountants (AICPA). The primary purpose of SOC 2 is to ensure that third-party service providers store and process client data in a secure manner.
SONIA	Sterling Over Night Index Average, the overnight interest rate paid by banks
SPA	State Pension Age
SPT	Surrey Pension Team
SSA16	SSAE 16, or the Statement on Standards for Attestation Engagements No. 16, is a set of auditing standards and guidance on using the standards published by the Auditing Standards Board of the American Institute of Certified Public Accountants (AICPA) for redefining and updating how service companies report on compliance control

T [Back to Index]

TCFD	Taskforce on Climate Related Financial Disclosures
TPO	The Pension Ombudsman
tPR	The Pensions Regulator
TPAS	The Pension Advisory Service (formerly OPAS)
TPS	Teachers' Pension Scheme
TV	Transfer Value

U [Back to Index]

UFPLS	Uncrystallised Funds Pension Lump Sum
UN SDGs	United Nations Sustainable Development Goals

W [Back to Index]

WBA	World Benchmarking Alliance

WCA	Web Content Accessibility
WDI	Workforce Disclosure Initiative

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Accounting Terms

5

Definition - A to Z

A	B	C	D	E	F	G	H	I	J
K	L	M	N	O	P	Q	R	S	T
U	V	W	X	Y	Z				

A Back to Accounting Definitions

Accounting Period
The length of time covered by the accounts. In the case of these accounts, it is the year from 1 April to 31 March.

Accrual Basis
The accruals principle is that income is recorded when it is earned rather than when it is received, and expenses are recorded when goods or services are received rather than when the payment is made.

Accrued Expense
Expenses that have been incurred but not yet paid.

Accrued Revenues
Revenues that have been earned but not yet received.

Actuarial Gains and Losses
Changes in the estimated value of the pension fund because events have not coincided with the actuarial assumptions made or the assumptions themselves have changed.

Actuarial Valuation
A three yearly valuation of the Fund undertaken by the Actuary to ensure that the Pension Fund is sufficiently well managed and that its assets meet its liabilities. Employer contribution rates are set as part of the valuation process.

Actuary
A professionally qualified independent person appointed by the administering authority in order to value the Pension Fund and therefore set contribution rates.

Amortisation
A measure of the cost of economic benefits derived from intangible assets that are consumed during the period.

Asset
Any resource owned by an entity that has economic value and is expected to provide future benefits.

Audit
An independent examination of an organisation's financial statements and related operations to ensure accuracy and compliance with applicable laws and regulations.

B Back to Accounting Definitions

Balance Sheet
A financial statement that shows an organisation's assets, liabilities, and equity at a specific point in time.

Balances
These represent the accumulated surplus of revenue income over expenditure.

Book Value
The value of an asset as it appears on the balance sheet, calculated as the asset's original cost minus accumulated depreciation.

Budget
An expression, mainly in financial terms, of the Authority’s intended income and expenditure to carry out its objectives.

C Back to Accounting Definitions

Capital Adjustment Account
The Account accumulates (on the debit side) the write-down of the historical cost of non-current assets as they are consumed by depreciation and impairments or written off on disposal. It accumulates (on the credit side) the resources that have been set aside to finance Capital expenditure. The balance on the account thus represents timing differences between the amount of the historical cost of non-current assets that has been consumed and the amount that has been financed in accordance with statutory requirements.

Capital
Financial assets or the financial value of assets such as cash, equipment, and property.

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Capital Expenditure
Payments for the acquisition, construction, enhancement, or replacement of non-current assets that will be of use or benefit to the Authority in providing its services for more than one year.

Cash Equivalents
Short term, highly liquid investments readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

Cash Flow Statement
A financial statement that shows the cash inflows and outflows from operating, investing, and financing activities.

Chartered Institute of Public Finance and Accountancy (CIPFA)
CIPFA is the main professional body for accountants working in public services.

Contingent Liability
A contingent liability is either:

- A possible obligation arising from a past event whose existence will be confirmed by the occurrence of one or more uncertain future events not wholly within the control of the Authority; or
- A present obligation arising from past events where it is not probable that there will be an associated cost, or the amount of the obligation cannot be accurately measured.

Creditors
Amounts owed by the Authority for work done, goods received, or services rendered, for which payment has not been made at the balance sheet date.

Current Service Cost
Current Service Cost is the increase in the present value of a defined benefit pension scheme's liabilities expected to arise from employee service in the current period, i.e. the ultimate pension benefits "earned" by employees in the current year's employment.

D

Back to Accounting Definitions

Debit
An entry that represents an increase in assets and a decrease in liabilities or equity. It represents the ownership interest.

Debtors
Amounts due to the Authority that have not been received at the balance sheet date.

Depreciation

The measure of the consumption, wearing out or other reduction in the useful economic life of non-current assets that has been consumed in the period.

E Back to Accounting Definitions

Employee Benefits

Amounts due to employees including salaries, paid annual leave, paid sick leave, and bonuses. These also include the cost of employer's national insurance contributions paid on these benefits, and the cost of post-employment benefits, i.e. pensions.

Equity

The residual interest in the assets of an entity after deducting liabilities. It represents the ownership interest.

Expected Rate of Return on Pensions Assets

The average rate of return, including both income and changes in fair value but net of scheme expenses, expected over the remaining life of the related obligation on the actual assets held by the pension scheme.

F Back to Accounting Definitions

Fair Value

The amount for which an asset could be exchanged, or a liability settled, in an orderly transaction between market participants at the measurement date.

Fair Value Hierarchy and Inputs

In measuring fair value of assets and liabilities, the valuation technique used is categorised according to the extent of observable data that is available to estimate the fair value – this is known as the fair value hierarchy. Observable inputs refers to publicly available information about actual transactions and events in the market. Unobservable inputs are used where no market data is available and are developed using the best information available. The fair value hierarchy has three levels of inputs: Level 1: Quoted prices for identical items in an active market – i.e. the actual price for which the asset or liability is sold; Level 2: Other significant observable inputs – i.e. actual prices for which similar assets or liabilities have been sold; Level 3: Unobservable inputs – i.e. where market data is not available and other information is used in order to arrive at a best estimate of fair value.

Financial Accounting

The branch of accounting focused on recording summarizing and reporting an organisation's financial transactions to external users.

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Financial Instrument

Any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another. The term covers both financial assets and financial liabilities, from straightforward trade receivables (invoices owing) and trade payables (invoices owed) to complex derivatives and embedded derivatives.

Financial Ratios

Metrics used to evaluate a company's financial performance and Liquidity such as current ration, debt to equity ratio, and return on equity.

G Back to Accounting Definitions

General Fund

The main revenue fund of the Authority which is used to meet the cost of services paid for from the Pension Fund for which the Authority is the administering authority.

General Ledger

A complete record of all financial transactions of a business organised by accounts.

Goodwill

The excess of the purchase price of a business over the fair value if its identifiable assets and liabilities.

I Back to Accounting Definitions

Income Statement

A financial statement that shows an organisation revenues, expenses and net income or loss over a specific period.

Intangible Assets

Assets that do not have physical substance but are identifiable and controlled by the Authority. Examples include software and licences.

Interest Cost

For defined benefit pension schemes, the interest cost is the present value of the liabilities during the year as a result of moving one year closer to being paid.

J Back to Accounting Definitions

Journal Entry

The recording of a financial transaction in the accounting system.

Journal

The record where all financial transactions are initially recorded before they are posted to ledger accounts.

L Back to Accounting Definitionss

Leasing
A method of acquiring the use of capital assets for a specified period for which a rental charge is paid.

Liability
An amount due to individuals or organisations which will have to be paid at some time in the future. Current liabilities are those that are payable within one year of the balance sheet date.

N Back to Accounting Definitions

Net Book Value
The amount at which fixed assets are included in the balance sheet, i.e. their historical cost or current value, less the cumulative amount provided for depreciation.

Non-Current Asset
An item that yields benefit to the Authority for a period of more than one year.

O Back to Accounting Definitions

Operating Expenses
Expenses incurred in the ordinary course of business such as rent, salaries and utilities.

Overhead
The indirect costs of running a business such as administrative expense and utilities.

P Back to Accounting Definitions

Past Service Cost
Past service costs arise from decisions taken in the current year but whose financial effect is derived from service earned in earlier years.

Prepaid Expenses
Expenses paid in advance which will be recognised as expense in future accounting periods.

R Back to Accounting Definitions

Reserves
The residual interest in the assets of the Authority after deducting all of its liabilities. These are split into two categories, usable and unusable. Usable reserves are those reserves that contain resources that an authority can apply to fund expenditure of either a revenue or capital nature (as defined). Unusable reserves are those that an

authority is not able to utilise to provide services. They hold timing differences between expenditure being incurred and its financing e.g. Capital Adjustment Account.

Retained Earnings
The cumulative earnings of a company that have not been distributed to shareholders as dividends.

Revenue Expenditure
Spending incurred on the day-to-day running of the Authority. This mainly includes employee costs and general running expenses.

S Back to Accounting Definitions

Statement of Retained Earnings
A financial statement that shows the changes in retained earnings over a specific period, including net income, dividends and prior period adjustments.

T Back to Accounting Definitions

Tax Accounting
The branch of accounting focused on calculating and managing taxes owned by an organisation to governmental agencies.

Trial Balance
A list of all the account balance s in the ledger to check the accuracy of the debits and credits

U Back to Accounting Definitions

Useful Economic Life
The period over which the Authority expects to derive benefit from non-current assets.

W Back to Accounting Definitions

Write off
The difference between current assets and current liabilities representing the short-term financial health of a business.

Working Capital
The difference between current assets and current liabilities, representing the short-term financial health of a business.

Further definitions A- Z glossary of pension terms and abbreviations and what they mean can be found on the Surrey Pension website

Annexe 2

Surrey Pension Fund Committee Action Tracker

ACTIONS

Number	Meeting Date	Item	Recommendation / Action	Action by whom & when	Action update
9/23	15 Dec 2023	Public Questions (member follow-up question as permitted by the chair).	For the Chair and Officers to consider the best course of action to keep the Committee briefed on the implications of COP 28.	Senior LGPS Officer	The Chair notes officer updates to the Committee on COP 28 (January 8th from Border to Coast and February 19th from the investment consultant, Mercer) and is satisfied that the Committee have been provided with appropriate information on the outputs and the implications for the investment approach of COP 28. **COMPLETE**
3/24	21 June	Surrey Pension Team Overview	That the Head of Change Management provide monthly snapshots of the data to Committee and Board Members.	Head of Change Management	This will be implemented once all suggested dashboard amendments have been made. This is expected to be complete by the next meeting.
4/24	21 June	Change Programme Update	That further information on the 17 projects be sent to the Members.	Head of Change Management	These are included on the agenda as an annexe. **COMPLETE**
5/24	21 June	Responsible Investment Update	That the issue of divestment be raised at future meetings on the subcommittee and Committee.	Head of Investment & stewardship	To be further considered at the off-site investment beliefs session at the October 2024.

Annexe 2

Surrey Pension Fund Committee Action Tracker

COMPLETED RECOMMENDATIONS/REFERRALS/ACTIONS – TO BE DELETED

1/24	22 March 2024	Change Programme Update - Quarter 3	Share explanations of the audit ratings with Committee Member.	Governance Manager	Email sent to Committee Member Audit Opinions and Definitions 8/4/2024 **COMPLETE**
2/24	22 March 2024	New Investment Propositions	That Border to Coast be requested to share the webinar presentation with Members of the Committee.	Head of Investment & Stewardship	BCPP UK Opportunities presentation to economic development stakeholders within Partner Fund Councils. - Circulated Slides to Pension Fund Committee members -12/04/2024 **COMPLETE**

Surrey Pension Team

Standing Item for each meeting

Item Number	Report Title	Responsible Service within Pensions
1.	Glossary, Action Tracker, Forward Programme of work	A&G
2.	Surrey Pension Team Overview – Dashboard update	All – A&G, I&S, CM,SD
3.	Change Programme Update	CM
4.	Surrey Local Pension Board Summary	A&G
5.	Border to Coast Pension Partnership update (BCPP)	I&S
6.	Investment and Funding Update	I&S
7.	Engagement and Voting Update	I&S
8.	Asset Class Focus	I&S
9.	Responsible Investment	I&S
10.	LGPS – Background report	A&G

Key

Accounting & Governance (A&G)

Investment & Stewardship (I&S)

Change Management (CM)

Service Delivery (SD)

Pension Fund Committee Forward Programme of Work Annexe 3

Surrey Pension Team

Date: 13 Sept 2024

Item Number	Report Title	Responsible Service within Pensions
11.	Draft Annual Report	All
12.	Investment Fee Benchmarking	I&S
13.	Improving the Governance of the Surrey Pension Fund	CM
14.	Investment Consultant Update	I&S

Date:13 Dec 2024

Item Number	Report Title	Responsible Service within Pensions
15.	Investment Consultant CMA review	I&S
16.	Consider findings of the investment beliefs	I&S

Date: 23&24 October 2024

Two day – Board & Committee Residential Training

Date: 21 March 2025

Item Number	Report Title	Responsible Service within Pensions
17.	Investment Consultant CMA review	I&S
18.	Communication Policy	CM
19.	Training Policy	CM

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SURREY PENSION FUND COMMITTEE REPORT

Surrey Pension Team

SURREY COUNTY COUNCIL

SURREY PENSION FUND COMMITTEE

DATE: 13 SEPTEMBER 2024

LEAD OFFICER: ANNA D'ALESSANDRO, EXECUTIVE DIRECTOR, FINANCE AND CORPORATE SERVICES

SUBJECT: IMPROVING THE GOVERNANCE OF THE SURREY PENSION FUND

SUMMARY OF ISSUE:

Surrey County Council (SCC) has the dual role as Administering Authority for and a scheme employer of the Surrey Pension Fund (SPF). This dual role creates potential conflicts of interest. This report recommends ways in which the governance of the SPF can be improved to enable this conflict to be more effectively managed. It also explores areas in which the recognition of the autonomy of the SPF can enhance the effectiveness of its Strategic Plan.

RECOMMENDATIONS:

It is recommended that the Pension Fund Committee:

1. Supports the proposed changes to the Council's Pension Fund Committee Terms of Reference and Scheme of Delegations and recommends approval of these changes to SCC at the Full Council meeting of 8 October 2024.

2. Notes that officers are exploring options for the future of SPF, as outlined in this report. Any proposed options to be taken forward will be subject to further consideration by the Pension Fund Committee and the Council's governance, legal and financial due diligence.

REASON FOR RECOMMENDATIONS:

To optimise the performance of the SPF, by more effectively recognising the distinct relationship and management of conflicts of interest with SCC, allowing it to meet its strategic vision, allow for more cost effectiveness and equiping it to meet future changes to the LGPS (please see Background document 1).

DETAILS:

Background

1. Every Local Government Pension Scheme (LGPS) is legislatively required to have an Administering Authority that is ultimately responsible for managing and administering the scheme. At SCC this responsibility is delegated to the Pension Fund Committee, as laid out in the Constitution of Surrey County Council, Part 3, Section 2. There is also a Local Pension Board which is

charged with ensuring the Committee complies with relevant LGPS regulations and pension law.

2. This governance structure creates challenges and discrepancies:

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a) There is a potential for conflicts of interest e.g. SCC is both the Administering Authority and an employer within the scheme. SCC could therefore exert undue influence which may not be in the best interests of all the 360+ other employers in the scheme. This can also manifest itself organisationally through strategic misalignment.

b) Although Surrey residents are a key stakeholder of the SPF its primary customers are members and employers of the scheme. The SPF has a fiduciary duty to the members and employers of the scheme.

c) The SPF team is subject to all the policies of SCC. The cost of those resources necessary for delivering the administering authority role is met from the pension fund (under Regulation 4(5) of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009). There is therefore no direct impact on SCC's revenue account costs.

d) The current pressure on resources faced by SCC is recognised. However, as laid out by the Scheme Advisory Board (SAB), Administering Authorities must ensure that sufficient resources are maintained to meet the statutory obligations placed on them to manage the scheme. Where sufficient resources are not provided, there are a number of potentially negative outcomes including:

   i) Censure by the Pensions Regulator (TPR) for non-compliance with the requirements of the Public Service Pensions Act 2013 and other primary legislation.

   ii) Findings against SCC by the Pensions Ombudsman.

   iii) Failure to fulfil financial responsibilities in accordance with Accounts and Audit (England) regulations 2011.

   iv) Failure of internal control systems for financial and investment activities (Accounts and Audit (England) regulations 2011 and CIPFA/LASAAC code of practice).

   v) Overpayment or underpayment of pension amounts.

   vi) Incomplete data leading to valuation assumptions which could result in increased employer contributions.

   vii) Incorrect tax liabilities for the authority, participating employers, and scheme members.

3. A reviw of the current governance artefacts was completed by an independent pensions industry expert (Barnett Waddingham) in late 2023. This review, combined with internal audit recommendations, the Scheme Advisory Board (SAB) Good Governance project and the new Pensions Regulator's (TPR) General Code of Practice suggests that SPF should evolve its governance to:
   - ensure it has sufficient independence to effectively manage conflicts of interest
   - enable SPF to achieve its vision
   - future proof the organisation to any governance changes proposed by the Government as part of its review of pensions
   - safeguard the interests of its members and employers.

6

Governance changes

4. The SPF has a rolling 3-year strategic plan which highlights its roadmap to become a trailblazing LGPS Fund. We are committed to ensuring that the Fund completes its transformation and builds the organisational capability and resilience to ensure it is well positioned to be the leader in its response to anticipated changes in the pension industry.

5. This paper recommends that, in order to deliver the Strategic Plan and provide a first class and cost-effective service for the benefit of its members and employers (including SCC), the SPF requires greater recognition of its autonomy within existing structures. The SPF has drawn on four sources of evidence to inform our recommendations:

   a) An independent governance review

   b) Recommendations of Internal Audit

   c) Recommendations of the SAB Good Governance Project

   d) Guidance from TPR in its new General Code of Practice

Independent Review

6. An independent review of the current governance artefacts was completed by an independent pensions industry expert (Barnett Waddingham) in late 2023 (See Annexe 1). The objectives of the review were as follows:

   a) Make the governance and supporting arrangements for the LGPS function work more effectively and efficiently.

   b) Ensure conflicts of interest between the council and LGPS function are managed.
   c) Ensure the independence of the LGPS function is recognised.

7. The review recommends the increased use of delegations. Under this proposal the Pension Fund Committee would retain the principal role of oversight and strategic decision making in all areas of the LGPS function while delegating the majority of functional and implementation decisions to officers. This would:

6

   a) Enable the committee to concentrate its time and resources on material matters for which it is accountable to the full council and ultimately the local taxpayer.

   b) Significantly reduce the potential for actual or perceived conflict of interest.

   c) Increase the ability of officers to act swiftly and efficiently in delivering the LGPS function.

Internal audit recommendations

8. In April 2023 the Surrey Internal Audit team reviewed the current governance structure of the SPF (See Annexe 2). The following risks and mitigations were recommended with regard to "Clarity Regarding Committee Roles:

   Risk:
   "One of the key objectives of the Good Governance Review was to consider how potential conflicts of interest manifest themselves within current LGPS set up, including recognition of the dual role of the Council as the Administering Authority and a scheme employer in the Fund, and to suggest how those potential conflicts can be managed to ensure that they do not become actual conflicts."

   Recommended mitigations:

   a) *"Develop a comprehensive matrix of roles and responsibilities.*

   b) *Undertake discovery work in the context of the relationships with the Council, Staff, IT, Cyber Security, Accommodation etc.*

   c) *The Governance matrix will clearly lay out the decision-making powers and delegations.*

   d) *Ensure the Scheme of delegations and constitution are amended and approved by full Council.*

   e) *Creation of a Conflict of Interest Policy."*

The SAB Good Governance Project

9. The Good Governance project was instigated by the SAB to examine the effectiveness of LGPS governance models and consider enhancements to further strengthen governance. After a procurement exercise, Hymans Robertson were appointed by the Board in January 2019 to work alongside scheme stakeholders to identify best practice and propose beneficial changes to regulations or guidance.

10. In the February 2021 Scheme Advisory Board Meeting, the Board considered the final report from Hymans Robertson (See Background paper 2).

11. This included the need for the creation of a “Senior LGPS Officer” to ensure that the role of the pension fund and LGPS matters are understood and represented at the local authority’s senior leadership level. The SPF created this role in 2022 and recommendations in this report allow for closer alignment of it with the recommendations of the Good Governance project. 6

12. It also included the following with regards to the potential conflict between the Council as administering authority and employer:

    a) *“Each fund must produce and publish a conflicts of interest policy which includes details of how actual, potential and perceived conflicts are addressed within the governance of the fund, with specific reference to key conflicts identified in the Guidance.*
    b) *The Guidance should refer all those involved in the management of the LGPS, and in particular those on decision making committees, to the guide on statutory and fiduciary duty which will be produced by the SAB.”*

<u>Guidance from TPR in its General Code of Practice</u>

13. In March 2024 TPR published a new General (Single) Code of Practice (see Background paper 3) under the powers given to us in section 90 and section 90A of the Pensions Act 2004 and is a combined code in accordance with section 90A(6)(a).

14. The new code merged ten of the existing TPR codes of practice into one, this included the public service pension code, and the LGPS has a statutory duty to comply with it.

15. TPR describes conflicts of interest as follows:

    “Conflicts of interest may arise from time to time while running a pension scheme, either among members of the governing body themselves, or with service providers, sponsoring employers, advisers, and others. Conflicts can also arise for members of the governing body who for example, are members of the scheme or who represent trade unions. Conflicts of interest may be either actual conflicts or potential conflicts. Unless otherwise stated, references to ‘conflicts of interest’ include both actual and potential conflicts.”

<u>Proposed governance changes</u>

16. A number of minor proposed changes are recommended to the Pension Fund Committee’s Terms of Reference and the Council’s Scheme of Delegations.

17. It is proposed to amend the Pension Fund Committee’s Terms of Reference to allow for formal recognition of the potential conflict of Surrey County Council in its dual role as Administering Authority for and scheme employer of the Surrey Pension Fund. The following addition is recommended:

“j) To consider and approve an annual conflict of interest policy, which shall include how the potential conflict of Surrey County Council in its dual role as Administering Authority for and scheme employer of the Surrey Pension Fund is managed.”

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18. Proposed changes to the Council’s Scheme of Delegations primarily reflect the current ways of working - where responsibility for the operation of the SPF is delegated to the Senior LGPS Officer and will formalise the reporting line directly to the Section 151 Officer. These changes help to ensure that the SPF has appropriate senior representation in the organisation, enabling a clear line of sight and support to the Section 151 Officer and providing unimpeded dialogue and response for what is a key part of the Section 151 responsibilities.

19. An example of changes on a day-to-day basis would be the formal identification of the LGPS Senior Officer as lead officer for the SPF in reports to the Pension Fund Committee and Local Pension Board. In addition, decisions regarding pension fund matters (e.g. cash transfers) will be exclusively delegated to pension fund officers with appropriate expertise. The full list of proposed changes to the Terms of Reference and Scheme of Delegations is included as Annexe 3.

20. It is also suggested that these proposed changes will allow SCC to more effectively manage any inadvertent moral hazards and reputational risk as well as providing greater clarity on roles and responsibilities. This ultimately leads to stronger organisational control, compliance to regulations and better service provision.

Future proposals in recognition of the autonomy of the SPF

Policies

21. Subject to approval of the proposed governance changes and consistent with Internal Audit Recommendations, the SPF will bring a SPF Conflict of Interest Policy and Roles and Responsibilities Matrix to the Pension Fund Committee for approval.

The identity of the SPF

22. Drawing on collateral from the SPF Customer Insights project and further anecdotal evidence, there is confusion amongst SPF customers regarding the SPF relationship with SCC. This prohibits the effective and efficient delivery of service.

23. Subject to approval of the proposed governance changes, to remedy this, it is recommended that the SPF explores how it may bring more clarity to its identity.

Systems and services

24. Subject to approval of the proposed governance changes and consistent with internal audit recommendations, a thorough review should be conducted of the services that are cross charged to SPF such including Staff, IT, Cyber Security, Accommodation, etc to ensure that the current level of service is fit for purpose and is appropriate for its longer-term strategic plan aspirations. As a first stage it is proposed to benchmark costs and have clear service level agreements in place. 6

Future proofing the Fund

25. On 16 August 2024 the Government shared the Terms of Reference of its pension review. This will include *“tackling fragmentation and inefficiency in the Local Government Pension Scheme through consolidation and improved governance”*, in order to improve *“the affordability and sustainability of the Local Government Pension Scheme in the interest of members, employers and local taxpayers”.*

26. The proposals in this report are consistent with the ask from Government to improve governance. Increased autonomy will allow the SPF to be nimbler to respond to future industry developments and allow both the SPF and SCC to be at the forefront of change.

27. The SPF will continue to investigate governance options that exist within primary pensions legislation. There are a number of potential options which will be fully explored before bringing any further recommendations as and when appropriate.

CONSULTATION:

28. The Chair of the Pension Fund Committee and Chair of the Local Pension Board and the SCC Corporate Leadership Team to be consulted on this report.

RISK MANAGEMENT AND IMPLICATIONS:

29. Any relevant risk related implications have been considered and are contained within the report.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS:

30. The cost of the resources necessary for implementing the changes recommended above and for delivering the administering authority role is met from the pension fund (under Regulation 4(5) of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009).

EXECUTIVE DIRECTOR OF FINANCE & CORPORATE SERVICES (S151 OFFICER) COMMENTARY:

31. The Executive Director of Finance and Corporate Services (s151 Officer) is supportive of the proposed changes and satisfied that all material, financial

and business issues and possibility of risks have been considered and addressed.

LEGAL IMPLICATIONS – MONITORING OFFICER:

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32. The County Council has delegated responsibility to the Pension Fund Committee for its statutory functions as the Administering Authority for the SPF. The scheme of delegations is the function of full Council and Legal will be part of any future options appraisal to ensure the Council undertakes its full due diligence.

EQUALITIES AND DIVERSITY:

33. There are no equality or diversity issues.

OTHER IMPLICATIONS:

34. There are no other implications.

NEXT STEPS:

35. The following steps are planned:

a) Take the proposed changes to the Council's Pension Fund Committee Terms of Reference and Scheme of Delegations to the County Council for approval at its meeting of 8 October 2024.

b) Subject to County Council approval of changes to the Council's Pension Fund Committee Terms of Reference and Scheme of Delegations officers to begin discovery work of the SPF as outlined in this report, in the areas of policy, identity, accommodation, people, systems and services and future proofing.

Contact Officer:

Neil Mason, Assistant Director – LGPS Senior Officer

Annexes:

1. Independent governance review (Barnett Waddingham)
2. Internal Audit Report: Pension Fund Governance
3. Proposed changes to the Pension Fund Committee Terms of Reference and Scheme of Delegations

Sources/Background papers:

1. Surrey Pension Team 2024/25 Strategic Plan PowerPoint Presentation (surreycc.gov.uk)
2. Good_Governance_Final_Report_February_2021.pdf (lgpsboard.org)
3. Conflicts of interest TPR code module | The Pensions Regulator

4. Pension Fund Committee Terms of Reference SECTION 2 (surreycc.gov.uk)
5. Scheme of officer delegations SERVICES FOR COMMUNITIES (surreycc.gov.uk)
6. Government pension review Terms of Reference - GOV.UK (www.gov.uk)

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Annexe 1

BARNETT WADDINGHAM
beyond the expected

Surrey Pension Fund

Review of the current governance arrangements and options for change

Barnett Waddingham LLP
20 August 2024

Version 2
CONFIDENTIAL

Surrey Pension Fund

Review of the current governance arrangements and options for change

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Review of the current governance arrangements and options for change

Disclaimer

This document has been prepared at the request of Surrey County Council (SCC) in its capacity as a Local Government Pension Scheme (LGPS) administering Authority. The information contained in this document is based on our understanding of current and proposed legislation and practice which may be subject to future variation. This document is not intended to provide nor must be construed as legal advice.

Regulatory references

In this document any reference to regulations or to specific provisions of regulations should be treated as referring to the following:

- The 2013 Regs – The Local Government Pension Scheme Regulations 2013
- The 2016 Regs – The LGPS (Management and Investment of Funds) Regulations 2016

Likewise, any reference to Acts should be treated as referring to the following:

- The 1972 Act – The Local Government Act 1972
- The 1989 Act – The Local Government and Housing Act 1989
- The 1999 Act – The Local Government Act 1999
- The 2009 Act – The Local Democracy, Economic Development and Construction Act 2009
- The 2011 Act - The Localism Act 2011
- The 2013 Act – The Public Service Pensions Act 2013
- The 2023 Act – The Levelling-up and Regeneration Act 2023

unless specified as otherwise.

Relevant extracts from the above legislation can be found in the ANNEX to this report.

Client Requirements

Options under current legislation

SCC wishes to explore options for the greater segregation of governance and supporting functions in relation the administering authority function from those of other functions within the council. Such options are to be limited to those which are possible under current legislation, including options requiring the consent of the council and the Secretary of State.

The objectives for these options would be to:

- Make the governance and supporting arrangements for the LGPS function work more effectively and efficiently.
- Ensure conflicts of interest between the council and LGPS function are managed.
- Ensure the independence of the LGPS function is recognised.

In seeking to achieve these options SCC seeks to acknowledge the unique status of the LGPS function in that:

1. Although the pension fund is a revenue reserve of the council it is ringfenced to the extent of having a single purpose – that of paying pensions.
2. The costs of management and administration associated with the LGPS function may be met from the pension fund and therefore do not impact on the revenue expenditure of the council.
3. Investment decisions in regard to pension fund monies should be made in the light of the quasi-trustee fiduciary duties of the decision makers.
4. Decisions around the amount of employer contributions set at triennial valuations should be demonstrably equitable and not either favour or perceive to favour the administering authority.

Within SCC as it is across the vast majority of LGPS administering authorities the function is effectively delivered with potential conflicts of interest well managed. However, increasing demands on LGPS authorities together with the potential for increasing turnover of elected members may make that position more difficult to sustain.

Options under new or amended legislation

SCC also wishes to explore 'blue sky' options for the greater segregation of governance and supporting functions in relation the administering authority function from those of other functions within the council which would require either new legislation, amendments to current legislation or the introduction of new provisions by the Secretary of State, for example by Direction or Order, under powers contained in existing legislation.

The purpose of these options would be to provide a greater degree of effective, independent and conflict free provision in relation to the LGPS function beyond those possible under current legislation even with the consent of the council and the Secretary of State.

Executive Summary

Current governance arrangements

SCC delegates the delivery of LGPS administering authority function to a Pension Fund Committee assisted by a local pension board both of which are supported by officers and advisors. Although these arrangements are common amongst LGPS administering authorities, they rely on the goodwill of those involved to ensure that the potential conflicts of interest between those of the pensions function and the other functions of the council are effectively managed.

Alternative governance arrangements are used in a minority of other LGPS administering authorities.

The legislative landscape

As a statutory function of the authority and a responsibility under public service pensions law, arrangements for governance are determined by SCC within the provisions of a range of primary and secondary legislation including:

- The Local Government Pension Scheme Regulations 2013
- The LGPS (Management and Investment of Funds) Regulations 2016
- The Local Government Act 1972
- The Local Government and Housing Act 1989
- The Local Government Act 1999
- The Localism Act 2011
- The Public Service Pensions Act 2013

Future challenges

The LGPS is facing significant challenges going forward which may require the review and potential adjustment of current governance arrangements. These include:

- McCloud, Fair Deal and Pensions Dashboard
- The Pension Regulators General Code and the Schame Advisory Board’s Good Governance Review

- Boycotts and Sanctions Legislation (not in Kings Speech 2024)
- The new Government's Pensions Review 2024

Options under current legislation

This report provides a review of the options available to SCC under the current legislative framework in order to minimise the potential for conflict and the impact of future challenges:

- Increased use of officer delegations
- Full delegation to officers
- Combined committee and pension board

The report also includes a brief overview of options under new or amended legislation.

SCC Current arrangements

Surrey Pension Fund Committee

Surrey County Council delegates the delivery of LGPS administering authority function to a Pension Fund Committee (originally named Surrey Pension Fund Board) with responsibility for the governance and administration of the Surrey County Council Pension Fund.

Purpose of Committee

1. To undertake statutory functions on behalf of the Local Government Pension Scheme and ensure compliance with legislation and best practice.
2. To determine policy for the investment, funding and administration of the pension fund.
3. To consider issues arising and make decisions to secure efficient and effective performance and service delivery.
4. 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.
5. To monitor performance across all aspects of the service.
6. To ensure that arrangements are in place for consultation with stakeholders as necessary.
7. To consider and approve the annual statement of pension fund accounts.
8. To consider and approve the Surrey Pension Fund actuarial valuation and employer contributions.

The ‘standard’ Committee diary provides for four meetings a year and additional meetings are occasionally required for a specific purpose.

The Committee is made up of publicly elected Members as well as co-opted members who provide stakeholder membership. The co-opted members represent the members of the Fund (trade union representation), District and Borough Councils and other employers in the Fund. Co-opted Members have the same rights on access to information and voting as elected Members.

Surrey Local Pension Board

The Pension Fund Committee is assisted by the Local Pension Board which has the role of assisting the committee:

1. to secure compliance with:
    - the scheme regulations
    - any other legislation relating to the governance and administration of the LGPS Scheme and any connected scheme
    - any requirements imposed by the Pensions Regulator in relation to the LGPS Scheme.
2. to ensure the effective and efficient governance and administration of the LGPS Scheme.

Delegation to officers

There are currently limited delegations to officers of SCC as set out in the scheme of delegations, for example:

The Chief Finance Officer/ Strategic Finance Manager (Pension Fund and Treasury) have delegated authority for the borrowing, lending and investment of County Council Pension Fund moneys, in line with strategies agreed by the Pension Fund Committee and to take urgent action as required between Pension Fund Committee meetings, but such action can only be taken in consultation with and by agreement with the Chairman or Vice Chairman of the Pension Fund Committee and following consultation with any relevant Consultant or Independent Advisor.

The Legislative landscape

The LGPS Statutory Function

SCC is a public service pension scheme manager under the 2013 Act as defined by its status as an LGPS Administering Authority under the 2013 Regs Schedule 3 Part 1.

The role of administering the scheme in relation to those scheme members defined in Part 2 of Schedule 3 of the 2013 Regs is therefore a statutory function of SCC. The council is the administering authority, and the administering authority is the council, there is no legal distinction between the two. In this sense the function of administering the LGPS is no different from any other statutory function assigned to the council from time to time.

The latest combined list of statutory functions (duties) on local authorities was compiled in 2011. Administering the LGPS is number 192 in the spreadsheet entitled 'List of statutory duties – DCLG owned (revised 30 June 2011)'

Discharging a Statutory function

A local authority may discharge a statutory function at full council level or, using the powers granted by Section 101 (1) of the 1972 Act, arrange for the function to be discharged by:

- A committee or sub-committee of the authority
- An officer of the authority
- Another local authority

However, any such arrangements do not prevent the authority from discharging the functions itself (i.e. at full council level) – See 1972 Act Section 101(4).

Voting on and political balance across committees is set out in Sections 13, 15 and 17 of the 1989 Act.

Under the 1999 Act powers are conferred on the Secretary of State to modify or confer new powers on 'best value authorities', while the 2011 Act sets out the extent and limitations of the general power of competence granted to authorities in respect of governance arrangements.

Current arrangements across the LGPS

The vast majority of administering authorities currently discharge the LGPS function using a committee set up under the powers of Section 102(1) of the 1972 Act with some also adding a sub-committee (for example to deal specifically with investment matters).

Arrangements other than by committee

Two LGPS authorities (Southwark and Cheshire) discharge via an officer making use of Section 101(1)(c) of the 1972 Act:

(1) Subject to any express provision contained in this Act or any Act passed after this Act, a local authority may arrange for the discharge of any of their functions—

(a) by a committee, a sub-committee or ***an officer*** *of the authority; ….*

In both cases the officer is 'advised' by a pension committee set up under Section 102(4) of the LG Act and further information on these is set out below.

A small number of authorities combine the committee and local pension board and an example of this (Hampshire) is also set out below.

LB Southwark

The London Borough of Southwark is the Administering Authority for The London Borough of Southwark Pension Fund (the Fund).

The London Borough of Southwark, as the Administering Authority of the Fund, has delegated responsibility for the management of the Fund to the chief finance officer (the Strategic Director of Finance and Governance), who will take into account advice from the Pensions Advisory Panel (the Panel).

The chief finance officer's powers include the requirement to review investments made by external investment managers at least once every three months and to administer all other functions relating to the Fund in accordance with the relevant legislation and regulations. This includes responsibility for the management of the Fund, oversight of the general framework within which the Fund is managed, and agreements of the policies under which the Fund will operate.

Cheshire Pension Fund

Cheshire West and Chester Council is the Administering Authority for the Cheshire Pension Fund (the Fund)

Overall responsibility for managing the Fund lies with the full Council of who have delegated the management and administration of the Fund to the Chief Operating Officer.

The full Council reviews the discharge of its responsibilities through the Council's Audit and Governance Committee. Follow the link for all agendas and minutes of these meetings.

The Local Pension Board assists the Council to deliver efficient governance and administration of the Fund responsibilities through the Council's Audit and Governance Committee.

The Chief Operating Officer is advised by the Pension Fund Committee and also takes appropriate advice from the Councils Head of governance, the Fund actuary and from the strategic Investment Advisor.

The Pension Fund Committee receives recommendations from the Investment Sub Committee and the Pensions Consultative Forum to enable it to discharge its responsibilities effectively.

Hampshire Pension Fund

The 2013 regulations provide for the committee and the pension board to be one and the same.

106 – (2) Where the Scheme manager is a committee of a local authority the local pension board may be the same committee if approval in writing has been obtained from the Secretary of State.

An example of where such arrangements are used is Hampshire County Council. Hampshire County Council is the Administering Authority for the Hampshire Pension Fund (the Fund)

Its website states that the combined body has the following roles:

1. In its role as the Pension Fund Panel for the Hampshire Pension Fund the Pension Fund Panel and Board is responsible for the County Council's statutory functions as administering authority of the Hampshire Pension Fund ..... This includes dealing with all matters arising that relate to the Hampshire Pension Fund, including the management and investment of the Fund.

2. In its role as the Pension Board for the Hampshire Pension Fund it is responsible for assisting Hampshire County Council, as the administering authority of the Hampshire Pension Fund, to secure compliance with the Local Government Pension Scheme Regulations 2013 and any other legislation relating to the governance and administration of the Local Government Pension Scheme ('LGPS), for securing compliance with requirements imposed in relation to the LGPS by the Pensions Regulator and for ensuring the effective and efficient governance and administration of the Hampshire Pension Fund.

Consideration of arrangements other than by committee

Arrangements other than by committee are not the norm for LGPS authorities which may, at least in part, due to convention. There is no legislative reason why the LGPS function should be delegated to a committee, as opposed to any other arrangement provided for under the 1972 Act.

Officer delegation

Although perfectly acceptable under legislation this arrangement has limited use presumably due to elected members' wishing to have control of decisions for the function particularly around investments. Given the introduction of pooling with manager selection and investment implementation now in the hands of pools such considerations have, to an extent, been superseded.

A further issue with such arrangements centers on the accountability elected members have to local taxpayers for investment decisions which may have an adverse effect on employer contributions. This issue should however be considered in the light of the fact that it is investment strategy rather than manager selection or implementation which drives the vast majority of returns.

Combined committee and board

There are issues around this arrangement mainly with regard to meeting the membership requirements for pension boards as set out within Section 5 of the 2013 Act:

(4) The regulations must include provision—
(c) requiring the board to include employer representatives and member representatives in equal numbers.

Together with the membership requirements for committees as set out in Section 102 of the 1972 Act and Section 15 of the 1989 Act (allocation of seats to political groups), and the voting requirements of such committees as set out in Section 13 of the 1989 Act.

Future challenges

There are a number of challenges to the delivery and governance of the LGPS function coming over the next 12 to 24 months which may require the review and potential adjustment of current arrangements. The rest of this section further explores two of these, increasingly complex governance requirements together with proposed boycotts and sanctions legislation.

Significant administrative developments

The increasingly complexity of the scheme, for example ongoing changes to survivor benefits and upcoming Fair Deal regulations will be added to by the requirements of McCloud and the Pensions Dashboard to significantly increase the demands on the administrative element of the LGPS function. These developments will require flexibility of service delivery, the development and implementation of new/revised processes and systems , the potential for an increased internal resource and/or the use of external resource together with extensive communication exercises.

In order to meet these challenges the LGPS function will not only need to appropriately plan and budget in advance but also but adaptable to moving circumstances and timescales requiring the ability to flex those plans and budgets.

Increasingly complex governance requirements

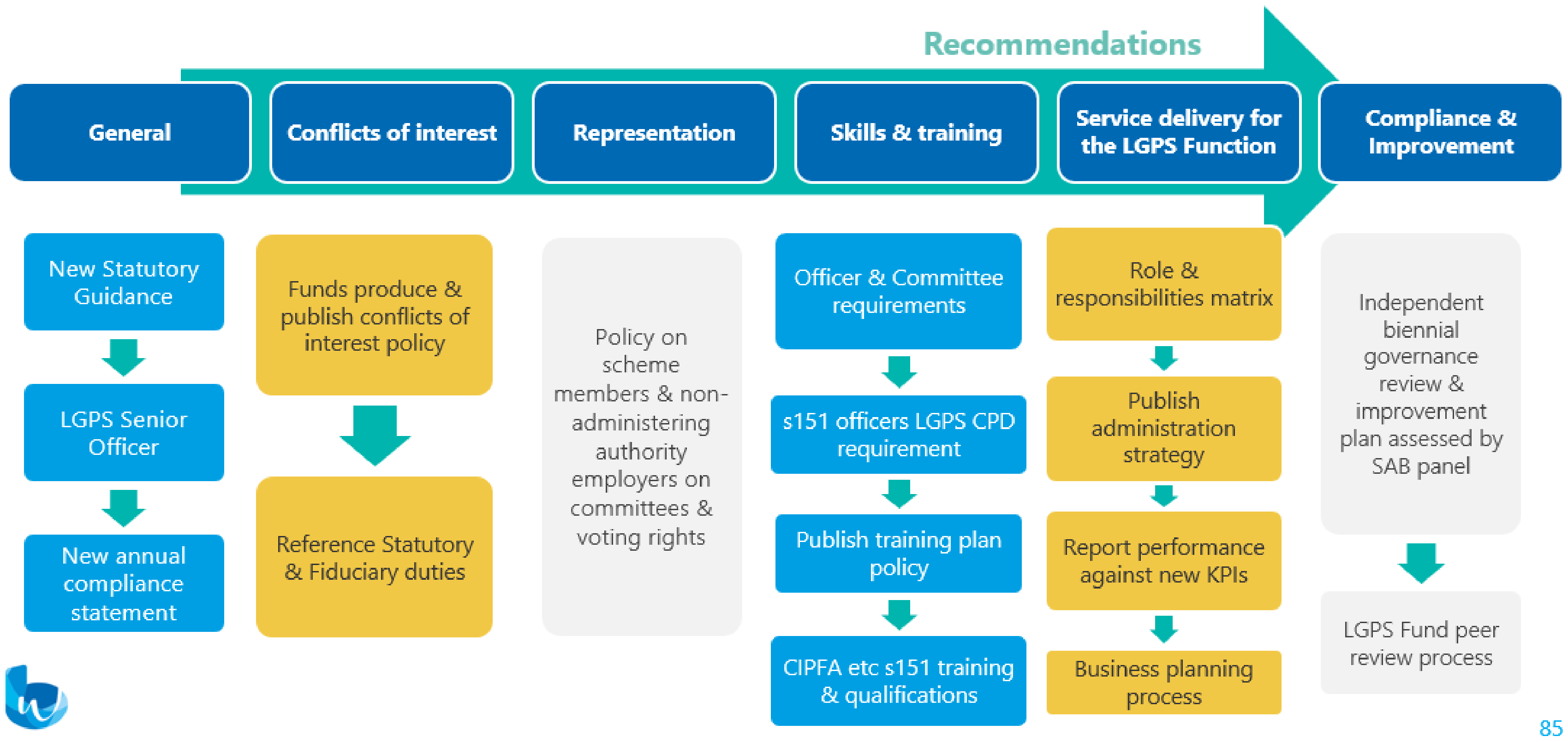
These requitements fall under two main headings, firstly the new TPR General Code and secondly the SAB's Good Governance recommendations. Both of these will increase the level of compliance within governance structures which inevitably will come with increased demands on the time of decision makers and the resources needed for support.

TPR General Code

The Code replaces all the previous codes, including Code of Practice 14 for public sector schemes, and covers the following subject areas many, but not all, of which will apply to the LGPS.

1. Status of the Code
2. The Governing Body: Board structure and activities
3. The Governing Body: Knowledge and Understanding
4. The Governing Body: Value for scheme members
5. The Governing Body: Advisors and service providers
6. The Governing Body: Risk management
7. The Governing Body: Scheme governance
8. Administration: Scheme administration
9. Administration: Information handling
10. Administration: IT
11. Administration: Contributions
12. Communications and Disclosure: Information to members
13. Communications and Disclosure: Public Information
14. Reporting to TPR: Regular report
15. Reporting to TPR: Whistleblowing

SAB Good Governance Review



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Elected member Knowledge and Understanding (K&U)

To pick just one challenge stemming from both of the above SCC will need to consider how it meets the K&U requirements for LGPS decision makers.

The General Code states that the ‘governing body’ (the committee in the case of SCC) should:

- have a balance of skills and experience throughout the board and be able to demonstrate this
- be able to apply its knowledge to governing the scheme
- have enough skills to judge and question advice or services provided by a third party
- be able to identify and address skills gaps
- have enough understanding of industry good practice and standards to assess scheme performance and its service providers
- keep records of the learning activities of individual members and the body as a whole
- be able to demonstrate steps it has taken to comply with the law
- have and maintain training and development plans to ensure that individual and collective knowledge and understanding is kept relevant and up to date.

DLUHC in support of SAB recommendations has in the recent investment consultation response stated that it will:

“…revise guidance on annual reports and on governance to require all funds to publish formal training policies for pension committee members, to report on training undertaken, and to align expectations for pension committee members with those for local pension board members. Given the role and responsibilities of committees, including setting the investment and funding strategies for funds, it is essential that members of committees should have the appropriate training, knowledge and skills to undertake their role.”

This K&U requirement may prove difficult to implement should there be a high turnover of elected members on the pension committee or should new elected members not wish to commit to the necessary training in order to be a member of the committee.

Boycotts and sanctions legislation

The Economic Activities of Public Bodies (Overseas Matters) - EAPB (OM) Bill was brought by the previous government and was well on its way through both houses of parliament when it fell due to the election in July 2024.

Although the Bill did not appear within the Kings Speech 2024 its reappearance has not been definitively ruled out by the new government and therefore this section has been retained from the earlier draft of this report. The Bill covered both procurement and investment decisions of public authorities, however for this purpose the description below focuses only on LGPS investment decisions.

In summary the Bill:

- Prohibits public authorities from making a decision to invest or divest based on its moral or political opinion (or the opinion of any pressure groups which are seeking to influence it) of the actions of foreign states abroad.
- Prohibits the authority going on record saying it would have made that investment or divestment decision if not for the existence of this legislation.
- Includes a number of exemptions although these are in the main restricted to actions which are illegal.
- Provides for sufficiently interested parties to bring about legal proceedings against the authority and/or report the authority to TPR if they consider an investment decision to be or likely to be in contravention of the above prohibitions.

Should the Bill become law SCC will need to carefully consider not only the potential for decisions actually being in contravention of the legislation but also the potential for interested parties to bring about costly and time-consuming legal proceedings in relation to decisions they do not agree with. In doing so SCC may want to revisit its governance arrangements particularly in relation to investment decisions in order to minimise the risk of challenge.

What will the Bill prohibit?

The Bill seeks to prevent public authorities making decisions or statements of intent about investment which result from political or moral disapproval of the actions of a foreign state which have an overseas impact, The stated purpose of the Bill is to catch both open participation in boycotts or divestment campaigns, and more subtle ways of singling out countries or territories that could produce similar results, for example expressing support for engaging in boycotts and divestment campaigns.

The Bill will not prevent public authorities from complying with formal UK Government legal sanctions, embargoes and restrictions.

How will the Bill achieve this aim?

The Bill will prohibit a public authority, when making an investment decision, having regard to a territorial consideration in a way that would cause a reasonable observer to conclude that the decision was influenced by moral or political disapproval of a country or territory's foreign state conduct.

The Bill will also prohibit public authorities having any regard to a third-party's moral or political disapproval of a country or territory's foreign state conduct if that third party is trying to persuade the decision maker to act. This applies even when the decision is not influenced by the authority's own political or moral disapproval of foreign state conduct.

The public authority will also be prohibited from publishing a statement indicating that they would have made such a decision if it were lawful to do so. It is worth noting that the prohibition on statements will apply to the authority not to individuals so, for example, an individual councilor will be able to express support for a boycott without fear of personal liability under the legislation.

Are there any exemptions?

Yes, the Bill lists those considerations which may be taken onto account when making an investment decision without breaching the prohibitions. These exemptions are:

- financial and practical matters
- national security
- international law
- bribery
- labour-related misconduct

- competition law infringements, or
- environmental misconduct

At first glance these exemptions may appear pretty broad and/or straightforward but on closer reading not so much, as they are in the main reliant on the action being illegal.

For example, environmental misconduct includes conduct which causes, or has the potential to cause, significant harm to the environment, including the life and health of plants and animals, so far so wide. However, the exemption only applies where such conduct is an offence under the law of the United Kingdom or another country or territory. Therefore, an investment decision based solely on considerations of actions which have a significant environmental impact but are perfectly legal worldwide would be caught by the prohibitions of the Bill. Similarly, the labour-related misconduct exemption only applies to consideration of actions which would be an offence or result in a misconduct order in the UK.

How could the Bill impact on SCC?

The Bill provided for two routes of enforcement firstly via an enforcement authority and secondly through legal proceedings.

The Pensions Regulator will be the enforcement authority in relation to public authorities which are LGPS scheme managers and may make use of existing enforcement powers in pensions legislation including improvement notices under Section 13 of Pensions Act 2004 and ultimately fines of up to £50,000 under Section 10 of Pensions Act 1995.

Given the resource demands and expertise required for TPR to enforce the Bill together with the fact that very few, if any LGPS authorities actually make decisions which would contravene the provisions of the Bill, it is not anticipated that the major impact on LGPS authorities would come from the direction of TPR.

It is far more likely that third parties with a wide variety of political and moral agendas will seek to commence legal proceedings against SCC in respect of an investment decision, to either take an action they disagree with or not to take an action they are in favour of.

Legal proceedings may take the form of a Judicial Review (JR), where appropriate, or by application to the High Court. The High Court may permit an application by a person it considers has 'sufficient interest' and may, if satisfied that the legislation has been or is likely to be contravened, make any order that the court thinks appropriate by way of relief and/or any order appropriate to preventing such a contravention.

The Pensions Review 2024

On Monday 22 July 2024, the Chancellor Rachel Reeves convened a meeting at Number 10 to discuss how the government intends to encourage better use of the assets of pension schemes to foster growth. Those invited included representatives from the LGPS for whom, according to the government press release, there were some specific messages.

'The Local Government Pension Scheme (LGPS) in England and Wales is the seventh largest pension fund in the world, managing £360 billion worth of assets. Its value comes from the hard work and dedication of 6.6 million people in our public sector, mostly low-paid women, working to deliver our vital local services. Pooling this money would enable the funds to invest in a wider range of UK assets and the government will consider legislating to mandate pooling if insufficient progress is made by March 2025.'

'To cut down on fragmentation and waste in the LGPS, which spends around £2 billion each year on fees and costs and is split across 87 funds – an increase in fees of 70% since 2017, the Review will also consider the benefits of further consolidation.'

Since the press release a further clarification of the government's thoughts has emerged in the news (6 August 2024) that the chancellor is to:

'…meet bosses of big pension schemes in Toronto on Wednesday, as she seeks to create a "Canadian-style" model in the UK with massive retirement funds investing in equities and infrastructure.'

In order to potentially:

'…unlock the investment potential of the £360bn local government pension scheme, which has more than 6mn members but is fragmented into 86 individual funds in England and Wales. If it were a single fund, it would rank among the top 10 biggest funds in the world. Reeves wants the UK market to achieve the scale of the megafunds operated in Canada by the so-called Maple 8.'

On August 18 2024 the Terms of Reference of the review were published and included in the background section:

'The review will also work closely with the Minister of State at MHCLG Jim McMahon to look at how tackling fragmentation and inefficiency can unlock the investment potential of the £360 billion Local Government Pension Scheme in England and Wales, which manages the savings of those working to deliver our vital local services, including through further consolidation.'

Under the Policy Remit was included:

'Tackling fragmentation and inefficiency in the Local Government Pension Scheme through consolidation and improved governance;'

The review is due to report later this year in advance of the Pension schemes Bill, presumably to ensure there is a primary legislative vehicle available for any provisions the government deems necessary to achieve its objectives.

It seems clear that the new government has governance and consolidation of LGPS funds in its sights. Current administering authorities should therefore reflect on how they will evidence improved governance and either make the case for their continued existence or consider options for consolidation on their terms and with their preferred partners.

Options under current legislation

Increased use of delegations

Under this option the pension committee would retain the principal role of oversight and strategic decision making in all areas of the LGPS function while delegating the majority of functional and implementation decisions to officers. This would:

- Enable the committee to concentrate its time and resources on material matters for which it is accountable to the full council and ultimately the local taxpayer.
- Significantly reduce the potential for actual or perceived conflict of interest.
- Increase the ability of officers to act swiftly and efficiently in delivering the LGPS function.

In summary this option would see the Pension Fund Committee with the following roles:

- Set the Investment Strategy.
- Agree the Funding Strategy.
- Agree the Business Plan and Budget.
- Monitor the delivery of the function against the Business Plan.
- Oversee compliance with regulation and guidance.

With the following roles delegated to the senior LGPS officer:

- Implementation of the Investment Strategy.
- Setting and implementing the Funding Strategy.
- Setting and implementing the Business plan and budget.
- Deliver compliance with regulation and statutory guidance.
- Procurement and use of internal services.

Some of the more significant advantages of moving to this option, particularly in respect of the challenges set out in the previous section of this report are set out below.

A forward looking and adaptable service

Enabling the senior officer responsible for the delivery of the function to plan and budget in advance would provide the ability to successfully meet the expectations of scheme members and regulators. Setting a budget, which has a clear and prudent process for in year changes, to be met from the pension fund based on a clear business plan provides a greater degree of both certainty of delivery as well as the flexibility to quickly adapt to shifting priorities and resource requirements.

More focused K&U requirements for committee members

Clear focus of committee responsibilities at the strategic level would enable the K&U requirements for committee members to also be set at that level. This would focus training requirements on a smaller number of high-level areas avoiding the need for committee members to commit significant time to gaining knowledge of detailed subject areas thereby making it more attractive and easier for new members to meet K&U requirements and for existing members to maintain the necessary knowledge as the scheme develops in the future.

Reduced exposure to legal challenge

Delegating potentially contentious implementation decisions, especially those in relation to investment, to officers would minimise the risk that third parties could seek to challenge the political nature of such decisions. For this to be effective however the committee would need to careful to set the Investment Strategy at a sufficiently high level to avoid the accusation that officer decisions have been fettered to the extent that they are forced into making what are effectively political or moral decisions. For example, if an Investment Strategy set a target for equities which contained detailed exclusions in respect of the nature of companies or territories which should be avoided.

Full delegation to officers (the Cheshire and Southwark model)

Under this option the LGPS function would be delegated in full to a senior officer. As with Cheshire and Southwark a Pension Fund Committee could be retained in an advisory capacity (under Section 102(4) of the 1972 Act). The committee would also, assisted by the pension board, have a role in monitoring the delivery of the function and its compliance with regulation and guidance.

This option would include the advantages set out in the greater delegation option above but would provide a further reduction in the risk of legal challenge as there would not be the potential for detailed strategies fettering the decisions of the delegated officer.

Combined committee and pension board

Use of either of the above options would more easily enable SCC to consider the adoption of a combined committee and pension board as such a body would be either partly or entirely advisory/monitoring in nature. This would provide a more streamlined governance structure reducing the time required from members (particularly where there is duplication of membership) and the support required from officers and may be a more attractive body for employers and scheme members.

Accountability and oversight considerations

Although the above options would by default place an increased level of decision making with officers it should be remembered that making use of the delegation powers under Section 101 of the 1972 Act does not remove the accountability for or the ability to override such decisions from the authority as a whole. Section 101(4) of the 1972 Acts is clear that:

Any arrangements made by a local authority or committee under this section for the discharge of any functions by a committee, sub-committee, officer or local authority shall not prevent the authority or committee by whom the arrangements are made from exercising those functions.

Therefore, elected members of the authority can be confident that they can continue to ultimately provide the necessary level of oversight of the function and the necessary level of accountability for the function to local taxpayers, scheme members, employers and regulators.

Options under new or amended legislation

Given the limited potential for the time and appetite of a government for amendments to primary legislation the options below are restricted to existing powers to make or amend secondary legislation (regulations).

Amend the 2013 Regulations

This option would seek to add to Part 3 of the 2013 regulations regarding the manner in which they exercise the LGPS function. The purpose of the amendments would be to place new duties on the LGPS authority. These duties would seek to ensure that the necessary resources and plans are in place to properly exercise the function and that all decisions made in relation to the function are as free of conflict as is possible either by delegating those decisions or by showing that those decisions followed the interests of scheme members and employers.

For example, the 2013 regulations could be amended to introduce a new regulation 105A as follows:

Duties of an administering authority

105A (1) In exercising the provisions of these and related regulations an administering authority must take account of its duties under paragraph (2)

(2) An administering authority shall:

a) *Publish a properly costed and budgeted business plan for the proper exercise of the provisions of these and related regulations, and*

b) *Either*

   i. *Delegate all decisions relating to these and related regulations except for those relating to paragraph 7 of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (Investment Strategy) and to officers apart from setting strategic plans for investment and funding, or*

   ii. *Publish the policies and procedures it has in place to ensure that all investment and funding decisions are made in the best interest of scheme members and employers.*

Amending the regulations in this way could replicate many of the advantages in the previous options while preventing a future administration of SCC furthering an agenda for the pension fund and function which may reverse those advantages.

The disadvantage of this option is that it would apply to all LGPS authorities equally and therefore may not gain their agreement through consultation for a number of different reasons.

Make use of Section 9BA of the 2011 Act

Provisions of the section

The purpose of this option would be to provide the ability for SCC to apply to the Secretary of State for permission to use governance arrangements which are beyond those contained in existing legislation in order to create even further distance between the exercise of the LGPS function those of the council's other statutory functions, thereby further reducing the potential for any conflict.

Section 9BA enables the Secretary of State to:

..by regulations make provision prescribing arrangements that local authorities may operate for and in connection with the discharge of their functions

Furthermore, it provides that:

A local authority may propose to the Secretary of State that the Secretary of State make regulations prescribing arrangements specified in the proposal..

Providing that such proposals are an improvement on current arrangements, would ensure decisions are efficient, transparent and accountable and that they would be appropriate for either all authorities or any particular description of authority.

A possible proposal under the section

SCC could propose that the Secretary of State make regulations to allow LGPS administering authorities to make use of the arrangements prescribed in those regulations.

Such arrangements could include a new definition of a decision-making body (committee or otherwise) the constitution of and members of which are closer in nature to the trustee model including the obligation to act solely in the interests of scheme members and employers.

The advantage of this option over amending the 2013 regulations would be to provide for other LGPS authorities to make use of the proposed arrangements only if they wish to do so rather than placing the same obligation on all.

Request the creation of a Single Purpose Combined Authority

The 2009 Act and the 2023 LU Act include powers to set up Combined Authorities (CAs) and Combined County Authorities (CCAs) across and within existing council boundaries. These authorities are created, and functions and assets transferred by regulation or by order of the SoS and require the consent of all of the councils involved in the creation and included in the boundaries of the new authority.

As yet, no single purpose LGPS CA or CCA has been created under the 2009 Act or the 2023 LU Act, however the South Yorkshire Pensions Authority (SYPA) - created in 1986 after the abolition of the metropolitan counties is a good example of one created under earlier legislation. SYPA is a single purpose local authority governed by a committee with representatives from all of the councils within its boundary and created with the sole purpose of managing and administering the LGPS function and fund of the previous South Yorkshire County Council.

A possible proposal under the section

An LGPS CA or CCA, which could become the LGPS administering authority, could leverage its single purpose status to be able to focus all of its time, resources and planning into that function without the potential for conflict with other functions and priorities while still retaining overall control by elected members.

Such a structure could provide the opportunity for the SCC pension fund to discuss mutually beneficial merger options with other LGPS pension funds potentially pre-empting any mandating of consolidation by the new government.

Next steps

This draft has been provided to SCC for consideration. The next stage would be for SCC officers to digest the contents of this report then to agree the form in which it shall, if appropriate, be presented to senior management and/or committee.

The final version shall include an Executive Summary based on the discussions referred to above together with a contents page.

Jeff Houston,
Principal and Senior Public Sector Consultant

ANNEX – Relevant Legislative extracts

The LGPS Function

Public Service Pensions Act 2013

1 Schemes for persons in public service

(1) Regulations may establish schemes for the payment of pensions and other benefits to or in respect of persons specified in subsection (2).

(2) Those persons are—

.....

(c)local government workers for England, Wales and Scotland;

.....

(3) These terms are defined in Schedule 1.

(4) In this Act, regulations under this section are called “scheme regulations”.

4 Scheme manager

(1) Scheme regulations for a scheme under section 1 must provide for a person to be responsible for managing or administering—

(a) the scheme, and

(b) any statutory pension scheme that is connected with it.

(2) In this Act, that person is called the “scheme manager” for the scheme (or schemes).

(3) The scheme manager may in particular be the responsible authority.

(4) Subsection (1) does not apply to a scheme under section 1 which is an injury or compensation scheme.

(5) Scheme regulations may comply with the requirement in subsection (1)(a) or (b) by providing for different persons to be responsible for managing or administering different parts of a scheme (and references in this Act to the “scheme manager”, in such a case, are to be construed accordingly).

(6) For the purposes of this Act, a scheme under section 1 and another statutory pension scheme are connected if and to the extent that the schemes make provision in relation to persons of the same description.

(7) Scheme regulations may specify exceptions to subsection (6).

LGPS Regulations 2013

53. Scheme managers

53. -(1) The bodies listed in Part 1 of Schedule 3, referred to in these Regulations as "administering authorities", must maintain a pension fund for the Scheme.

(2) An administering authority is responsible for managing and administering the Scheme in relation to any person for which it is the appropriate administering authority under these Regulations.

(3) The appropriate administering authority in relation to a person who is or has been a member of the Scheme, or is entitled to any benefit in respect of a person who is or has been a member of the Scheme, is the authority specified in Part 2 of Schedule 3 in relation to that person.

Schedule 3 Part 1

1. The following bodies are required to maintain a pension fund and are administering authorities for the purposes of these Regulations-

(a) a county council in England;

.....

LGPS Investment regs 2016

2.—(1) In these Regulations—

"authority" means an administering authority listed in Part 1 of Schedule 3 to the 2013 Regulations;

Local Government Legislation Discharge of Functions

LG Act 1972

101Arrangements for discharge of functions by local authorities.

(1) Subject to any express provision contained in this Act or any Act passed after this Act, a local authority may arrange for the discharge of any of their functions—

(a) by a committee, a sub-committee or an officer of the authority; or

(b) by any other local authority.

(1A) A local authority may not under subsection (1)(b) above arrange for the discharge of any of their functions by another local authority if, or to the extent that, that function is also a function of the other local authority and is the responsibility of the other authority's executive.

(1B) Arrangements made under subsection (1)(b) above by a local authority ("the first authority") with respect to the discharge of any of their functions shall cease to have effect with respect to that function if, or to the extent that,—

(a) the first authority are operating or begin to operate executive arrangements, and that function becomes the responsibility of the executive of that authority; or

(b) the authority with whom the arrangements are made ("the second authority") are operating or begin to operate executive arrangements, that function is also a function of the second authority and that function becomes the responsibility of the second authority's executive.

(1C) Subsections (1A) and (1B) above do not affect arrangements made by virtue of section 19 of the Local Government Act 2000 (discharge of functions of and by another authority).

(1D) A combined authority may not arrange for the discharge of any functions under subsection (1) if, or to the extent that, the function is a mayoral function of a mayor for the area of the authority.

(1E) "Mayoral function" has the meaning given by section 107G(7) of the Local Democracy, Economic Development and Construction Act 2009.

(2) Where by virtue of this section any functions of a local authority may be discharged by a committee of theirs, then, unless the local authority otherwise direct, the committee may arrange for the discharge of any of those functions by a sub-committee or an officer of the authority and where by virtue of this section any functions of a local authority may be discharged by a sub-committee of the authority, then, unless the local authority or the committee otherwise direct, the sub-committee may arrange for the discharge of any of those functions by an officer of the authority.

(3) Where arrangements are in force under this section for the discharge of any functions of a local authority by another local authority, then, subject to the terms of the arrangements, that other authority may arrange for the discharge of those functions by a committee, sub-committee or officer of theirs and subsection (2) above shall apply in relation to those functions as it applies in relation to the functions of that other authority.

(4) Any arrangements made by a local authority or committee under this section for the discharge of any functions by a committee, sub-committee, officer or local authority shall not prevent the authority or committee by whom the arrangements are made from exercising those functions.

(5) Two or more local authorities may discharge any of their functions jointly and, where arrangements are in force for them to do so,—

(a) they may also arrange for the discharge of those functions by a joint committee of theirs or by an officer of one of them and subsection (2) above shall apply in relation to those functions as it applies in relation to the functions of the individual authorities; and

(b) any enactment relating to those functions or the authorities by whom or the areas in respect of which they are to be discharged shall have effect subject to all necessary modifications in its application in relation to those functions and the authorities by whom and the areas in respect of which (whether in pursuance of the arrangements or otherwise) they are to be discharged.

(5A) Arrangements made under subsection (5) above by two or more local authorities with respect to the discharge of any of their functions shall cease to have effect with respect to that function if, or to the extent that, the function becomes the responsibility of an executive of any of the authorities.

(5B) Subsection (5A) above does not affect arrangements made by virtue of section 20 of the Local Government Act 2000 (joint exercise of functions).

(5C) Arrangements under subsection (5) by two or more local authorities with respect to the discharge of any of their functions cease to have effect with respect to that function if, or to the extent that, the function becomes a general function of a mayor for the area of a combined authority.

(5D) Subsection (5C) does not prevent arrangements under subsection (5) being entered into in respect of that function by virtue of section 107E of the Local Democracy, Economic Development and Construction Act 2009 (joint exercise of general functions).

(5E) In subsection (5C), "general functions" has the meaning given in section 107D(2) of that Act.

(6) A local authority's functions with respect to levying, or issuing a precept for, a rate shall be discharged only by the authority.

(6A) Community Infrastructure Levy under Part 11 of the Planning Act 2008 is not a rate for the purposes of subsection (6).

(7) . . . .

(7A) . . . .

(8) Any enactment, except one mentioned in subsection (9) below, which contains any provision—

(a) which empowers or requires local authorities or any class of local authorities to establish committees (including joint committees) for any purpose or enables a Minister to make an instrument establishing committees of local authorities for any purpose or empowering or requiring a local authority or any class of local authorities to establish committees for any purpose; or

(b) which empowers or requires local authorities or any class of local authorities to arrange or to join with other authorities in arranging for the exercise by committees so established or by officers of theirs of any of their functions, or provides that any specified functions of theirs shall be discharged by such committees or officers, or enables any Minister to make an instrument conferring such a power, imposing such a requirement or containing such a provision; shall, to the extent that it makes any such provision, cease to have effect.

(9) The following enactments, that is to say—

(a). . . . .

(b). . . . .

(c). . . . .

(d). . . . .

(e). . . . .

(f). . . . .

(g). . . . .

(h). . . . . .are exempted from subsection (8) above.

(10) This section shall not authorise a local authority to arrange for the discharge by any committee, sub-committee or local authority of any functions which by any enactment mentioned in subsection (9) above are required or authorised to be discharged by a specified committee, but the foregoing provision shall not prevent a local authority who are required by or under any such enactment to establish, or delegate functions to, a committee established by or under any such enactment from arranging under this section for the discharge of their functions by an officer of the local authority or committee, as the case may be.

(11). . . . .

(12) References in this section and section 102 below to the discharge of any of the functions of a local authority include references to the doing of anything which is calculated to facilitate, or is conducive or incidental to, the discharge of any of those functions.

(13 In this Part of this Act “local authority” includes the Common Council, the Sub-Treasurer of the Inner Temple, the Under Treasurer of the Middle Temple, any joint authority, an economic prosperity board, a combined authority. sub-national transport body, a joint board on which a local authority within the meaning of this Act or any of the foregoing authorities are represented and, without prejudice to the foregoing, any port health authority.

(13A) In this section “local authority” includes the London Fire Commissioner; but nothing in this section authorises functions of the Commissioner to be discharged by a committee or sub-committee of the Commissioner.

(14) Nothing in this section affects the operation of section 5 of the 1963 Act or the M1Local Authorities (Goods and Services) Act 1970.

(15) Nothing in this section applies in relation to any function under the Licensing Act 2003 of a licensing authority (within the meaning of that Act).]

102 Appointment of committees.

(1) For the purpose of discharging any functions in pursuance of arrangements made under section 101 above or section 53 of the Children Act 1989—

(a) a local authority may appoint a committee of the authority; or

(b) two or more local authorities may appoint a joint committee of those authorities; or

(c) any such committee may appoint one or more sub-committees.

(1A) For the purpose of discharging any function in pursuance of arrangements made under section 9E(2)(b)(iv), (3)(b), (4)(a) or (5)(a)] of the Local Government Act 2000 or under regulations made under section 18 of that Act (discharge of functions by area committees)—

(a) a local authority may appoint a committee of the authority; or

(b) any such committee may appoint one or more sub-committees.]

(2) Subject to the provisions of this section, the number of members of a committee appointed under subsection (1) or (1A) above, their term of office, and the area (if restricted) within which the committee are to exercise their authority shall be fixed by the appointing authority or authorities or, in the case of a sub-committee, by the appointing committee.

(3) A committee appointed under subsection (1) or (1A) above, other than a committee for regulating and controlling the finance of the local authority or of their area, may, subject to section 104 below, include persons who are not members of the appointing authority or authorities or, in the case of a sub-committee, the authority or authorities of whom they are a sub-committee.

(4) A local authority may appoint a committee, and two or more local authorities may join in appointing a committee, to advise the appointing authority or authorities or, where the appointing authority or each of the authorities operate executive arrangements, any executive of that or those authorities, or a committee or member of that executive, on any matter relating to the discharge of their functions, and any such committee—

(a) may consist of such persons (whether members of the appointing authority or authorities or not) appointed for such term as may be determined by the appointing authority or authorities; and

(b) may appoint one or more sub-committees to advise the committee with respect to any such matter.

(5) Every member of a committee appointed under this section who at the time of his appointment was a member of the appointing authority or one of the appointing authorities shall upon ceasing to be a member of that authority also cease to be a member of the committee; but for the purposes of this section a member of a local authority shall not be deemed to have ceased to be a member of the authority by reason of retirement if he has been re-elected a member thereof not later than the day of his retirement.

(6) Subsection (7) applies in relation to—

(a) a committee or sub-committee appointed by a local authority in England wholly or partly for the purposes of discharging functions of a fire and rescue authority,

(b) a joint committee appointed by two or more local authorities in England wholly or partly for the purposes of discharging such functions, or

(c) a sub-committee appointed by any such committee or joint committee wholly or partly for the purposes of discharging such functions.

(7) A relevant police and crime commissioner may only be appointed to a committee or sub-committee to which this subsection applies in response to a request made by the commissioner to the appointing authority or authorities or, in the case of a sub-committee, to the appointing committee.

(8) If a request under subsection (7) is made to an appointing authority or authorities or an appointing committee, they must—

(a) consider the request,

(b) give reasons for their decision to agree to or refuse the request, and

(c) publish those reasons in such manner as they think appropriate.

(9) A relevant police and crime commissioner may attend, speak at and vote at a meeting of a committee to which the commissioner is appointed in accordance with this section only if and to the extent that the business of the meeting relates to the functions of a fire and rescue authority.

(10) Subsection (11) defines "relevant police and crime commissioner" for the purposes of this section in relation to—

(a) a committee or sub-committee appointed by a local authority,

(b) a joint committee appointed by two or more local authorities, or

(c) a sub-committee appointed by a committee of a local authority or a joint committee of two or more local authorities.

(11) For those purposes "relevant police and crime commissioner" means a police and crime commissioner—

(a) whose area is the same as, or contains all of, the area of that local authority or (as the case may be) one or more of those local authorities, or

(b) all or part of whose area falls within the area of that local authority or (as the case may be) one or more of those local authorities.]

LG&H Act 1989

13 Voting rights of members of certain committees: England and Wales.

(1) Subject to the following provisions of this section, a person who—

(a) is a member of a committee appointed under a power to which this section applies by a relevant authority and is not a member of that authority;

(b) is a member of a joint committee appointed under such a power by two or more relevant authorities and is not a member of any of those authorities; or

(c) is a member of a sub-committee appointed under such a power by such a committee as is mentioned in paragraph (a) or (b) above and is not a member of the relevant authority, or one of the relevant authorities, which appointed that committee, shall for all purposes be treated as a non-voting member of that committee, joint committee or, as the case may be, sub-committee.

(2) The powers to which this section applies are—

(a) the powers conferred on any relevant authority by subsection (1) of section 102 of the Local Government Act 1972 (ordinary committees, joint committees and sub-committees);

(b). . . . .

c). . . . .

(3) Nothing in subsection (1) above shall require a person to be treated as a non-voting member of a committee or sub-committee falling within subsection (4) below; but, except—

(a) in the case of a sub-committee appointed by a committee falling within paragraph (e) of that subsection; and

(b) in such cases as may be prescribed by regulations made by the Secretary of State, a person who is a member of a sub-committee falling within that subsection shall for all purposes be treated as a non-voting member of that sub-committee unless he is a member of the committee which appointed the sub-committee.

(4) A committee or sub-committee falls within this subsection if it is—

(a). . . . .

(b). . . . .

(c) a committee established in accordance with any regulations made by virtue of section 7 of the Superannuation Act 1972 (regulations making provision for the superannuation of persons employed in local government service etc.);

(d). . . . .

(e) a committee appointed under section 102(4) of the Local Government Act 1972 (appointment of advisory committees by local authorities);

(f) a committee constituted in accordance with [F6Part I of Schedule 33 to the Education Act 1996 (constitution of appeal committees for admission appeals etc.)];

(fa) an inshore fisheries and conservation authority for a district established under section 149 of the Marine and Coastal Access Act 2009;]

(fb) a committee of a relevant authority which is the scheme manager (or scheme manager and pension board) of a scheme under section 1 of the Public Service Pensions Act 2013;]

(g) a committee established exclusively for the purpose of discharging such functions of a relevant authority as may be prescribed by regulations made by the Secretary of State;

(h) a sub-committee appointed by a committee falling within any of [F9paragraphs (b) to (g)] above or such a sub-committee as is so prescribed.

(5) Nothing in this section shall prevent the appointment of a person who is not a member of a local authority as a voting member of—

(a) any committee or sub-committee appointed by the local authority wholly or partly for the purpose of discharging any education functions of the authority,

(b) any joint committee appointed by two or more local authorities wholly or partly for the purpose of discharging any education functions of the authorities, or

(c) any sub-committee appointed by any such committee or joint committee wholly or partly for the purpose of discharging any of that committee's functions with respect to education, where that appointment is required either by directions given by the Secretary of State under section 499 of the Education Act 1996 (power of Secretary of State to direct appointment of members of committees) or pursuant to regulations under subsection (6) of that section.

(5ZA) Nothing in this section shall prevent the appointment of a police and crime commissioner as a voting member of—

(a) any committee or sub-committee appointed by a local authority in England wholly or partly for the purposes of discharging functions of a fire and rescue authority,

(b) any joint committee appointed by two or more local authorities in England wholly or partly for the purposes of discharging such functions, or

(c) any sub-committee appointed by any such committee or joint committee wholly or partly for the purposes of discharging such functions.

(5ZB) In subsection (5ZA) "local authority" does not include—

(a) a fire and rescue authority constituted by a scheme under section 2 of the Fire and Rescue Services Act 2004 or a scheme to which section 4 of that Act applies,

(b) a joint authority which is a metropolitan county fire and rescue authority, or

(c) the London Fire Commissioner.

(5A) Nothing in this section shall prevent the appointment of a council manager of a local authority, or one other officer of that local authority in his place, as a voting member of a joint committee, or a sub-committee of such a committee, where—

(a) that local authority have a mayor and council manager executive and

(b) the joint committee or the sub-committee has been appointed for the purpose of discharging functions which, as respects that local authority, are the responsibility of that executive.

(6) The Secretary of State may, if it appears to him appropriate to do so inconsequence of the preceding provisions of this section, withdraw any approval given before the coming into force of this section in relation to any arrangements for the purposes of paragraph 1 of Part II of Schedule 1 to the said Act of 1944.

(7) Where a person is treated by virtue of this section as a non-voting member of any committee, joint committee or sub-committee, he shall not be entitled to vote at any meeting of the committee, joint committee or sub-committee on any question which falls to be decided at that meeting; and the reference in subsection (5) above to a voting member, in relation to any committee, joint committee or sub-committee appointed for the purpose mentioned in that subsection, is a reference to a person who is entitled to vote at any meeting of that committee or sub-committee on any question which falls to be decided at that meeting.

(8) In subsection (3) of section 102 of the Local Government Act 1972, the words from “but at least” onwards (which require at least two-thirds of certain committees to be members of the appointing authority or authorities) shall be omitted.

(9) In this section—

“council manager”, “executive” and “mayor and council manager executiv]” have the same meaning as in Part II of the Local Government Act 2000 (arrangements with respect to executives etc.);

“education functions” has the meaning given by section 579(1) of the Education Act 1996; and “relevant authority” means a local authority of any of the descriptions specified in paragraphs (a) to (f), (h) to (jc)] or (n) of section 21(1) below or any parish or community council;

and references in this section to voting include references to making use of a casting vote.

15 Duty to allocate seats to political groups.

(1) It shall be the duty of a relevant authority having power from time to time to make appointments to a body to which this section applies to review the representation of different political groups on that body—

(a) where the members of the authority are divided into different political groups at the time when this section comes into force, as soon as practicable after that time;

(b) where the authority hold annual meetings in pursuance of paragraph 1 of Part I of Schedule 12 to the Local Government Act 1972 (annual meeting of principal councils) and the members of the authority are divided into different political groups at the time of any such meeting, at or as soon as practicable after the meeting;

(c) where, at the time of the meeting required by paragraph 1 of Schedule 7 to the Local Government (Scotland) Act 1973 to be held in an election year within twenty-one days of the election, the members of the authority are divided into different political groups, at or as soon as practicable after the meeting;

(d) as soon as practicable after any such division as is mentioned in paragraphs (a) to (c) above occurs; and

(e) at such other times as may be prescribed by regulations made by the Secretary of State.

(2) Except in such cases as may be prescribed by regulations made by the Secretary of State, it shall be the duty of every committee of a relevant authority which is a committee having power from time to time to make appointments to a body to which this section applies to review the representation of different political groups on that body—

(a) where the members of the authority are divided into different political groups at the time when this section comes into force, as soon as practicable after that time; and

(b) as soon as practicable after any occasion on which the members of the committee are changed in consequence of a determination under this section.

(3) Where at any time the representation of different political groups on a body to which this section applies falls to be reviewed under this section by any relevant authority or committee of a relevant authority, it shall be the duty of that authority or committee, as soon as practicable after the review, to determine the allocation to the different political groups into which the members of the authority are divided of all the seats which fall to be filled by appointments made from time to time by that authority or committee.

(4) Subject to subsection (6) below, it shall be the duty of a relevant authority or committee of a relevant authority—

(a) in performing their duty under subsection (3) above; and

(b) in exercising their power, at times not mentioned in subsection (3) above, to determine the allocation to different political groups of seats on a body to which this section applies, to make only such determinations as give effect, so far as reasonably practicable, to the principles specified in subsection (5) below.

(5) The principles mentioned in subsection (4) above, in relation to the seats on any body which fall to be filled by appointments made by any relevant authority or committee of a relevant authority, are—

(a) that not all the seats on the body are allocated to the same political group;

(b) that the majority of the seats on the body is allocated to a particular political group if the number of persons belonging to that group is a majority of the authority's membership;

(c) subject to paragraphs (a) and (b) above, that the number of seats on the ordinary committees of a relevant authority which are allocated to each political group bears the same proportion to the total of all the seats on the ordinary committees of that authority as is borne by the number of members of that group to the membership of the authority; and

(d) subject to paragraphs (a) to (c) above, that the number of the seats on the body which are allocated to each political group bears the same proportion to the number of all the seats on that body as is borne by the number of members of that group to the membership of the authority.

(6) Where any relevant authority or committee of a relevant authority are required, in determining the allocation to different political groups of seats on a body to which this section applies, to give effect to the principles specified in subsection (5) above—

(a) any seats which, in accordance—

(i) with provision made by virtue of subsection (5) of section 13 above; or

(ii) with subsection (6) of section 14 above, are to be or may be filled by the appointment of persons who are not members of the authority shall be taken into account for the purpose of determining how many seats constitute a majority of the seats on a body mentioned in either of those subsections; but

(b) that authority or committee shall, in making that determination, disregard for all other purposes any seats which, in accordance with any such provision, the said subsection (6) or otherwise, are to be or may be so filled; and for the purposes of this subsection a seat on an advisory committee of a relevant authority or on a sub-committee appointed by such an advisory committee shall not be treated as one which may be so filled unless the authority have determined that it must be so filled.

(7) Schedule 1 to this Act shall have effect for determining the bodies to which this section applies and for the construction of this section and sections 16 and 17 below.

17 Exceptions to and extensions of political balance requirements.

(1) Subject to subsection (2) below, sections 15 and 16 above shall not apply in relation to appointments by a relevant authority or committee of a relevant authority to any body in so far as different provision is made by arrangements approved by the authority or committee—

(a) in such manner as may be prescribed by regulations made by the Secretary of State; and

(b) without any member of the authority or committee voting against them.

(2) Arrangements approved under subsection (1) above in relation to any body shall not affect any duty imposed by virtue of section 15(1)(c), (d) or (e) or (2) above on a relevant authority or committee to review the representation of different political groups on that body; and, accordingly, such arrangements shall cease to have effect when any such duty arises.

(3) The Secretary of State may, for the purpose of securing what appears to him to be the appropriate representation of different political groups on any sub-committee falling within subsection (4) below, by regulations make such provision as he thinks fit.

(4) The sub-committees that fall within this subsection are those to which appointments may be made by bodies to which section 15 above applies but which are not themselves such bodies.

(5) Without prejudice to the generality of subsection (3) above, regulations under that subsection may contain provision applying, with or without modifications, any provision made by or under section 15 or 16 above, subsections (1) and (2) above or Schedule 1 to this Act.

LG Act 1999

16 Power of Secretary of State to modify enactments and confer new powers.

(1) If the Secretary of State thinks that an enactment prevents or obstructs compliance by best value authorities with the requirements of this Part he may by order make provision modifying or excluding the application of the enactment in relation to—

(a) all best value authorities,

(b) particular best value authorities, or

(c) particular descriptions of best value authority.

(2) The Secretary of State may by order make provision conferring on—

(a) all best value authorities,

(b) particular best value authorities, or

(c) particular descriptions of best value authority which he considers necessary or expedient to permit or facilitate compliance with the requirements of this Part.

(3) An order under this section may—

(a) impose conditions on the exercise of any power conferred by the order (including conditions about consultation or approval);

(b) amend an enactment;

(c) include consequential, incidental and transitional provision;

(d) make different provision for different cases.

(3A) The power under subsection (3)(d) includes, in particular, power to make different provision in relation to different authorities or descriptions of authority.

(3B) In exercising a power under this section, the Secretary of State must not make provision which has effect in relation to Wales unless he has consulted the Welsh Ministers.

(3C) In exercising a power under this section, the Secretary of State—

(a) must not make provision amending, or modifying or excluding the application of, Measures or Acts of the National Assembly for Wales without the consent of the National Assembly for Wales;

(b) must not make provision amending, or modifying or excluding the application of, subordinate legislation made by the Welsh Ministers (or the National Assembly for Wales established under the Government of Wales Act 1998) without the consent of the Welsh Ministers.

(3D) Subsection (3C) does not apply to the extent that the Secretary of State is making incidental or consequential provision.

(4) Subject to subsection (4A), no order shall be made under this section unless a draft has been laid before, and approved by resolution of, each House of Parliament.

(4A) An order under this section which is made only for the purpose of amending an earlier order under this section—

(a) so as to extend the earlier order, or any provision of the earlier order, to a particular authority or to authorities of a particular description, or

(b) so that the earlier order, or any provision of the earlier order, ceases to apply to a particular authority or to authorities of a particular description, shall be subject to annulment in pursuance of a resolution of either House of Parliament.

(5) In exercising a power conferred under subsection (2) a best value authority shall have regard to any guidance issued by the Secretary of State.

(6) In this section—

(a) "enactment" includes subordinate legislation (within the meaning of section 21 of the Interpretation Act 1978);

(b). . . . .

Localism Act 2011

1. Local authority's general power of competence

(1) A local authority has power to do anything that individuals generally may do.

(2) Subsection (1) applies to things that an individual may do even though they are in nature, extent or otherwise—

(a) unlike anything the authority may do apart from subsection (1), or

(b) unlike anything that other public bodies may do.

(3) In this section "individual" means an individual with full capacity.

(4) Where subsection (1) confers power on the authority to do something, it confers power (subject to sections 2 to 4) to do it in any way whatever, including—

(a) power to do it anywhere in the United Kingdom or elsewhere,

(b) power to do it for a commercial purpose or otherwise for a charge, or without charge, and

(c) power to do it for, or otherwise than for, the benefit of the authority, its area or persons resident or present in its area.

(5) The generality of the power conferred by subsection (1) (“the general power”) is not limited by the existence of any other power of the authority which (to any extent) overlaps the general power.

(6) Any such other power is not limited by the existence of the general power (but see section 5(2)).

(7) Schedule 1 (consequential amendments) has effect.

2 Boundaries of the general power

(1) If exercise of a pre-commencement power of a local authority is subject to restrictions, those restrictions apply also to exercise of the general power so far as it is overlapped by the pre-commencement power.

(2) The general power does not enable a local authority to do—

(a) anything which the authority is unable to do by virtue of a pre-commencement limitation, or

(b) anything which the authority is unable to do by virtue of a post-commencement limitation which is expressed to apply—

(i) to the general power,

(ii) to all of the authority’s powers, or

(iii) to all of the authority’s powers but with exceptions that do not include the general power.

(3) The general power does not confer power to—

(a) make or alter arrangements of a kind which may be made under Part 6 of the Local Government Act 1972 (arrangements for discharge of authority’s functions by committees, joint committees, officers etc);

(b) make or alter arrangements of a kind which are made, or may be made, by or under Part 1A of the Local Government Act 2000 (arrangements for local authority governance in England);

(c) make or alter any contracting-out arrangements, or other arrangements within neither of paragraphs (a) and (b), that authorise a person to exercise a function of a local authority.

(4) In this section—

"post-commencement limitation" means a prohibition, restriction or other limitation expressly imposed by a statutory provision that—

(a) is contained in an Act passed after the end of the Session in which this Act is passed, or

(b) is contained in an instrument made under an Act and comes into force on or after the commencement of section 1;

"pre-commencement limitation" means a prohibition, restriction or other limitation expressly imposed by a statutory provision that—

(a) is contained in this Act, or in any other Act passed no later than the end of the Session in which this Act is passed, or

(b) is contained in an instrument made under an Act and comes into force before the commencement of section 1;

"pre-commencement power" means power conferred by a statutory provision that—

(a) is contained in this Act, or in any other Act passed no later than the end of the Session in which this Act is passed, or

(b) is contained in an instrument made under an Act and comes into force before the commencement of section 1.

Sch 2

9B Permitted forms of governance for local authorities in England

(1) A local authority must operate—

(a) executive arrangements,

(b) a committee system, or

(c) prescribed arrangements.

(2) Executive arrangements must conform with any provisions made by or under this Part which relate to such arrangements (see, in particular, Chapter 2).

(3) A committee system must conform with any provisions made by or under this Part which relate to such a system (see, in particular, Chapter 3).

(4) In this Part—

"a committee system" means the arrangements made by a local authority, which does not operate executive arrangements or prescribed arrangements, for or in connection with the discharge of its functions in accordance with—

(a) Part 6 of the Local Government Act 1972, and

(b) this Part;

"executive arrangements" means arrangements by a local authority—

(a) for and in connection with the creation and operation of an executive of the authority, and

(b) under which certain functions of the authority are the responsibility of the executive;

"prescribed arrangements" means such arrangements as may be prescribed in regulations made by the Secretary of State under section 9BA.

9BA Power of Secretary of State to prescribe additional permitted governance arrangements

(1) The Secretary of State may by regulations make provision prescribing arrangements that local authorities may operate for and in connection with the discharge of their functions.

(2) In particular, the regulations—

(a) must include provision about how, and by whom, the functions of a local authority are to be discharged, and

(b) may include provision enabling functions to be delegated.

(3) Regulations under this section may, in particular, include provision which applies or reproduces (with or without modifications) any provisions of, or any provision made under, Chapters 2 to 4 of this Part.

(4) In considering whether or how to exercise the power in this section, the Secretary of State must have regard to any proposals made under subsection (5).

(5) A local authority may propose to the Secretary of State that the Secretary of State make regulations prescribing arrangements specified in the proposal if the authority considers that the conditions in subsection (6) are met.

(6) The conditions are—

(a) that the operation by the authority of the proposed arrangements would be an improvement on the arrangements which the authority has in place for the discharge of its functions at the time that the proposal is made to the Secretary of State,

(b) that the operation by the authority of the proposed arrangements would be likely to ensure that the decisions of the authority are taken in an efficient, transparent and accountable way, and

(c) that the arrangements, if prescribed under this section, would be appropriate for all local authorities, or for any particular description of local authority, to consider.

(7) A proposal under subsection (5)—

(a) must describe the provision which the authority considers should be made under subsection (2) in relation to the proposed arrangements, and

(b) explain why the conditions in subsection (6) are met in relation to the proposed arrangements.

Power to create a Combined Authority or Combined County Authority

2009 Act

103 Combined authorities and their areas

(1) The Secretary of State may by order establish as a body corporate a combined authority for an area that meets the following conditions.

(2) Condition A is that the area consists of the whole of two or more local government areas in England.

(5) Condition D is that no part of the area forms part of—

(a) the area of another combined authority,

(aa) the area of a combined county authority,][rogue square bracket?]

(b) the area of an EPB, or

(c) an integrated transport area.

(7) An order under this section must specify the name by which the combined authority is to be known.

2023 Act

9 Combined county authorities and their areas

(1) The Secretary of State may by regulations establish as a body corporate a combined county authority (a "CCA") for an area that meets the following conditions.

(2) Condition A is that the area is wholly within England and consists of—

(a) the whole of the area of a two-tier county council, and

(b) the whole of one or more of—

(i) the area of a two-tier county council,

(ii) the area of a unitary county council, or

(iii) the area of a unitary district council.

(3) Condition B is that no part of the area forms part of—

(a) the area of another CCA,

(b) the area of a combined authority, or

(c) the integrated transport area of an Integrated Transport Authority.

(4) Regulations under subsection (1) must specify the name by which the CCA is to be known.

Power to transfer functions assets and liabilities to CAs or CCAs

2009 Act

105A Other public authority functions

(1) The Secretary of State may by order—

(a) make provision for a function of a public authority that is exercisable in relation to a combined authority's area to be a function of the combined authority;

(b) make provision for conferring on a combined authority in relation to its area a function corresponding to a function that a public authority has in relation to another area.

115 Transfer of property, rights and liabilities

(1) The Secretary of State may by order make provision for the transfer of property, rights and liabilities [F1(including criminal liabilities)] for the purposes of, or in consequence of, an order under this Part or for giving full effect to such an order.

(2) Property, rights and liabilities may be transferred by—

(a) the order,

(b) a scheme made by the Secretary of State under the order, or

(c) a scheme required to be made under the order by a person other than the Secretary of State.

2023 Act

19 Other public authority functions

(1) The Secretary of State may by regulations—

(a) make provision for a function of a public authority that is exercisable in relation to a CCA's area to be a function of the CCA;

(b) make provision for conferring on a CCA in relation to its area a function corresponding to a function that a public authority has in relation to another area.

54 Transfer of property, rights and liabilities

(1) The Secretary of State may by regulations make provision for the transfer of property, rights and liabilities (including criminal liabilities) for the purposes of, or in consequence of, regulations under this Chapter or for giving full effect to such regulations.

(2) Property, rights and liabilities may be transferred by—

(a) the regulations,

(b) scheme made by the Secretary of State under the regulations, or

(c) a scheme required to be made under the regulations by a person other than the Secretary of State.

6

Internal Audit Report

Surrey Pension Fund Governance Arrangements

Final Report

Assignment Lead: Elaine Laycock, Principal Auditor
Assignment Manager: David John, Audit Manager
Prepared for: Surrey County Council
Date: April 2023

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1. Introduction

1.1. Surrey County Council (the Council) is the designated statutory administering authority for the Surrey Pension Fund (the Fund). As of 31 March 2022, the fund comprised of 327 scheme employers with circa 114k members of which circa 41k are active, and 43k deferred. The remaining 30k members are comprised of pensioners and dependants. The fund annually collects circa £194m in contributions from members and their employers and makes pension payments of circa £171m per annum to scheme members. 6

1.2. Responsibility for the Fund's governance is currently shared between the Surrey Local Pension Board, Surrey Local Pension Committee, the People Performance and Development Committee and the Audit and Governance Committee with the latter two holding responsibility for approving the Fund's discretions and annual accounts respectively.

1.3. The Local Government Pension Scheme (LGPS) Scheme Advisory Board appointed Hymans Robertson in January 2019 to examine the effectiveness of current LGPS governance models and to consider alternatives or enhancements to existing models which can strengthen LGPS governance going forward. Known as the 'Good Governance Project' the latest report was published in February 2021 detailing a number of areas where practices could be improved including; service delivery, representation, skills, and training. Whilst, at the time of this review, the findings included in the February 2021 report have not yet been written into legislation they do represent opportunities for Funds to proactively assess and improve on local governance arrangements.

1.4. The purpose of this review was to determine the extent and effectiveness of the Fund's current governance arrangements.

1.5. This review formed part of the agreed Surrey Pension Fund Internal Audit Plan for 2022/23.

1.6. This report has been issued on an exception basis whereby only weaknesses in the control environment have been highlighted within the detailed findings section of the report.

2. Scope

2.1. The purpose of the audit was to provide assurance that controls are in place to meet the following objectives:

- The Fund act in compliance with the governance requirements of the LGPS Regulations.
- Fund management monitor the effectiveness of governance arrangements and take action where standards fall below those expected.
- Fund management undertake regular horizon scanning exercises identifying and actioning opportunities for governance improvements.

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3. Audit Opinion

3.1. **<u>Reasonable Assurance</u> is provided in respect of Surrey Pension Fund Governance Arrangements**. This opinion means that most controls are in place and are operating as expected to manage key risks to the achievement of system or service objectives.
Appendix A provides a summary of the opinions and what they mean and sets out management responsibilities.

4. Basis of Opinion

4.1. We have been able to provide Reasonable Assurance as:

4.2. The Pension Team have been able to demonstrate compliance with Local Government Pension Scheme (LGPS) Regulations in respect of both governance arrangements and the protocols for the operating of the Surrey Pension Board and Surrey Pension Fund Committee.

4.3. In addition to this the Pension Team have embraced the opportunities for implementing best practice as detailed in the LGPS Scheme Advisory Board (England and Wales) Good Governance report. This represents a willingness and keenness to horizon scan and work towards best practice opportunities. For example proposal A.2 is "*Each administering authority must have a single named officer who is responsible for the delivery of all LGPS related activity for that fund. ("the LGPS senior officer")".* The Pension team actioned this during their recent restructure and now have a designated LGPS Senior Officer.

4.4. The Pension Team have also recognised the importance of good governance practices and created a new Governance Manager post within the new Pension Team structure.

4.5. The Pension Team also have a Training Policy and Member Induction Handbook which set out the training requirements of Board and Committee members. A register is also maintained detailing the mandatory training requirements for Board and Committee members and dates of completion.

4.6. However, our review of this record established that only one of the Pension Board members had completed all mandatory training whilst none of the Pension Committee Members had completed all of these mandatory elements. A lack of completion of mandatory training inhibits the Board and Committee's knowledge and ability to provide effective challenge.

4.7. Finally, one of the key objectives of the Good Governance Review was to consider how potential conflicts of interest manifest themselves within current LGPS set up, including recognition of the dual role of the Council as the Administering Authority and a scheme employer in the Fund, and to suggest how those potential conflicts can be managed to ensure that they do not become actual conflicts.

4.8. An example of this is the Council's People, Performance and Development Committee, which currently has the authority to determine the policy statement in respect of administering authority discretions. The consequences of these policy decisions have the potential to place a financial burden on all employers in the Fund and therefore the appropriateness of this autonomy requires further clarification as part of a wider review to provide clarity regarding Committee roles.

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5. Action Summary

5.1. The table below summarises the actions that have been agreed together with the risk:

Risk	Definition	No	Ref
High	This is a major control weakness requiring attention.	-	-
Medium	Existing procedures have a negative impact on internal control or the efficient use of resources.	2	1-2
Low	This represents good practice; implementation is not fundamental to internal control.	-	-
	Total number of agreed actions	**2**	

5.2. Full details of the audit findings and agreed actions are contained in the detailed findings section below.

5.3. As part of our quarterly progress reports to Audit Committee we seek written confirmation from the service that all high priority actions due for implementation are complete. The progress of all (low, medium and high priority) agreed actions will be re-assessed by Internal Audit at the next audit review. Periodically we may also carry out random sample checks of all priority actions.

6. Acknowledgement

6.1. We would like to thank all staff that provided assistance during the course of this audit.

Ref	Finding	Potential Risk Implication	Risk	Agreed Action
1	**Mandatory Training Completion** The Pension Fund have a Training Policy and Member Induction Handbook which sets out the training requirements of Board and Committee members. The Pension Fund also maintain a register of the mandatory training completed by Board and Committee members. Through review of tis register we identified that, in relation to the Pension Board: • Only one of the eight Pension Board Members had completed all the mandatory training. • The Chairperson is recorded as not having completed any of the mandatory training. • Training completed by one Pension Board Member was circa seven years ago, there is no record that refresher training has been completed. A review of the training records for Pension Committee Members established that: • Training completed by the Chairperson was circa seven years ago, there is no record that refresher training has been completed, and; • None of the current members have completed all the necessary training.	There is a risk that the lack of completion of mandatory training is inhibiting the Board and Committee's knowledge and ability to provide effective challenge.	Medium	All members of the Committee and Board have access to LOLA (LGPS Online Learning Academy) provided by Hymans Robertson. The Surrey Pension Fund Committee approved the Training Policy on 10 March 2023. National Knowledge Assessment has been undertaken by the Board and Committee. This data has been used to benchmark and implement a tailored training plan. Training has been organised before a meeting, whereby an additional understanding is required to approve a recommendation.
Responsible Officer:		Nicole Russell, Head of Change Management	**Target Implementation Date:**	31 March 2024

Ref	Finding	Potential Risk Implication	Risk	Agreed Action
2	**Clarity Regarding Committee Roles** The following four committees/boards have involvement in the governance of the Surrey Pension Fund: • Surrey Local Pension Board, • Surrey Pension Fund Committee, • People, Performance and Development Committee; and • Audit and Governance Committee. One of the key objectives of the Good Governance Review was to consider how potential conflicts of interest manifest themselves within current LGPS set up, including recognition of the dual role of the Council as the Administering Authority and a scheme employer in the Fund, and to suggest how those potential conflicts can be managed to ensure that they do not become actual conflicts.	A lack of clarity regarding the roles and responsibilities of committees/boards could lead to potential conflicts of interest, confusion or non-compliance with scheme regulations or best practice.	Medium	Develop a comprehensive matrix of roles and responsibilities. Undertake discovery work in the context of the relationships with the Council, Staff, IT, Cyber Security, Accommodation etc. The Governance matrix will clearly lay out the decision-making powers and delegations. Ensure the Scheme of delegations and constitution are amended and approved by full Council. Creation of a Conflict of Interest Policy.
Responsible Officer:		Neil Mason - Assistant Director & LGPS Senior Officer.	**Target Implementation Date:**	31 March 2024

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Appendix A

Audit Opinions and Definitions

Opinion	Definition
Substantial Assurance	Controls are in place and are operating as expected to manage key risks to the achievement of system or service objectives.
Reasonable Assurance	Most controls are in place and are operating as expected to manage key risks to the achievement of system or service objectives.
Partial Assurance	There are weaknesses in the system of control and/or the level of non-compliance is such as to put the achievement of the system or service objectives at risk.
Minimal Assurance	Controls are generally weak or non-existent, leaving the system open to the risk of significant error or fraud. There is a high risk to the ability of the system/service to meet its objectives.

Management Responsibilities

The matters raised in this report are only those which came to our attention during our internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required.

Internal control systems, no matter how well designed and operated, are affected by inherent limitations. These include the possibility of poor judgment in decision-making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.

This report, and our work, should not be taken as a substitute for management's responsibilities for the application of sound business practices. We emphasise that it is management's responsibility to develop and maintain sound systems of risk management, internal control and governance and for the prevention and detection of irregularities and fraud. Internal Audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems.

Proposed changes to the Council Constitution and Scheme of Delegation

The Financial Regulations provide the framework of control, responsibility and accountability for the proper administration of the Council's financial affairs. They outline the financial responsibilities of officers and members and are part of the Constitution of the Council.

Part 5 (2) of the Council's Constitution (Rules of Procedure) contains the Financial Regulations (FR), FR27 specifically relates to Treasury Management and the Pension Fund. The changes proposed to the Financial Regulations are given in the table below.

Part 5(2) Financial Regulation	Current Delegation	Proposed new Delegation/Amendment
27.5	The **Section 151 Officer** has delegated authority to take urgent action as required between Pension Fund Committee meetings, but such action can only be taken in consultation with and by agreement with the Chairman or Vice Chairman of the Pension Fund Committee and following consultation with any relevant Consultant or Independent Advisor.	Replace Section 151 Officer with **Senior LGPS Officer**
27.6	The **Section 151 Officer** will ensure that monitoring reports on the Pension Fund's investment performance and activities, and any other business, are considered	Replace Section 151 Officer with **Senior LGPS Officer**

Part 5(2) Financial Regulation	Current Delegation	Proposed new Delegation/Amendment
	by the Pension Fund Committee at least quarterly.	
27.7	The **Section 151 Officer** will ensure that a report on the triennial actuarial valuation of the Pension Fund is taken to the Pension Fund Committee.	Replace Section 151 Officer with **Senior LGPS Officer**
27.8	The **Section 151 Officer** will ensure that a report on the annual accounts and associated external audit of the pension fund is taken to the Pension Fund Committee.	Replace Section 151 Officer with **Senior LGPS Officer**

Part 3 of the Council Constitution relates to the Responsibility for Functions and Scheme of Delegation. Sections 1 & 2 Responsibility for Functions and Scheme of Delegation set out details of who is responsible for those functions that have been delegated. Part 3, Section1, paragraph 6 deals with Council Committee functions and specifically 6.20 – 6.22 for the Surrey Pension Fund Committee. It is proposed to add a new term of reference to paragraph 6.22 as follows:

j) To consider and approve an annual conflict of interest policy, which shall include how the potential conflict of Surrey County Council in its dual role as Administering Authority for and scheme employer of the Surrey Pension Fund is managed.

Section 3 Part 3A and Part 3B relate to specific delegations to Officers. The changes proposed to the Finance – Pension Fund section are given in the table below and include one proposed change (ORB57 Pensions) relating to determining entitlements or payments in accordance with discretions in the LGPS Regulations. In addition, ORB57 should be moved from Part 3B to Part 3A and renumbered PEN7.

Scheme of Delegation	Current Delegation/Action	Currently Delegated to	Proposed Amendment to Delegation wording	Proposed Delegation to
PEN1	Execute cash transfers to pension fund managers	Executive Director of Resources (S151 Officer) Director of Finance – Corporate & Commercial Director of Finance – Insight & Performance Assistant Director – LGPS Senior Officer Strategic Finance Business Partner (Corporate)	NA	LGPS Senior Officer Head of Investment and Stewardship Head of Accounting and Governance
PEN2	Borrowing, lending and investment of County Council Pension Fund moneys, in line with strategies agreed by the Pension Fund Board.	Executive Director of Resources (S151 Officer) Director of Finance – Corporate & Commercial Assistant Director – LGPS Senior Officer	Borrowing, lending and investment of County Council Pension Fund moneys, in line with strategies agreed by the Pension Fund **Committee**.	LGPS Senior Officer Head of Investment and Stewardship Head of Accounting and Governance

Scheme of Delegation	Current Delegation/Action	Currently Delegated to	Proposed Amendment to Delegation wording	Proposed Delegation to
	Delegated authority to the Executive Director of Resources (S151 Officer) Part 3 Scheme of Delegation July 2024 24 S151 Finance Officer to take any urgent action between Board meetings but such action only to be taken in consultation with and by agreement with the Chairman and/or Vice Chairman of the Pension Fund Board and any relevant Consultant and/or Independent Advisor.		Delegated authority to the **LGPS Senior Officer** to take any urgent action 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** an d any relevant Consultant and/or Independent Advisor.	
PEN3	To exercise discretion in relation to the Local Government Pension Scheme except (1) where a policy on the matter has been agreed by the Pension Board and included in the Discretionary Pension Policy Statement published by the Council, (2) decisions relating to "admitted body status" and (3) decisions	Director of Finance – Corporate & Commercial Assistant Director – LGPS Senior Officer	To exercise discretion in relation to the Local Government Pension Scheme except (1) where a policy on the matter has been agreed by the **Pension Fund Committee** and included in the Discretionary Pension Policy Statement published by the Council, (2) decisions relating to "admitted body	LGPS Senior Officer Head of Service Delivery

Scheme of Delegation	Current Delegation/Action	Currently Delegated to	Proposed Amendment to Delegation wording	Proposed Delegation to
	relating to individual cases as provided for in the separate delegation to the Strategic Finance Manager (Pensions). This delegation is subject to any limitations imposed and confirmed in writing from time to time by the Executive Director for Resources (S151 Officer).		status" and (3) decisions relating to individual cases as provided for in the separate delegation to the **Senior LGPS Officer.**	
PEN4 (new PEN4A)	Hear stage one or stage two appeals relating to disputes involving the Local Government Pension Scheme, Compensation Benefits and Injury Allowances provided that an officer hearing an appeal will not have been involved at an earlier stage in the process.	Executive Director of Resources (S151 Officer) Director of Finance – Corporate & Commercial Director – Law & Governance Director of People & Change	Hear stage one or stage two appeals relating to **the County Council** disputes involving the employer Local Government Pension Scheme, Compensation Benefits and Injury Allowances provided that an officer hearing an appeal will not have been involved at an earlier stage in the process.	Stage 1 disputes – any County Council Director Stage 2 disputes – any County Council Executive Director
(new) PEN4B	NA	NA	Hear stage one or stage two appeals relating to **the Surrey Pension Team** disputes involving the Local Government Pension Scheme, Compensation	(Any of the following) LGPS Senior Officer Head of Investment and Stewardship Head of Accounting and Governance

Scheme of Delegation	Current Delegation/Action	Currently Delegated to	Proposed Amendment to Delegation wording	Proposed Delegation to
			Benefits and Injury Allowances provided that an officer hearing an appeal will not have been involved at an earlier stage in the process.	Head of Service Delivery or Head of Change Management
PEN5	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 S151 Finance Officer.	Assistant Director – LGPS Senior Officer	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.	NA
PEN6	To determine decisions conferring 'admitted body' status to the Pension Fund where such requests are submitted by external bodies.	Executive Director of Resources (S151 Officer) Director of Finance – Corporate & Commercial	NA	LGPS Senior Officer
ORB57 (new PEN7)	To exercise discretion in relation to the Local	Head of Pensions Administration	To exercise discretion in relation to the	Head of Service Delivery

Scheme of Delegation	Current Delegation/Action	Currently Delegated to	Proposed Amendment to Delegation wording	Proposed Delegation to
	Government Pension Scheme on the following matters in individual cases: - allocation of death grants - determining co-habitation - determining whether a child meets criteria for a child's pension - allocation of pension for persons incapable of managing their own affairs - commutation, transfer in and forfeiture decisions - extension of time limits for decisions to be made by scheme members - minimum contribution levels for additional payments - determining reviews and effective dates of ill-health benefits -write offs up to £250. This delegation is subject to any limitations imposed and confirmed in writing from time to time by the Executive Director of Resources.		Local Government Pension Scheme on the following matters in individual cases: - allocation of death grants - determining co-habitation - determining whether a child meets criteria for a child's pension - allocation of pension for persons incapable of managing their own affairs - commutation, transfer in and forfeiture decisions - extension of time limits for decisions to be made by scheme members - minimum contribution levels for additional payments - determining reviews and effective dates of ill-health benefits - write offs up to £250.	

SURREY PENSION FUND COMMITTEE REPORT

SURREY COUNTY COUNCIL

SURREY PENSION FUND COMITTEE

DATE: 13 SEPTEMBER 2024

LEAD OFFICER: ANNA D'ALESSANDRO, EXECUTIVE DIRECTOR, FINANCE AND CORPORATE SERVICES

SUBJECT: SUMMARY OF THE LOCAL PENSION BOARD

SUMMARY OF ISSUE:

This report provides a summary of administration and governance issues reviewed by the Local Pension Board (the Board) at its last meeting (26 July 2024) for noting or actioning by the Pension Fund Committee (the Committee).

RECOMMENDATIONS:

It is recommended that the Pension Fund Committee:

1. Note the content of this report.
2. Make any recommendations to the Local Pension Board if required.

REASON FOR RECOMMENDATIONS:

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

DETAILS:

Glossary, Action Tracker, & Forward Plan

1. The Board considered the Action Tracker, Forward Programme of Works and the Glossary.
2. The Assistant Director, LGPS Senior Officer explained that a an additional meeting may be arranged to take an item on governance arrangements, both the Board and Committee would be consulted.

Summary of the Pension Fund Committee Meeting on 22 March 2024

3. The Chair of the Pension Fund Committee presented a summary of the Committee meeting held in June. The Chair highlighted a number of key issues, which included: - an additional meeting is to be scheduled to take an item on the governance review, which would need to be presented to full council for approval.

7

4. The Stewardship Code had been submitted to the Financial Conduct Authority and confirmation has recently been received that the Fund is now a signatory to the UK Stewardship Code.
5. Workshops are being arranged to consider investment beliefs and fiduciary duty in preparation for reviewing the Fund's investment strategy. A Board Member asked if Board Members would be part of the sub- Committee. The Assistant Director LGPS officer explained that the sub-committee was Members of the Committee but was happy to keep the Board updated.
6. A discussion took place around plans from the Government regards pension funds and their investments. The Government has signalled its intentions to undertake a review.

Surrey Pension Team Overview – Dashboard Update

7. The Assistant Director of the LGPS Senior Officer presented a report on Surrey Pension Team Overview - Dashboard Update, highlighting four keys' areas.

    a) The value of the fund had increased
    b) Progress had been made on resolving the legacy issues
    c) Internal audit progress
    d) A third pulse survey (Staff survey) has been issued for staff to complete. This feedback is fundamental to building the culture of the team and to drive and shape continuous improvements.

Change Management Update - Quarter 1

8. The Board received an update on the activities of the Change Management Team during the period April to June 2024. This included Communication, Learning & Development, and a Lunch and Learn session that was presented on neurodiversity. Three members of the of the Surrey Pension Team have commenced studying towards a qualification in pensions administration. Under the umbrella of Project Management and Transformation, progress has been made on the Digital Transformation strategy with initial efforts focused on digitisation of forms and two core administration processes.

9. The Senior Project Specialist provided the Board with an update on the ongoing projects, this included: -

a) An update on the GMP reconciliation: officers were liaising with Aptia to get the issues resolved with the aim of completing the project by the end of February next year.

b) McCloud was on track and currently being tested in the pension administration system, with more testing next week before going live.

c) Lunch and Learn sessions were booked until November and had been well attended.

7

Service Delivery Overview

10. The Head of Service Delivery provided an update on performance for quarter one. The following items were highlighted:

a) Service Delivery performance was down in some areas including retirements and survivors benefits and death grants

b) An update on the legacy project

c) Four cases have been received from the Pension Ombudsman, which is more than usual. This is due to the Pension Ombudsman increasing their resource and progressing with their backlog of cases

d) GMP update -The team has re-engaged with the third-party supplier and was seeking to rescope this work to a new plan. Concerns have been raised that we might be in a similar situation as last year. This work needs to be completed before the Pension Increase next April.

e) McCloud update – The system configurations have been implemented. There has been lots of testing around the bulk interface tools and calculations. This takes account of guidance from various bodies to aid the scenario testing.

11. The Board received five annexes to review and comment on: -

Title of Annexe	Summary of Annexe
Annexe 1	Provides an update on performance for this quarter, along with commentary explaining performance and any challenges faced in meeting the Service Level Agreements (SLAs).
Annexe 2.	Provides a comparative quarterly performance trend analysis.
Annexe 3	A summary of the most common categories of cases being terminated.
Annexe 4	Provides details of ten complaints received during this period.
Annexe 5.	Legacy Project Review of the cases completed.

12. A Member questioned the number of cases completed for retirements and transfers-in as stated in the performance report and on the dashboard as there appeared to be a 10% difference between the two. The Head of Service Delivery explained how the dashboard was stating cumulative percentages from multiple categories of cases added together.

<u>MySurrey Unit 4</u>

7

13. MySurrey financial system implemented in June 2023 remains an area of significant focus. The Board were provided with a detailed update which can be [read here.]

14. The Chair explained how both Chairs of the Committee and Board have been working hard to support the team by stressing the urgency of resolving the issues and that several meetings had taken place. It had been agreed that both Chairs will meet regularly with pension officers to be kept updated of the situation.

15. The Assistant Director – LGPS Senior Officer explained how the Pension Fund has a duty to assess these issues and if material to report them to The Pensions Regulator (tPR).

16. The Regulator has helpfully set out criteria to follow when considering a breach of the legislation. One of the areas that the Regulator focuses on is the provision of annual benefit statements and the number of members impacted. Currently it was thought that a small number of members would be affected this year, and this is under review.

Risk Register Update 2024/25 Quarter 1

17. The Interim Head of Accounting and Governance presented a report which advised that the risk score has been reduced for Risk ID 11 whilst not reducing or diluting the focus of the team on making progress. Full details of the Risk Register are found in Annexe 1. Ongoing issues previously reported relating to MySurrey Unit 4 remain an area of focus and therefore the risk score remains unchanged for Risk ID 16.

18. The Board was advised that the Investment & Strategy risks have not changed (Risk IDs 4 to 7). Target dates for Risk IDs 10B and 12B have been set and risks in Accounting & Governance and Service Delivery have been reviewed. A full review of the whole Risk Register will be undertaken by the Pension Senior Leadership Team (PSLT), and the updated position will be presented to the Board in November 2024.

Risk	**Work volume mismatch with operational capacity leading to backlogs**
Risk ID	11
Score	9 > 6
Comment	Backlogs are receiving attention and are being addressed. Recent Industrial Action ballot was not successful.

Residual risk	While resolution of legacy issues is in progress, the risk score has been reduced.

Surrey Pension Team Business Continuity Plan

19. The Interim Head of Accounting and Governance gave a precis of the report which included the Business Impact Analysis (BIA) and Business Continuity Plan (BCP). The business-critical aspect of MySurrey is still to be added. The Board was asked to note the contents of the Surrey Pension Team Business Impact Analysis and the Business Continuity Plan. 7

Surrey Pension Fund Internal Audit Progress Report – Quarter One

20. The Principal Auditor provided the Board with an update on the work completed by Internal Audit in quarter One; this included an audit of iConnect. Further details can be found in Annexes A & B.

External Audit Update

21. The Interim Head of Accounting and Governance reported that the Audit and Governance Committee has now approved the audit plan for the Pension Fund.

Surrey Local Pension Board Annual Report 2023-24

22. The Interim Head of Accounting and Governance introduced the report, including Annexe 1 which summarises the activities of the Local Pension Board during 2023/24. The Board was asked to provide any comments. This report will be incorporated as part of the Pension Fund Annual Report to be submitted to the Scheme Advisory Board by 1 December 2024.

LGPS Update (Background Paper)

23. The Board received information on issues impacting the LGPS, the report highlighted four key points:

    a) Letter from the Minister for Local Government
    b) Abolition of Lifetime Allowance (LTA)
    c) McCloud Limited consultation
    d) Good Governance recommendations

24. The Assistant Director of the LGPS Senior Officer reported that the Fund has responded to the former Minster's letter to the Chief Executive and Section 151 Officer regarding pooling. It was agreed to circulate the response with Members of the Board and Committee.

25. The Governance Manager also informed the Board that Unison had a meeting on 17 July, and it was their intention to nominate a suitable candidate as a Member representative of the Board.

7

CONSULTATION:

26. The Chair of the Pension Fund Committee has been consulted on this report.

RISK MANAGEMENT AND IMPLICATIONS:

27. Any relevant risk related implications have been considered and are contained within the report.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS:

28. Any relevant financial and value for money implications have been considered and are contained within the report.

EXECUTIVE DIRECTOR OF FINANCE & CORPORATE COMMENTARY:

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

LEGAL IMPLICATIONS – MONITORING OFFICER:

30. There are no legal implications or legislative requirements.

EQUALITIES AND DIVERSITY:

31. There are no equality or diversity issues.

OTHER IMPLICATIONS:

32. There are no other implications.

NEXT STEPS:

33. The following steps are planned:

    a) The Committee will receive further reports and continue to work with the Board where necessary and appropriate.

Contact Officer:

Colette Hollands, Head of Accounting & Governance

Annexes:

1. None

7

Sources/Background papers:

1. Quarterly Performance Summary– LPB 26 July 2024 – Annexe 1
2. Quarterly Performance Trend Analysis– LPB 26 July 2024 – Annexe 2
3. Terminated Case Summary – LPB 26 July 2024 – Annexe 3
4. Complaints Summary LPB 26 July 2024 – Annexe 4
5. Legacy Project Review – LPB 26 July 2024 – Annexe 5
6. Risk Register – Local Pension Board (26 July 2024 – Annexe 1
7. MySurrey Update -Local Pension Board (26 July 2024) Annexe 2

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SURREY PENSION FUND COMMITTEE REPORT

SURREY COUNTY COUNCIL

SURREY PENSION FUND COMITTEE

DATE: 13 September 2024

LEAD OFFICER: ANNA D'ALESSANDRO, EXECUTIVE DIRECTOR, FINANCE AND CORPORATE SERVICES

SUBJECT: SURREY PENSION TEAM OVERVIEW – QUARTER 1

SUMMARY OF ISSUE:

This paper is an overview of the entire service at a macro level in order to set the context for the following micro level reports from each area. The One Pensions Team Dashboard is the primary vehicle for providing this overview. The dashboard covers the period April - June 2024.

Please note that as the dashboard contains metrics which are rolled up to macro level there will be subtle differences within service level reports which deconstruct these metrics to baseline level.

We'd like to draw your attention to the formatting for this set of Committee papers. You may have noticed slight changes to the layout. These changes have been made following the Board and Committee Paper review last year and ensure that the template is now in line with accessibility best practice – particularly for those using e-readers. Any information posted on SCC websites must now pass accessibility checks.

RECOMMENDATIONS:

It is recommended that the Pension Fund Committee:

1. Note the content of this report.

REASON FOR RECOMMENDATIONS:

To provide an update to the Pension Fund Committee (Committee) and stakeholders on the macro Surrey Pension Team activities

DETAILS:

The dashboard can be viewed on slide 2 of Annexe 1.

1. The Fund value has increased over 3 months, 1 year and 3 years. However, individual mandates have underperformed their specific benchmarks, leading to an underperformance of the Fund overall. The growth in asset value, to £6bn, and a decline in the assumed discounted liabilities have combined to drive the funding ratio up to 143%.

2. The Legacy Reduction rate continues to perform strongly in Service Delivery. There are some fluctuations in the figures due to staff absences and vacancies. In order to be more resilient a small re-organisation has been
   8 adopted. More detail is contained within the Board papers. Please see the Chair of the Board's summary.

3. The Accounting & Governance legacy relates to identifying and allocating income and expenditure on the Debtors and Creditors accounts. These are items listed on the old accounting system, SAP which have transferred to the new ledger on MySurrey. Whilst it is not currently possible to state any percentage reduction for the purposes of the dashboard, the balance on the creditors account has reduced by £6.3m. Similarly, balances have gone down on several creditor accounts and work is continuing to identify and reduce balances as part of the work being undertaken to close the 2023/24 Pension Fund account.

4. The Audit figures have been re-set for this current financial year based on the audit schedule. There are 4 audits not yet started with 2 audits carried over from the last financial year.

5. The third pulse staff survey closed on 30 June 2024. The details in the People and Strategy section are reliant on these results and will therefore be updated for the next report so there are no changes to these figures since your last viewing.

CONSULTATION:

6. The Chair of the Pension Fund Committee has been consulted on this report.

RISK MANAGEMENT AND IMPLICATIONS:

7. Any relevant risk related implications have been considered and are contained within the report.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS:

8. Any relevant financial and value for money implications have been considered and are contained within the report.

EXECUTIVE DIRECTOR OF FINANCE & CORPORATE COMMENTARY:

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

LEGAL IMPLICATIONS – MONITORING OFFICER:

10. There are no legal implications or legislative requirements.

EQUALITIES AND DIVERSITY:

11. There are no equality or diversity issues.

8

OTHER IMPLICATIONS:

12. There are no other implications.

NEXT STEPS:

13. The following steps are planned:
    a) The dashboard will continue to be updated on a monthly basis.
    b) Changes recommended at the last PFC meeting are in progress. We will be including a new metric on the dashboard to show the current vacancy rate.
    c) We are investigating mechanisms to send the dashboard to PFC and Board members as well as post it onto our SPT website.

Contact Officer:

Neil Mason, Assistant Director - LGPS Senior Officer

Annexes:

1. Surrey Pension Team Dashboard – Annexe 1

Sources/Background papers:

1. None

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Surrey Pension Team Dashboard Metrics
1 July 2024

Surrey Pension Team Dashboard

Surrey Pension Team

Service Delivery

Last Update 01/07/2024

% Within SLA		Target Adherence	
Grants & Surv..	54.0%	-9.8%	Less than previo..
Retirements ..	79.1%	10.0%	Above last KPI
Transfers Paid	88.9%	-4.3%	Less than previo..

Data Score		Pass Rate Adherence
Common Data Score	96.0%	No Change
Scheme Specific	98.0%	No Change

1st Point Fix: 74.0%

Fund Performance

Last Update 01/07/2024

Fund Value: £6.00bn

Funding Level: 143%

	3 Month	Rolling 1 Year Fund Performance	Rolling 3 Year Fund Performance
Fund Performance	1.8%	11.6%	4.2%
Performance Relative to Benchmark	-0.8%	-4.3%	-2.3%
Strategic Target Return			5.0%

People

Last Update 01/07/2024

Retention	98.6%	-1.4%
Health & Wellbeing	82.0%	1.7%
Diversity	80.8%	0.7%
Engagement	73.9%	2.1%

Accounting and Governance

Last Update 01/07/2024

Internal Audit Ratings

Substantial	0
Reasonable	0
Partial	0
Minimal	0
No Opinion	0

4 Not yet started

Admission Agreements		Contributions	
New Agreements	3	Contributions In	£54.90m
Pending	24	Contributions Out	£60.40m

Legacy Reduction

Last Update 01/07/2024

Accounting & Governance: 35.0%

Service Delivery: 73.0%

Strategy

Last Update 05/01/2024

Strategic Levers	72.6%	1.7%
Strategic Enablers	70.8%	2.0%

Fund Performance

Last Update 01/07/2024

Fund Performance

Value of the pension fund up to the most recent quarterly update.

Fund Value

£6.00bn

Funding Level

143%

Compares Fund Value to Funds required to meet obligations (pay members)

100% + = Able to cover obligations

Measure of the previous quarter's fund performance percentage.

Measure a rolling 3-year fund performance percentage rate

Measure a rolling 1-year fund performance percentage rate.

	3 Month	Rolling 1 Year Fund Performance	Rolling 3 Year Fund Performance
Fund Performance	1.8%	11.6%	4.2%
Performance Relative to Benchmark	-0.8%	-4.3%	-2.3%
Strategic Target Return			5.0%

Indicates percentage difference between actual performance and the benchmark performance percentage

The strategic target for return measured over a rolling 3-year period

Updated 04/07/24

Update Frequency:
Quarterly: All Measures

Surrey Pension Team
Providing our customers with a better tomorrow

Accounting and Governance

Substantial is the highest rating available for internal audit, followed by reasonable, Partial and then Minimal.

No Opinion indicates further audit work required to produce rating.

Target is to have ratings fall within the Substantial & Reasonable categories.

The number of internal audit ratings by category.

Last Update
01/07/2024

Accounting and Governance

Internal Audit Ratings

Substantial	0
Reasonable	0
Partial	0
Minimal	0
No Opinion	0

4
Not yet started

The number of Audits remaining on the Internal Audit schedule for the current year that have yet to commence.

Admission Agreements facilitate the joining of an Admission Body to the fund, a company performing certain functions for a scheme employer, and as a result of this is eligible to join the pension scheme.

Agreements are required to go through a signing and sealing process, the majority of which requiring wet-ink signatures until recently where an E-Signature & Sealing process was introduced. With the involvement of several parties, this made for a cumbersome exercise and has created a backlog of agreements to process. With the new electronic process, this has sped-up processing times

Admission Agreements

New Agreements	3
Pending	24

Contributions

Contributions In	£54.90m
Contributions Out	£60.40m

Contributions In = Receipts from paying into the pension fund.

Contributions Out = Money paid to retired members of the pension fund.

The number of Admission Agreements Pending processing, and the number of Admission Agreements that have been added to the queue since the last update.

The goal is to reduce the number of agreements pending processing.

Update Frequency:
Quarterly: Admission Agreements; Contributions
Annually: External Audit
Quarterly: Internal Audit Ratings

Updated 04/07/24

Service Delivery

Down/Up Arrow = Indicates Increase (Up arrow) / decrease (Down arrow) compared to the previous update of data

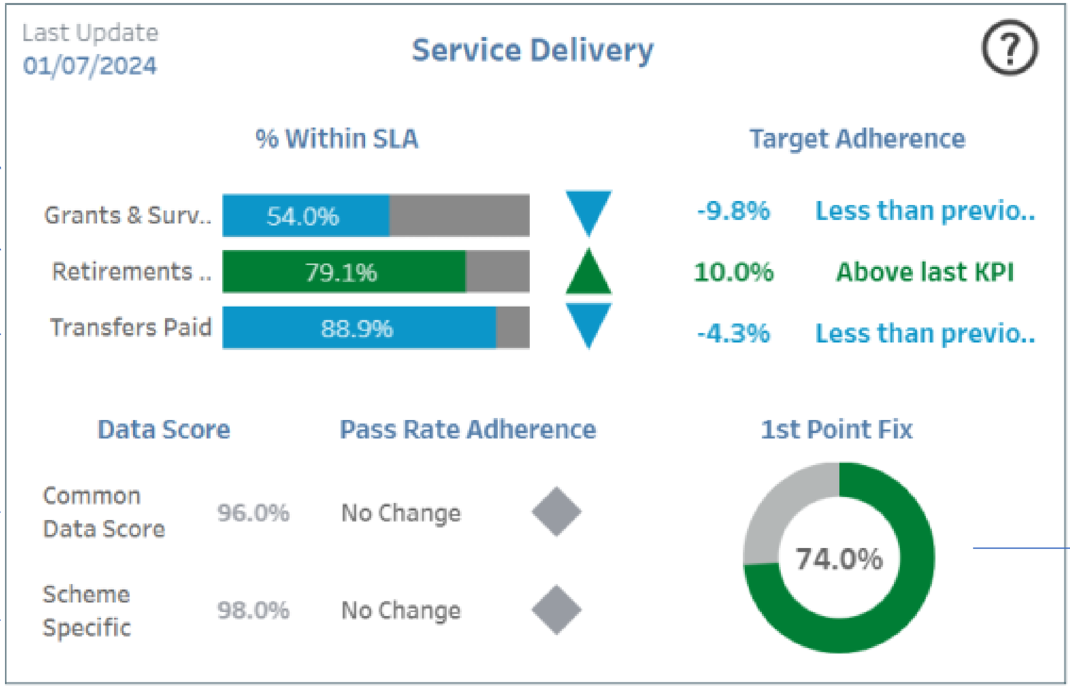
Percentage completed within SLA

Indicates % increase / decrease compared to the previous update of data

Consists of Death Grants and Survivor Benefits processed within the SLA

Consists of the percentage of Retirements Complete & ill health Retirements Complete within the SLA

Consists of the percentage of all Actual measures of LGPS & Non-LGPS Transfers In & Out processed within the Service Level agreement (SLA)



On Target = At or above 90%

On Target = At or above 85%

On Target = At or above 80%

Data scoring for data including member NI Number , Name , Gender, DOB, Status, Commencement Date & Address

Non-targeted percentage of cases resolved with the first point of contact in the Customer Relationship Team

Data accuracy scoring for data including Member Details, Member Benefits, CARE, HMRC, and Contracting Out.

Data Scores Achieved on report from Heywood Analytics run on our member data. The % of member data that passed the checks made.

Indicates whether the data set exceeded the Pass Rate (Pass) or was below the Pass Rate (Below Target)

Update Frequency :
- Annually: Data Scores
- -Monthly: All other Measures

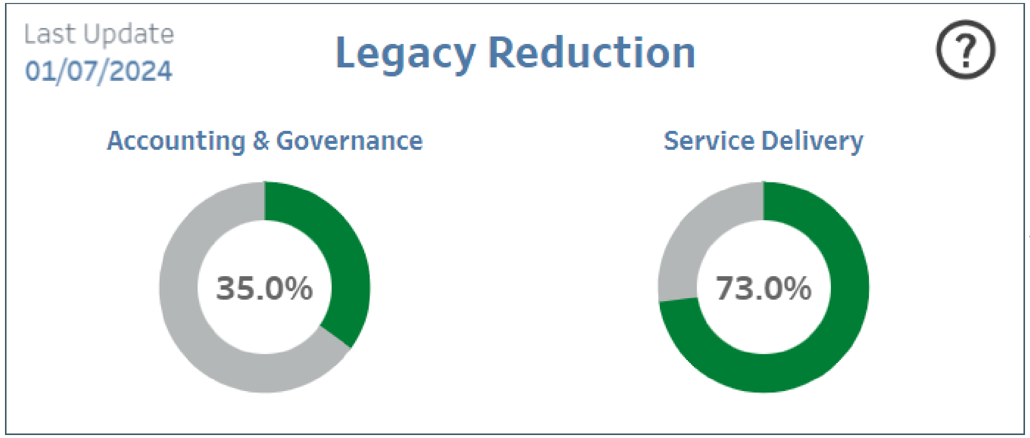
Updated 04/0724

Legacy Reduction

Key project defined on Surrey Pension Fund strategic plan to reduce legacy backlog to Business-As-Usual levels

Both the Accounting & Governance and Service Delivery departments have legacy backlogs to reduce within the scope of this project

Percentage reduction of Accounting & Governance legacy cases to date



Percentage reduction of Service Delivery legacy cases to date

Update Frequency:
Monthly: Percentage Progress

Updated 04/07/24

Strategy

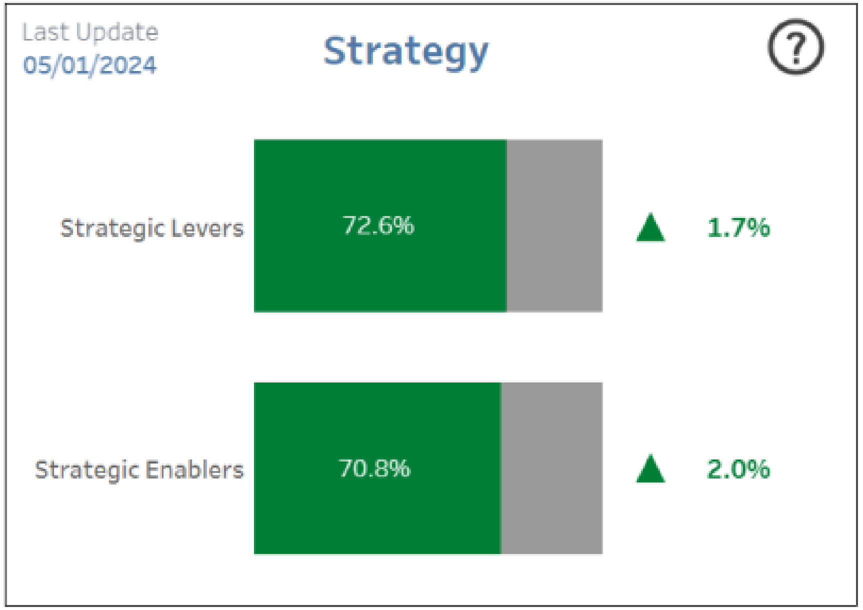
Communication:
Weighted percentage average based on responses to the following questions from the PULSE survey: 44*

Ready For Tomorrow:
Weighted percentage average based on responses to the following questions from the PULSE survey: 29,61*

Investment Expertise:
Weighted percentage average based on responses to the following questions from the PULSE survey:63*

Customer Focus:
Weighted percentage average based on responses to the following questions

The Strategic Plan introduced in 2023 is built around Strategic Levers and Strategic Enablers. Measures of these have been captured here via weighted percentage averages of the related PULSE survey responses.



Up Arrow = Above Previous Figure
Down Arrow= Below Previous Figure

Indicates percentage change since previous set of data.

Weighted percentage average of all questions per metric, based on the following:

Strongly Agree = 100%
Agree = 75%
Neither Agree nor Disagree = 50%
Disagree = 25%
Strongly Disagree = 0%

Yes = 100; No=0%

Produce average percentage based on numbers of responders divided by weighted responses.

Benchmark = 70% +

System & Processes:
Weighted percentage average based on responses to the following questions from the PULSE survey: 64*

Culture & Values:
Weighted percentage average based on responses to the following questions from the PULSE survey: 25,26*

Update Frequency:
Every 6 Months: All Measures

* PULSE Survey Questions on Page 8

Updated 04/07/24

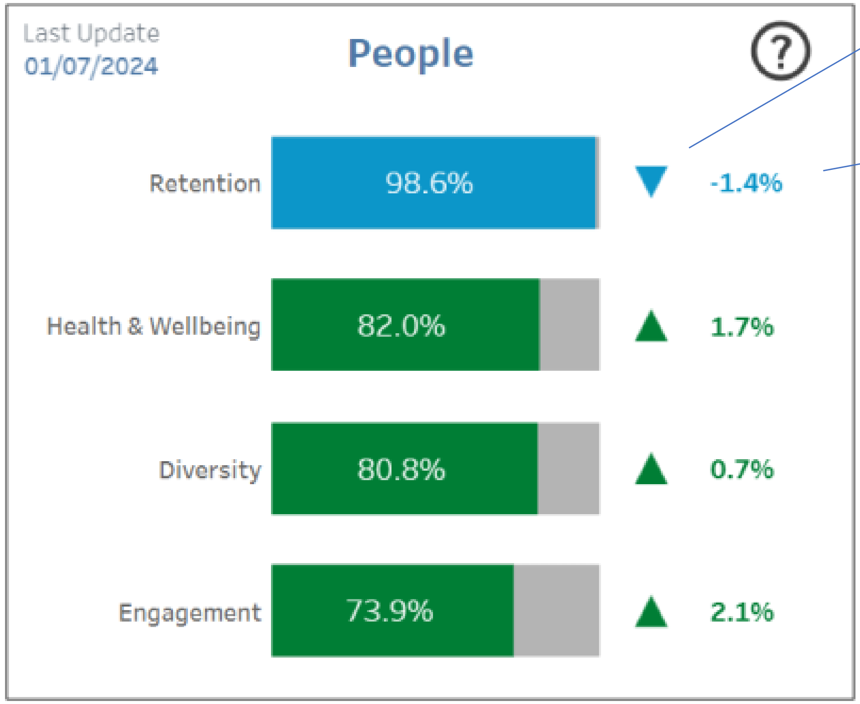
People

The retention rate is based on the headcount of permanent staff within the Surrey Pension Team. Benchmark = 90%

Employee retention rate for the most recent quarter.

Up Arrow = Above Previous Figure
Down Arrow = Below Previous Figure

Indicates percentage change since previous set of data



Weighted percentage average based on responses to the following questions from the PULSE survey: 32, 34, 35, 36 *

Weighted percentage average based on responses to the following questions from the PULSE survey: 37,38,39,40*

Weighted percentage average based on responses to the following questions from the PULSE survey:11,12,16, & 31*

Weighted percentage average of all questions per metric, based on the following:

Strongly Agree = 100%
Agree = 75%
Neither Agree nor Disagree = 50%
Disagree = 25%
Strongly Disagree = 0%

Yes = 100%; No = 0%

Produce average percentage based on number of responders divided by weighted response.

Benchmark =70% +

Update Frequency:
Every 6 months : PULSE Survey Measures
Quarterly: Retention

* PULSE Questions listed on Page 6

Updated 04/07/24

SURREY PENSION FUND COMMITTEE REPORT

SURREY COUNTY COUNCIL

SURREY PENSION FUND COMMITTEE

DATE: 13 SEPTEMBER 2024

LEAD OFFICER: ANNA D'ALESSANDRO, EXECUTIVE DIRECTOR, FINANCE AND CORPORATE SERVICES

SUBJECT: CHANGE MANAGEMENT UPDATE

SUMMARY OF ISSUE:

This paper details the Change Team Quarterly Report of activity for the period April – June 2024.

RECOMMENDATIONS:

It is recommended that the Pension Fund Committee:

1. Note the content of this report.

REASON FOR RECOMMENDATIONS:

To provide an update to the Pension Fund Committee and stakeholders on the Change Management team activities.

DETAILS:

This report details the following areas of interest:

1. Communications

    a) Over the last quarter the Communications team have sent out all planned communications within the agreed timelines as set out by the Communication policy. In addition, we have continued to implement the Communications Amplifying our Presence plan.

    b) During this period, the Surrey Pension Team were nominated for 4 Professional Pensions: Rising Star Awards 2024 - 3 individual members of the Surrey Pension Team and 1 for the Award for Supporting Development. Surrey Pension Team was also nominated for 3 Professional Pensions: Women in Pension Awards 2024

    c) Launched the new disability accessible templates for Board and Committee Reports.

d) Produced an LGPS Overview presentation for the LGA Communications Working Group for use for all LGPS Funds to use during Pensions Awareness Week.

2. Learning & Development

a) The first 2024/25 Pulse staff survey was launched, with respondents asked to complete their submissions by the end of June. The results will be analysed during the next quarter to measure progress in key areas of our workforce strategy and to identify areas for further improvement.

b) A Lunch and Learn session was presented on Neurodiversity in the Workplace to support work on Equality, Diversity and Inclusion (EDI).

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c) Plans for the initial residential Board & Committee training event on 23/24 October 2024 in Winchester were progressed. A detailed agenda and speakers has been confirmed, which you should have received with your invitation.

d) SCC have revised the system for performance management to include performance ratings. We have created an SPT branded performance conversation template.

e) We have supported a further 3 colleagues to commence Certificate of Pension Administration qualifications on the latest course which started in May.

f) A comprehensive training document for Manager training opportunities was created, ready for launch to the Extended Leadership Team (ELT) in early July.

g) All line managers with SPT have attended 3 in-person training sessions provided by SCC on Managing High Performing Teams. We have continued to work on implementing this within the Pension Team.

3. Project Management

a) 8 Projects have been transferred to business as usual.

b) 8 Projects are still ongoing and are on track. Further information is provided in Annexe 1.

c) The most significant projects currently on the agenda are McCloud, GMP and evolving our governance.

4. Transformation

a) An external consultant has been sought to advise further on the Year 2/3 plans for the digital transformation strategy which is currently in development. Year 1 transformations have kicked off, these are primarily looking at value stream mapping key cross functional processes to identify the key areas for digitisation. Key forms completed by employers on the website are also under review with the aim of making them first accessible and then digitised.

b) The main focus of activity for the Change Team is constructing a business case outlining proposed options for Improving the Governance of SPF. This has been brought to the Committee in a separate paper.

c) Initiatives to evolve the culture of the SPT began in the Whole of Pensions in May. The focus was on aligning individuals purpose with the values and mission of the SPT. Further interventions are planned throughout the year.

d) A plan to increase the leadership capability of the Extended Leadership Team has been tabled and approved and is now in action. The plan focuses on improving cohesion of the people in the team by raising awareness of roles and responsibilities and how they interconnect. A suite of Leadership training has been collated into a single resource to improve development discussions and planning. Finally, a mechanism to formalise continuous improvement activities is in development. 9

CONSULTATION:

5. The Chair of the Pension Fund Committee has been consulted on this report.

RISK MANAGEMENT AND IMPLICATIONS:

6. Any relevant risk related implications have been considered and are contained within the report.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS:

7. Any relevant financial and value for money implications have been considered and are contained within the report.

EXECUTIVE DIRECTOR OF FINANCE & CORPORATE COMMENTARY:

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

LEGAL IMPLICATIONS – MONITORING OFFICER:

9. There are no legal implications or legislative requirements.

EQUALITIES AND DIVERSITY:

10. There are no equality or diversity issues.

OTHER IMPLICATIONS:

11. There are no other implications.

NEXT STEPS:

12. The following steps are planned:
    a) Starting to progress some of the recommendations of the digital transformation strategy and confirmation of the plans for outer years.

    b) Pulse survey results will be analysed and reported.

    c) Commencing implementation of the ELT capability programme.

    d) Work will start on proposals for SPT High Performing Teams and the EDI Programme.

    e) The delivery of our first short-form interview video with a member of PSLT covering topics in line with the strategic plan. It will be available to members via LinkedIn and the Surrey Pension Team website.

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Contact Officer:

Nicole Russell, Head of Change Management

Annexes:

1. Projects April – June 2024 Annexe 1

Sources/Background papers:

1. None

Projects April – June 2024

Projects transferred to the team to continue as business as usual:

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1. **Unit 4:**
   With the works for moving from SAP to Unit 4, a need was identified for a change project to align all departments individual efforts towards this transition, ensuring all prerequisites are in place and to organise the workload once it goes live. This then continued with all the issues post go-live and will continue until everything has been resolved.
   Status: The teams are working closely with colleagues in SCC to resolve the outstanding issues.

2. **Banking Controls:**
   The aim is to ensure appropriate governance within the service through maintaining pension banking controls separately from those of the general Surrey County Council account. By bringing these within the full remit of the Surrey Pension Team, we aim to achieve this and also satisfy audit requirements.
   Status: The outstanding element of EBS uploads now resides with the Finance Team.

3. **Value Stream Mapping – New Entrants**: To streamline and improve processes, specifically regarding New Entrants, leading to correct set up and pension calculations and increased efficiency, while minimising errors.
   Status: Service Delivery will be looking at the New Entrants process to see where improvements can be made.

4. **Value Stream Mapping – Transfers In**: To streamline and improve processes, specifically regarding Transfers In, leading to correct set up and pension calculations and increased efficiency, while minimising errors.
   Status: Service Delivery will be looking at the Transfers In process to see where improvements can be made.

5. **Injury Allowances:**
   There are 14 people in receipt of an injury allowance being paid on Surrey Payroll S97. These cases need to be reviewed to ascertain if they should still be in payment (in accordance with the relevant Council policy). And it would be normal for these payments to be charged to the employer. There is no indication that this is happening.
   Status: The team have been sent a summary of progress along with all relevant documents and will complete as business as usual.

6. **Teachers CAY:**
   Currently there are over 800 LEA & other employers, ex-teachers receiving compensatory added years or mandatory pensions. These are being paid from Altair (S97 scheme/payroll) and whilst they are being recharged

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centrally, the SPT is not responsible for these. This project will be to explore that recharges are being made correctly and to explore other options for making these payments (i.e. hand over to the employers or Teachers' Pensions).
Status: Finance are engaging with the team to ensure that the recharges are not hitting the pension fund and they own the charges.

7. **Combined Benefit Recharges:**
Currently there is no defined process or ownership in place for a small number of cases of combined benefits. As there are so few, and they are recharged at different times (quarterly/annually), a consistent, documented process needs to be put in place for these cases.
Status: The team to ensure that they are paying them and, in the system, and the process is understood and followed going forward.

8. **Legacy Governance**: As part of our Strategic Plan - Fit for Purpose Lever - we are focused this financial year on significantly reducing our Backlog in the Service Delivery and Accounting & Governance areas.
Status: This is being managed by Service Delivery and Accounting & Governance.

9. **Actuary Retender**: End of Hymans contract is approaching so there is a need to tender for a new contract.
Status: A decision was made to extend the current Hymans contract until 2026.

Ongoing projects:

10. **Internal Documents & Standards:**
Currently, there is no standardisation of document storage location. With the removal of the G drive, it is an appropriate time to look at moving documents from the G drive to an agreed location moving forward, where standardisation can be developed. A new SharePoint site is to be created.
Status: Two teams still to move to the new SharePoint site. Then to liaise with IT to change the G Drive to read-only.

11. **Lunch & Learn programme**: Fortnightly sessions held virtually to cover both wellbeing topics alternated with more technical/topical work-related topics.
Status: Lunch & Learn sessions currently booked until October 2024.

12. **GMP:**
There is a requirement to establish a guaranteed minimum pension for all members, recalculation and updating records required. This work is being carried out by Aptia (previously Mercer).
Status: Working with Aptia on a plan for the works to be carried out by February 2025.

13. **McCloud:**
As a result of the McCloud case judgement, all public sector pension schemes must revisit their CARE schemes to revise underpinning calculations. There are two stages: the first to gather information from employers/payroll providers. This will be validated using a third-party provider (ITM). The second stage will be the updating of records once regulation has been finalised. This will allow 2 years to correct records from this point.
Status: Testing of the Altair interface currently underway with a plan in place to have records updated over the next few months.

14. **Responsible Investment:**
Support for the revision of responsible investment approach, including drafting of a standalone Responsible Investment Policy, after consultation with a member led Responsible Investment Sub-Committee and assistance with the Stewardship Code application. This will be an ongoing process with quarterly reviews and work plans to be put in place.
Status: Stewardship code application successful and a net-zero date has been set. Priorities for 2024/25 agreed. This project will move to business as usual post June 2024.

15. **Consumer Insights**: Understand our current service provision and areas of improvement. Procure provider to undertake independent customer feedback across the whole one pensions team.
Status: Feedback received from the Focus Groups to be analysed.

16. **Digital Transformation:**
Digital transformation is a key ingredient to our strategic plan to ensure that we continue to innovate and use our resources as efficiently and effectively as possible. The SCC Digital Design Team have completed their discovery process to understand the improvement areas and opportunities that will enable us to be innovative and fit for purpose with particular reference to those where a digital solution will have a beneficial impact.
Status: To address key recommendations based on the outcomes of the SCC Digital Design Team discovery report.

17. **Governance:**
Surrey County Council has the dual role as Administering Authority for and a scheme employer of the Surrey Pension Fund. This dual role creates potential conflicts of interest. This project supports ways in which the governance of the Surrey Pension Fund can be improved to enable this conflict to be more effectively managed. It also explores areas in which more clarity on the relationship between Surrey County Council and the Surrey Pension Fund can enhance the effectiveness of the delivery of the Strategic Plan.
Status: Report brought to this Committee meeting.

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SURREY PENSION FUND COMMITTEE REPORT

SURREY COUNTY COUNCIL

SURREY PENSION FUND COMITTEE

DATE: 13 SEPTEMBER 2024

LEAD OFFICER: ANNA D'ALESSANDRO, EXECUTIVE DIRECTOR, FINANCE AND CORPORATE SERVICES

SUBJECT: DRAFT ANNUAL REPORT 2023/24

SUMMARY OF ISSUE:

This report provides an update to the production of the 2023/24 Pension Fund Annual Report.

As stated in the Annual Report Guidance for Local Government Pension Scheme Funds (Updated April 2024) for annual reports covering 2023/24, funds should use their best endeavours to comply fully with the guidance, but exercise judgement where, because of changes to the previous content, to do so would require disproportionate effort or cost. The report in Annexe 1 has been prepared on a best endeavours basis.

This guidance includes a Code disclosure checklist, listed by the categories of must, should and may, in the preparation of the annual report the Surrey Pension Fund has applied these categories to each of the report sections.

Category	Explanation
Must	Compliance is strongly expected. Any non-compliance should be clearly identified in the annual report and an explanation provided.
Should	Compliance is anticipated but is discretionary. Where non-compliance may be significant or material for the readers the non-compliance should be identified and explained.
May	Compliance is recommended but is discretionary

A high-level overview of the main areas in the relevant sections in the 2024 guidance where there has been significant change or new reporting added from the previous guidance can be found here.

RECOMMENDATIONS:

It is recommended that the Pension Fund Committee:

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1. Note the content of the draft Annual Report, shown in Annexe 1.
2. Make any recommendations to the Local Pension Board if required.
3. Agree that approval of the final version of the Report be delegated to the Chair, subject to an unqualified audit.

REASON FOR RECOMMENDATIONS:

Under the Local Government Pension Scheme Regulations 2013, regulation 57 administering authorities of Local Government Pension Scheme (LGPS) funds are required to prepare a pension fund annual report. This therefore meets the requirements of the Regulations, the Local Government Scheme Advisory Board (SAB) as well as wider stakeholders who have an interest in the Fund. The Pension Fund Committee must approve all financial statements produced for the Pension Fund.

DETAILS:

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Background

1. The Draft accounts 2023/24 for the Surrey Pension Fund for the year ended 31 March 2024 have been published on the Surrey County Councils website.

2. Notice had been given in accordance with Sections 26 and 27of the Local Audit and Accountability Act 2014 and Regulations 14 and 15 of the Accounts and Audit Regulations 2015. Statement of accounts 2023 to 2024 - audit of accounts notice - Surrey County Council and the Surrey Pension Fund 2023/24

3. The Draft Pension Fund Accounts are included as part of the draft Annual Report presented as Annexe 1. The final Pension Fund Accounts along with the Council Accounts will be presented to the Audit and Governance Committee in due course.

4. The external auditor is required to report on the Pension Fund Financial Statements. Any issues identified may require amendments to the 2023/24 draft financial statements and related notes to the accounts prior to be finalised.

CONSULTATION:

5. The Chair of the Pension Fund Committee has been consulted on this report.

RISK MANAGEMENT AND IMPLICATIONS:

6. Any relevant risk related implications have been considered and are contained within the report.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS:

7. Any relevant financial and value for money implications have been considered and are contained within the report.

EXECUTIVE DIRECTOR OF FINANCE & CORPORATE COMMENTARY:

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

LEGAL IMPLICATIONS – MONITORING OFFICER:

9. There are no legal implications or legislative requirements.

EQUALITIES AND DIVERSITY:

10. There are no equality or diversity issues.

OTHER IMPLICATIONS: 10

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

NEXT STEPS:

12. The following next steps are planned:

    a) Finalising and approval of the audited financial statements; and

    b) Review by External Auditors, Ernest Young (EY), to provide Statement of Consistency of Pension Fund Accounts 2023/24 and Pension Fund Annual Report 2023/24.

Contact Officer:

Collete Hollands, Head of Accounting and Governance

Annexes:

1. Draft Surrey Pension Fund Annual Report 2023/24 – Annexe 1

Sources/Background papers:

None

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V1.4

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Annual Report

2023/24

Surrey Pension Team

Providing our customers with a better tomorrow

Contents

Subject *TO BE REVISED UPON COMPLETION*	Page number
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Section 1: Introduction

Chairman's Statement

Overview

2023/24 was marked by the submission of the Surrey Pension Fund's first application to become a signatory to the UK Stewardship Code, for the period 1 April 2023 to 31 March 2024. The market value of the investments in the Surrey Pension Fund (the Fund) as at 31 March 2024 was £5.8bn (2023 £5.2bn) with around 60% invested in equities, a proportion broadly unchanged from last year.

355 employers participate in the Fund and we have over 130,000 members.

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Investment Strategy and Performance

The investment strategy is 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 Border to Coast Pensions Partnership (BCPP), and risk. Ongoing adjustments in asset allocation are made proactively in line with these aims.

In July 2023 the Fund switched its Emerging Markets equities from a passive to an active management approach. This enabled the Fund to continue to access investment opportunities in the region whilst also lowering its carbon footprint.

For the year to 31 March 2024, the overall investment return of the Fund was 11.3%. Over three years, performance was 5.3% per annum, ahead of strategic target of 5% but below the benchmark of 7.4%.

Investment pooling within the LGPS

The Fund continues to make the most of opportunities for pooling its assets with other Local Government Pension Scheme (LGPS) funds. As at 31 March 2024, 53% of the Fund's investments were held directly with BCPP with a further 28% under pool management.

Investing Responsibly

A Net Zero date of 2050 or sooner was set in June 2024, grounded in rigorous scenario analysis and consultations with external service providers.

The Committee also approved its inaugural Responsible Investment (RI) Policy which articulates how our RI Beliefs are put into practice and followed an extensive consultation process with stakeholders. The Fund takes an active role in ensuring it invests with due attention to our environmental, social and governance (ESG) responsibilities. The focus remains on our fiduciary duty, maintaining appropriate investments for financial return while also having regard to the United Nations Sustainable Development Goals.

The Fund has a policy of engagement on ESG issues and enhances its influence through the Local Authority Pension Fund Forum (LAPFF) as well as Border to Coast's engagement lead, Robeco. The Committee is regularly informed about shareholder voting outturns and how this may impact the Fund's investment decisions.

The Fund is signed up to the Task Force for Climate-Related Financial Disclosures (TCFD) and will report against these disclosures as appropriate. Since 2018, the estimated Weighted Average Carbon Intensity (WACI) of the listed equity portfolio has fallen by over 75%.

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Management

In March 2024 the Fund set out year two of its three-year Strategic Plan. The 3-year Strategic Plan provides the foundations for our path towards achievement of our Vision and Mission. The theme for year is Trailblaze, with ambitious plans to improve delivery to our customers. The Committee receives updates on the Strategic Plan on a quarterly basis through a Surrey Pension Team Dashboard. I thank the Surrey Pension Team (SPT) for their ongoing hard work as we aim to ensure the best experience for our members.

Nick Harrison

Chair of the Surrey Pension Fund Committee.

About the Surrey Pension Fund

The Surrey Pension Team has reviewed its strategic plan for the next three years.

The vision and mission remain the same.

Our vision	Providing our customers with a better tomorrow.
Our mission	Responsibly delivering a first-class customer experience by ensuring we deliver the right benefits and services to the right people at the right time.

These are underpinned by our four pillars with the foundation of people, systems & processes, and culture & values.

Our four pillars are:

Customer focus	Relentless focus on delivering value to the customer through provision of a first class service and customer experience.
Investment Expertise	Delivering our investment requirements by thought leadership in responsible investment and quality partnerships.
Fit for Purpose	Continuously improving the efficiency and effectiveness of all our resources achieving excellence and the highest assurance ratings.
Ready for Tomorrow	Organisational resilience and agility to design and pivot to new service models

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Policies and Strategies

Every policy and strategy referenced in this annual report can be found on the Surrey Pension Team website at: www.surreypensionfund.org/about/annual-reports

Section 2: Overall Fund Management

Contents

Scheme Management and Advisors

Risk Management

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Scheme Management and Advisors

Senior Officer Contact Details

Leigh Whitehouse
Deputy Chief Executive

Anna D'Alessandro
Director – Finance, Corporate & Commercial
anna.dalessandro@surreycc.gov.uk
07885 434034

Neil Mason
Assistant Director - LGPS Senior Officer
neil.mason@surreycc.gov.uk
020 8213 2739

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Key Advisors

Steve Turner
Investment Consultant - Mercer
steve.j.turner@mercer.com
01483 777035

Anthony Fletcher
Professional Advisor - Independent
Anthony.Fletcher@MJHudson.com
020 7079 1000

Steven Scott
Fund Actuary – Hymans Robertson
steven.scott@hymans.co.uk
Hymans Robertson
0141 566 7565

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Scheme Management & Advisers During the year	Name of Organisation
Asset Pool & Asset Pool operator	• Border to Coast Pensions Partnership (Pool Operator)
Fund Managers	• Border to Coast Pensions Partnership • CBRE Global Investors • Legal and General Investment Management • Newton Investment Management
Global Custodian	• Northern Trust
AVC Provider	• Prudential Assurance Company • Utmost Life and Pensions Limited
Legal Advisors	• Eversheds (Pensions Law) • Browne Jacobson (Legal Due Diligence)
Bankers	• HSBC
Auditors	• Grant Thornton UK LLP
Private Market Managers	• Border to Coast Pensions Partnership (BCPP) • BlackRock • Capital Dynamics • Darwin Alternative Investment Management • Goldman Sachs Asset Management • Hg Capital • Livingbridge Equity Partners • Nuveen Infrastructure • Pantheon Global Infrastructure • Patria Investors
Independent advisors or Consultants	• Apex Group • Mercer • Minerva

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Risk Management

Overview

The risk management policy of the Surrey Pension Team 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 are possible, then means to mitigate the implications of the risks are established.

Risk areas have been assessed in terms of their impact on the Fund as a whole, on the Fund employers, and on the reputation of the Pension Fund Committee (PFC) and Surrey County Council as the Administering Authority. Assessment has also been made of the likelihood of the risk.

A quarterly assessment of the risk register provides the Local Pension Board (LPB)
10 and PFC with the opportunity to influence and drive the risk management process.

Identifying and managing risks

The policies, processes, systems, and internal controls in place for SPT ensure that the internal and external activities of SPT are documented. These in turn enable an understanding of the internal controls and information workflows in operation, the relationships between them, their impact on each other and the financial values associated with them. This understanding lends all risks to be initially identified and then prioritised and a ranking system is developed.

The risks are scored separately and included in SPT's risk register before actions to manage, monitor and mitigate them are identified, recorded and given overall risk scores based on their likelihood and impact. Risk scores may be reduced as they are being addressed.

The SPF has adopted the following matrix when considering risk.

Likelihood

Level	Likelihood	Odds
1	Rare	<10%
2	Unlikely	10% to 30%
3	Possible	30% to 70%
4	Likely	70% to 90%
5	Very Likely	>90%

Impact

Level	Impact	Financial (revenue)	Residents	Reputational	Performance
1	Minimal	<£100k	Minimal impact on a small proportion of the population	Has no negative impact on reputation and no media interest	Minimal impact on achievement of one or more SCC priority objectives
2	Minor	£100K to £1m	Minor impact on a small proportion of the population	Minor damages in a limited area. May have localised, low level negative impact on reputation and generates low level of complaints	Minor impact on achievement of one or more SCC priority objectives
3	Moderate	£1m-£2.5m	Moderate impact on a large (or particularly vulnerable group) proportion of the population	Moderate damages but widespead. Significant localised low level negative impact on the organisations reputation which generates limited complaints.	Moderate impact on achievement of one or more SCC priority objectives
4	Major	>£2.5m to £10m	Major impact on a large (or particularly vulnerable group) proportion of population	Major damage to the reputation of the organisation. Generates significant number of complaints and likely loss of public confidence. Unwanted local or possibly national media attention.	Major impact on achievement of one or more SCC priority objectives
5	Severe	>£10m	Serious long term impact on a large (or particularly vulnerable group) proportion of population	Serious damage to the reputation of the organisation. Large number of complaints. National media coverage. Possible government intervention.	Serious long term impact on achievement of one or more SCC priority objectives

Investment, governance and administration risk management

In addition to quarterly reviews of the risk register (including risks identified in investments, governance and administration), emerging risks are added to the register as they are identified.

Examples of emerging risks include the introduction of a new IT system, new and amended policies, changes to working practices, influences of internal and external control environments and systems etc. in each of the above areas which influence the SPT operations so that adequate controls and mitigating actions can be documented and implemented.

Cyber risk management

The SPT is reliant on a number of internal and external third parties for providing pension investment and administration services and managing cyber security arrangements. Examples include reliance on Surrey County Council (SCC) as the administering authority and the largest employer in the SPF. The SPT is an integral part of SCC and its organisational structure, policies, procedures, IT and non-IT systems and working practices. As such, SPT continues to rely on SCC for managing some cyber risks and examples include access to SCC network (email, SharePoint, SPF banking areas).

Similarly, there are external third parties supporting the SPF (such as its custodian, Fund managers, actuary and pensions administration system provider). Each third party has its own cyber security arrangements which is an integral part of the contract between SPF and the service provider.

Investment and pooling risk management

The SPF is one of 11 partners in the Border to Coast Pension Partnership (BCPP) and some SPF asset classes of investments are pooled within BCPP. The identification of investment risks is documented in SPT's risk register and reviewed regularly.

Managing third party risks

The SPT Pensions Administration Strategy identifies and mitigates against risks associated with scheme employers such as the late payment of contributions, provision of member data and employer administration performance. [The Pension Administration Strategy can be found here.]

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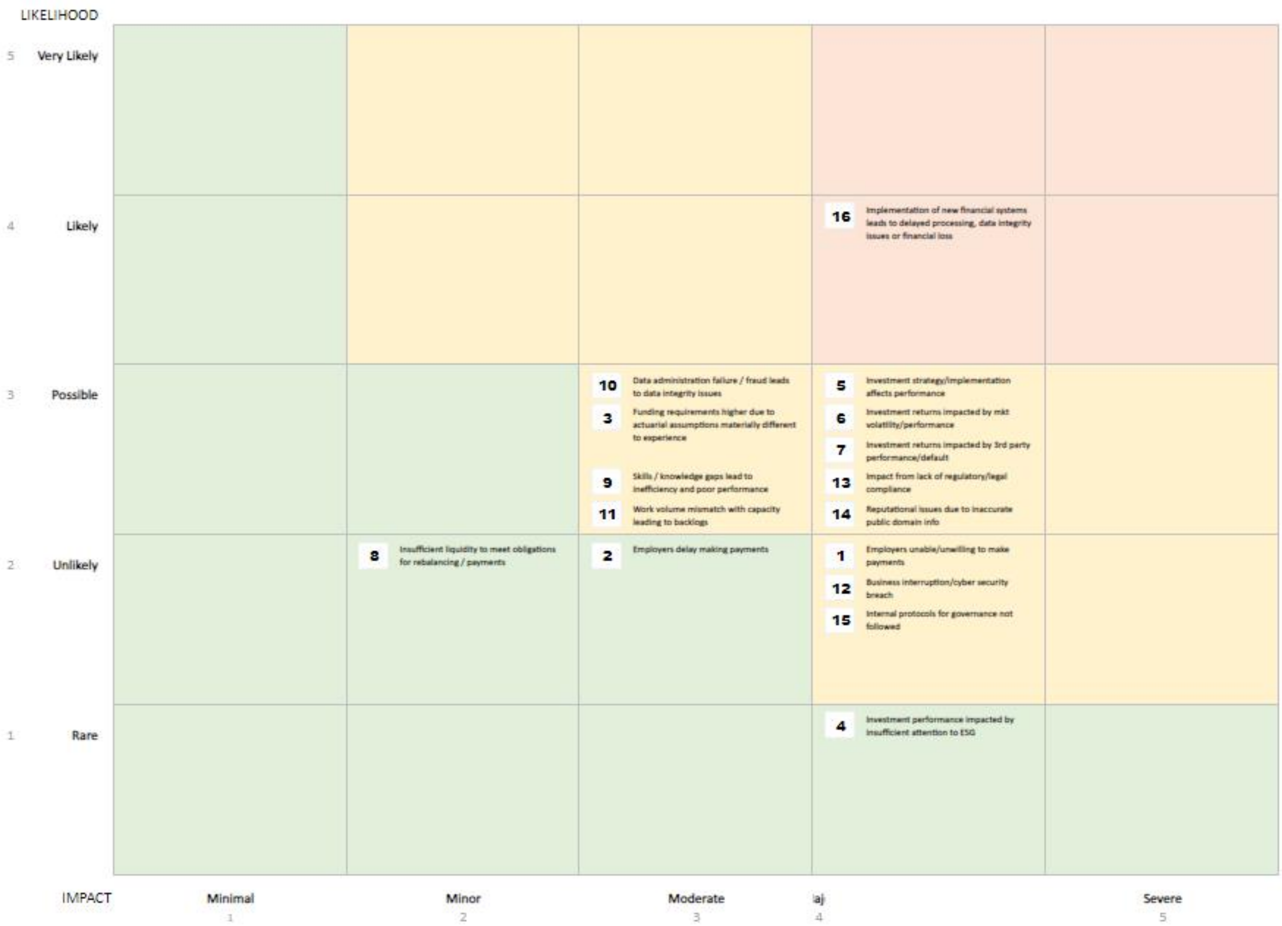
Risks due to the Fund’s relationship to the administering authority

Staff of SPT are employees of SCC and as such are governed by SCC's Terms and Conditions and employee policies. Critical activities of the SPT that are reliant on SCC (as the Administering authority) are identified and documented in the Business Continuity Plan. Risks may also be identified and managed through the Conflict of Interest policies for both the PFC and LPB

As at 31 March 2024, there were 16 areas of risk identified as shown below:



Risk scores with current mitigation controls in place are shown below.

Risk ID	Risk Title	Risk Owner	Likelihood (1-5)	Impact (1-5)	Overall Score
16	Ongoing issues (access, training, reporting etc.) following implementation of new financial system leading to delayed processing, data integrity issues, financial loss and build up of backlogs.	A&G	4	4	**16**
5	Investment strategy and proposed implementation materially affects investment performance	I&S	3	4	**12**
6	Investment returns impacted by market volatility/ performance	I&S	3	4	**12**
7	Investment returns impacted by third party or counter party performance/default	I&S	3	4	**12**
13	Scheme is financially or reputationally impacted by failure to adhere to (changes in) regulatory and legislative compliance requirements	SD	3	4	**12**
14	Reputational issues due to inaccurate public domain information (external stakeholder relationships / comms) or inefficient service	A&G	3	4	**12**
3	Funding requirements higher due to actuarial assumptions materially different to experience	A&G	3	3	**9**
9	Skills / knowledge gaps lead to inefficiency and poor performance	SD	3	3	**9**
10	Data administration failure / fraud leads to data integrity issues	SD	3	3	**9**
1	Employers unable/unwilling to make payments	A&G	2	4	**8**
12	Business interruption or cyber security breach leads to data integrity issues or financial loss	SD	2	4	**8**

Risk ID	Risk Title	Risk Owner	Likelihood (1-5)	Impact (1-5)	Overall Score
15	Internal protocols for governance not followed	A&G	2	4	**8**
11	Work volume mismatch with operational capacity leading to backlogs	SD	2	3	**6**
2	Employers delay making payments	A&G	2	3	**6**
4	Investment performance materially impacted by insufficient attention to ESG factors	I&S	1	4	**4**
8	Insufficient liquidity / lack of cash to meet obligations for collateral rebalancing / payments out	A&G	2	2	**4**

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Section 3: Governance and Training

Pension Fund Committee

Responsibility and governance for the Surrey Pension Fund, including its investment strategy, administration, liability management and corporate governance is delegated to the Pension Fund Committee. The Committee is made up of:

- 6 nominated members of the County Council
- 2 representatives from the Borough/District Councils nominated by the Surrey Local Government Association
- 1 representative from the external employers
- 1 representative of the employees of the Fund.

The Committee is advised by a representative of the Fund's professional investment consultant, an independent advisor, the Director of Finance and the Assistant Director – LGPS Senior Officer. The Pension Fund Committee meets on a quarterly basis. 10

Local Pension Board

The Committee is assisted in its management of the Fund by the Local Pension Board (the Board). The Board is made up of members and employer representatives.

The role of the 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 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 Pensions Regulator.

The Board will also help ensure that the 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 Pensions Regulator. The 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 Board shall consist of at least 8 members and may contain up to 10 members. It shall be constituted as follows:

- (i) 4 employer representatives
- (ii) 4 scheme member (employee) representatives
- (iii) The Board may also contain 2 independent members.

The Local Pension Board agenda and minutes of meetings, as well as those of the Surrey Pension Fund Committee, are available on the Surrey County Council website.

Members of Committee and Board

Membership of the Pension Fund Committee as at 31 March 2024

Cllr Nick Harrison: Chairman
Elected Member
Appointed: 25/05/21

Cllr Trefor Hogg: Vice Chairman
Elected Member

Appointed 25/05/21

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Cllr David Harmer
Elected Member

Appointed: 25/05/21

Cllr George Potter
Elected Member

Appointed 25/05/21

Cllr Richard Tear
Elected Member

Appointed 25/05/21

Cllr Robert Hughes
Elected Member

Appointed 24/05/22

Kelvin Menon
Co-opted Member
Employer Representative

Re-appointed 25/05/21

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Duncan Eastoe
Co-opted Member
Employees Representative

Appointed 4/03/23

Cllr Steve Williams
Co-opted Member
Appointed 02/08/21

Cllr Robert King
Co-opted Member

Appointed 11/07/22

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 10 October 2023.

Governance Principle: 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

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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.

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.

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e) To monitor performance across all aspects of the service

f) To ensure that arrangements are in place for consultation with stakeholders as necessary

g) To consider and approve the annual statement of pension fund accounts

h) To consider and approve the Surrey Pension Fund actuarial valuation and employer contributions

i) To receive minutes and consider recommendations from and ensure the effective performance of the Joint Committee of the Border to Coast Pensions Partnership and any other relevant bodies.

The Governance Compliance Statement and Governance Policy can be found at : Annual reports | Surrey Pension Fund

Surrey Pension Fund Committee Meetings

Meeting date	Agenda items
16 June 2023	1. The Surrey Pension Team 3 Year Strategic Plan 2. Action Tracker and Forward Plan 3. Summary of the Local Pension Board Report – 19 May 2023 4. Investment Manager Performance and Asset / Liabilities Update 5. 2022 Valuation 6. Company Engagement & Voting 7. Asset Class Focus - Equity 8. Responsible Investment Update 9. LGPS Update (Background Paper) 10. Responsible Investment Update – (Part Two) 11. Investment Strategy Review – Employer Strategies, Fixed Income Weights & Investment Strategy Statement (Part Two) 12. Real Estate Update (Part Two) 13. Border to Coast Pensions Partnership Update (Part Two)
8 September 2023	1. Glossary, Action Tracker, and Forward Plan 2. Change Programme Update – Quarter 2 3. Summary of the Pension Fund Committee Meetings of 28 July 2023 4. Appointment of an Independent Chair of the Local Pension Board 5. Investment Manager Performance and Asset / Liabilities Update 6. Draft Annual Report 2022/23 7. Investment Benchmarking 8. Company Engagement & Voting 9. Asset Class Focus – UK Real Estate & Listed Alternatives 10. Responsible Investment Update 11. LGPS Update (Background Paper) 12. Investment Benchmarking (Part Two) 13. Investment Strategy Review – Gilt Investment 14. Response to Consultation on the Future for Investing 15. Border to Coast Pension Partnership Update (Part Two)

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Meeting date	Agenda items
15 December 2023	1. Glossary, Action Tracker, and Forward Plan 2. Change Programme Update – July – September 2023 3. Summary of the Local Pension Board Meeting of 10 November 2023 4. Investment Manager Performance and Asset / Liabilities Update 5. Actuarial Update 6. Company Engagement & Voting 7. Asset Class Focus- Private Markets 8. Responsible Investment Update 9. LGPS - Background Papers 10. Response of the Department of Levelling up, Housing & Communities (DHULC to its consultation on next steps for investing for the LGPS 11. Competition & Markets Authority (CMA) Investment Consultation Strategic Objectives (Part Two) 12. Border to Coast Pensions Partnership Update (Part Two)
22 March 2024	1. Glossary, Action Tracker, and Forward Plan 2. Second Year of the Strategic Plan for Surrey Pension Fund 3. Change Programme Update – October- December 2023 4. Training Policy 2024/25 5. Summary of the Local Pension Board Report 6. Local Pension Board – Proposed Amendment to the Terms of Reference 7. Budget 2024/25 8. Investment Manager Performance and Asset/Liabilities Update 9. Company Engagement & Voting 10. Asset Class Focus – Credit Markets 11. Responsible Investment Implementation Report 12. LGPS update – Background paper 13. New Investment Propositions – (Part Two) 14. Border to Coast Pensions Partnership Update (Part Two)

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Members of the Surrey Pension Fund Committee as at 31 March 2024

Name	Position	Representing	Appointed
Nick Harrison	Chair	Elected Member	25/05/2021
Trefor Hogg	Vice-Chair	Elected Member	25/05/2021
Duncan Eastoe	-	Co-opted Member - Employees	04/03/2023
David Harmer	-	Elected Member	25/05/2021
Robert Hughes	-	Elected Member	24/05/2022
Robert King	-	Co-opted Member – Borough & Districts	11/07/2022
Kelvin Menon	-	Co-opted Member – Employer	25/05/2021
George Potter	-	Elected Member	25/05/2021
Richard Tear	-	Elected Member	25/05/2021
Steve Williams	-	Co-opted Member – Borough & Districts	02/08/2021

Meeting attendance of the Surrey Pension Committee

Name	Jun 2023	Sept 2023	Dec 2023	Mar 2024
Nick Harrison	Yes	Yes	Yes	Yes
Trefor Hogg	Yes	Yes	Yes	Yes
Duncan Eastoe	N/A	No	Yes	Yes
David Harmer	Yes	Yes	No	Yes
Robert Hughes	Yes	Yes	Yes	Yes
Robert King	Yes	Yes	No	Yes
Kelvin Menon	Yes	Yes	Yes	Yes
George Potter	Yes	Yes	Yes	Online
Richard Tear	Yes	Yes	Yes	Yes
Phil Walker	Yes	N/A	N/A	N/A
Steve Williams	Yes	Yes	Yes	Online

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Membership of the Local Pension Board as at 31 March 2024

Tim Evans: Chair
Independent Chair

Appointed 19/07/21

Cllr David Lewis: Vice Chair
Employer Representative

Appointed 19/07/21

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Trevor Willington
Surrey LGPS Member

Appointed 17/07/15

Siobhan Kennedy
Surrey LGPS Member

Appointed 25/04/20

Fiona Skene
Employer Representative

Appointed 10/12/20
Resigned 22/09/23

William McKee
Surrey LGPS Member

Appointed 19/07/21

Cllr Jeremy Webster
Employer Representative

Appointed 19/07/21

Brendan Bradley
Employer Representative

Appointed 16/12/22

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Chris Draper
Surrey LGPS Member

Appointed 15/11/2023

For contact details please contact the Governance at the Surrey Pension Team (adele.seex@surreycc.gov.uk)

Local Pension Board – Annual Report

Chair's Statement

2023/2024 has turned out to be a busy and challenging year for the Penson Fund with the introduction of a new financial system MySurrey (Unit4) in June 2023 and the Pension Regulator (tPR) publishing its new General Code of Practice.

The Transformation Programme continues to drive improvements with successfully delivering a 3-year strategic plan and the adjacent workforce strategy. Development of a Surrey Pensions One Team dashboard and building on the culture and training within the Surrey Pension Team in line with its Vision and Mission.

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The Pension Fund has 355 employers participating in the Fund including county and district councils, schools, academies, colleges, universities and admitted bodies (such as, cleaning, and catering companies performing outsourced services on behalf of participating organisations).

In September, Board Member Fiona Skene stepped down following her retirement. And I would like to thank her for contribution to the work of the Board.

During the year we welcomed Chris Draper as a Member of the Board.

The Board continued to meet during the year to provide the necessary oversight and guidance to the Fund. This Complies with the Public Service Pensions Act 2013 and the Local Government Pension Scheme Regulations 2013.

The Board's primary function is to assist the Pension Fund Committee and Surrey County Council (as the Administering Authority) with:

- compliance with the Local Government Pension Scheme (LGPS) Regulations, other relevant legislation and requirements imposed by the Pensions Regulator; and
- the effective and efficient governance and administration of the scheme.

The Board has closely tracked the administrative performance of the Fund and its impact on the member and employer experience through quarterly KPI reporting, updates on projects, system changes, evolving pension legislation and best practice guidance.

It has also maintained oversight of the Fund's risk management protocols and risk register.

The Board has taken a lead in reviewing administrative performance, projects, the risk registers, and reporting issues of concern to the Committee. It also reviews the activities of the Committee at each subsequent meeting, providing input as required.

I would like to take this opportunity to thank all members of the Board for their contributions during the year and for the support of officers.

The meetings of the Board are held in public. We welcome anyone with an interest in the Fund to attend and see for themselves how we operate. We are also open to suggestions from both employers and members about how we can best support them.

You can find out more by writing to the Governance Manager at the Surrey Pension Team (adele.seex@surreycc.gov.uk)

Tim Evans
Chair of the Surrey Local Pension Board
July 2024

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Members of the Surrey Local Pension Board as at 31 March 2024

Name	Position	Representing	Appointed	Appointment ended
Tim Evans	Chair	Independent Chair	19/07/2021	-
David Lewis	Vice-Chair	Scheme Employers	19/07/2021	-
Brendan Bradley	-	Scheme Employers	06/12/2022	-
Chris Draper	-	Scheme Employers	15/11/2023	-
Siobhan Kenedy	-	Scheme Members	29/04/2020	-
William McKee	-	Scheme Members	19/07/2021	-
Fiona Skene	-	Scheme Employers	10/12/2020	22/09/2023
Jeremy Webster	-	Scheme Employers	19/07/2021	-
Trevor Willington	-	Scheme Members	17/07/2015	-

Meeting attendance of the Surrey Local Pension Board

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Name	May 2023	July 2023	November 2023	February 2024
Tim Evans	Yes	Yes	Online	Yes
David Lewis	Yes	Yes	Yes	Yes
Brendan Bradley	Yes	No	Yes	No
Chris Draper	N/A	N/A	N/A	Yes
Siobhan Kennedy	Online	No	Yes	Yes
William McKee	Yes	Yes	Online	Yes
Fiona Skene	Online	No	N/A	N/A
Jeremy Webster	Yes	Yes	Yes	Yes
Trevor Willington	No	Yes	Yes	Yes

Meetings and Agenda Items

Surrey Local Pension Board Meetings

Meeting date	Agenda items
19 May 2023	1. Action Tracker and Forward Plan 2. Summary of the Pension Fund Committee Meeting of 10 March 2023 3. Risk Register 2022/23 Quarter 4 4. MySurrey (Unit4) – Programme Status 5. Administration Performance Report 1 January 2022 - 31 March 2023 6. Change Programme Update 7. Internal Audit Update 8. 2022 Valuation 9. The Pensions Regulator – Public Service Governance & Administration Survey 2023 10. LGPS Update (Background Paper)
28 July 2023	1. Action Tracker and Forward Plan 2. Summary of the Pension Fund Committee Meetings of 16 June 2023 3. Risk Register 2023/24 Quarter 1 4. Administration Performance Report 1 April 2023 - 30 June 2023 5. Legacy Rectification 6. Change Programme Update April – June 2023 7. Internal Audit Progress Report – July 2023 8. 2022 Valuation 9. Surrey Local Pension Board Annual Report 2021/22 10. Surrey Local Pension Board Annual Report 2022/23. 11. LGPS Update (Background Paper)

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Meeting date	Agenda items
10 November 2023	1. Glossary, Action Tracker and Forward Plan 2. Change Programme Update – July – September 2023 3. Summary of the Pension Fund Committee Meeting of 8 September 2023 4. Risk Register Update 2023/24 Quarter 2 5. Administration Performance Report and Update 1 28 July 2023 - 30 September 2023 6. Business Continuity Plan Update 7. Internal Audit Progress Report – November 2023 8. External Audit Update 9. LGPS - Background Papers
16 February 2024	1. Glossary, Action Tracker and Forward Plan 2. Change Programme update October to December 2023 3. Communication Policy Statement 2024/25 4. Summary of the Pension Fund Committee Meeting of 15 December 2023 5. Administration Performance Report and Update – 1 October 2023 to 31 December 2023 6. Risk Register 2023/24 - Quarter 3 7. Business Continuity Plan – Interim Update 8. Internal Audit Progress Report February 2024 9. External Audit Update 10. The Pensions Regulator – General Code of Practice 11. The Pension Regulator – Scheme Return 12. LGPS Update - Background Papers

Register of Interests

Surrey Local Pension Board

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: 10

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	Employment	LGPS Pension?	Conflict with Employment?	Other Conflicts
Tim Evans	Yes	Yes	No	N/A
David Lewis	Not in paid Employment	No	No	N/A
Brendan Bradley	Head of Finance for Epsom & Ewell Borough Council.	No	No	N/A
Chris Draper	Business Manager for Collingwood College, Camberley	No	No	N/A
Siobhan Kennedy	Homelessness, Advice & Allocations Lead for Guildford Borough Council.	No	No	N/A
William McKee	Retired – T/A Consultancy	Yes	No	N/A
Fiona Skene	Corporate Head of HR & OD – for Runnymede Borough Council	No	No	N/A
Jeremy Webster	Not in paid Employment	Yes	No	N/A
Trevor Willington	Not in paid Employment	Yes	No	N/A

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Knowledge and Skills Policy

The Surrey Pension Fund (the Fund) recognises the importance of providing appropriate training to both Pension Fund Committee and Local Pension Board members, as well as officers in relation to the operation of the Fund. Compliance to a comprehensive training policy meets the Fund's strategic governance and delivery objectives and as such the Pension Fund Committee considered and acknowledged the 2024/25 Training Policy (Version 2) at its meeting of 22 March 2024.

The Fund is committed to providing training to those involved in the governance of the Fund and to ensuring the Pension Fund Committee and the Local Pension Board members have the necessary skills and knowledge to act effectively in line with their responsibilities.

The objectives of the Fund's training policy are to:

- ensure the Fund is managed, and its services delivered, by members and officers with the appropriate knowledge and expertise to be competent in their role
- provide those with responsibility for governing the Fund to evaluate the information they receive and effectively challenge it where appropriate
- support effective and robust decision making, ensuring decisions are well founded and comply with Regulatory requirements or guidance from the Pensions Regulator, the Scheme Advisory Board and the Secretary of State for the Department for Levelling Up, Housing and Communities (DLUHC)
- ensure an understanding of the operation and administration of the Surrey Pension Fund
- meet the required needs in relation to the Fund's objectives.

The Fund will demonstrate compliance with its training plan on a yearly basis through the Annual Report.

Training of current Committee Members

Training	Nick Harrison	David Harmer	Trefor Hogg	Richard Tear	George Potter	Kelvin Menon	Steve Williams	Robert Ashley King	Robert Hughes	Duncan Eastoe
TPR Public Service Toolkit	Y	N	Y	Y	N	Y	N	N	N	Y
TPR Trustee Toolkit	Y	N	Y	N	N	Y	N	N	N	N
LGA Fundamentals 1	Y	N	Y	N	N	Y	Y	N	N	Y
LGA Fundamentals 2	Y	N	Y	N	N	Y	Y	N	N	Y
LGA Fundamentals 3	Y	N	Y	N	N	Y	Y	N	N	Y
LOLA Unit 1	Y	N	Y	Y	N	Y	Y	N	N	N
LOLA Unit 2	Y	N	Y	Y	N	Y	N	N	N	N

Training	Nick Harrison	David Harmer	Trefor Hogg	Richard Tear	George Potter	Kelvin Menon	Steve Williams	Robert Ashley King	Robert Hughes	Duncan Eastoe
LOLA Unit 3	Y	N	Y	Y	N	Y	N	N	N	N
LOLA Unit 4	Y	N	Y	Y	N	Y	N	N	N	N
LOLA Unit 5	Y	N	Y	Y	N	Y	N	N	N	N
LOLA Unit 6	Y	N	N	Y	N	Y	N	N	N	N
LOLA Unit 7	Y	N	N	Y	N	N/A	N	N	N	N
LOLA Unit 8	Y	N	N	Y	N	N/A	N	N	N	N
LOLA Current Issues	Y	N	Y	Y	N	N/A	N	N	N	N

Key: Y = Attended; N = Not attended; N/A = LOLA units not required due to version complete.

Training of current Board Members

Training	Tim Evans	David Lewis	Jeremy Webster	William McKee	Trevor Willington	Siobhan Kennedy	Brendan Bradley	Chris Draper
TPR Public Service Toolkit	N	Y	Y	Y	Y	Y	Y	Y
TPR Trustee Toolkit	N	N	N	N	Y	Y	Y	N
Local Government Association Fundamentals 1	N	Y	Y	Y	Y	Y	N	N
Local Government Association Fundamentals 2	N	Y	Y	Y	N	Y	N	N
Local Government Association Fundamentals 3	N	Y	Y	Y	Y	Y	N	N

Training	Tim Evans	David Lewis	Jeremy Webster	William McKee	Trevor Willington	Siobhan Kennedy	Brendan Bradley	Chris Draper
LOLA Unit 1	N	Y	Y	N	N	Y	Y	N
LOLA Unit 2	N	Y	Y	N	N	Y	Y	N
LOLA Unit 3	N	Y	Y	N	N	Y	Y	N
LOLA Unit 4	N	Y	Y	N	N	Y	Y	N
LOLA Unit 5	N	Y	Y	N	N	Y	Y	N
LOLA Unit 6	N	Y	Y	N	N	Y	Y	N
LOLA Unit 7	N	N/A	N/A	N	N	Y	Y	N
LOLA Unit 8	N	N/A	N/A	N	N	Y	Y	N
LOLA Current Issues	N	N/A	N/A	N	N	Y	Y	N

Key: Y = Attended; N = Not attended; N/A = LOLA units not required due to version complete.

Conflict of Interest

Conflicts of interest, including those relating to matters of investment stewardship, are managed across three areas: (i) the Board, (ii) the Committee, and (iii) Officers and third parties. The relevant Codes have been produced to ensure that Members, Officers and third parties uphold the highest standards of conduct in alignment with the Seven Principles of Public Life: Selflessness, Integrity, Objectivity, Accountability, Openness, Honesty, and Leadership.

Board

The process through which the Fund identifies and manages Board conflicts of interest is outlined in the Surrey Local Pension Board's Code of Conduct & Conflict of Interest Policy which was updated in early 2024. For the Board, 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. In other words, conflicts of interest impinge upon individuals' objectivity, therefore prejudicing their capacity to perform their duties and responsibilities towards the Board. Prior to appointment, all prospective Board Members are required to complete the Surrey Local Pension Board Conflict of Interest declaration which is held on a Register of Interests managed by the Fund's Accounting and Governance team. A preventative training policy (the Public Service Toolkit) is also maintained for all Members. As part of this training, Members must successfully complete a Conflicts of Interest module within the first three months of their appointment in order to improve their awareness and understanding of conflicts of interest.

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Committee

Conflicts of interest within the Committee are governed by the Administering Authority's Constitution which details how the Administering Authority conducts its business, how decisions are made, and the procedures that must be followed to ensure that these decisions are efficient, transparent, and accountable to local people. Part 6 of the Constitution explains the process for identifying and managing Councillors' conflicts of interest with a specific emphasis placed on the Register of Interests that must be consulted when or before an issue arises to ensure that the public, employees, and fellow Councillors are aware of the interests that may give rise to a conflict.

The Constitution also states that Councillors are personally responsible for deciding whether an interest should be declared during the standing item relating to conflicts of interest at the start of each Committee meeting. Such declarations help to ensure that public confidence in the integrity of the Committee and the Administering Authority is maintained. These declarations are managed and monitored by the Administering Authority's Democratic Services team. Part 6 of the Administering

Authority's Constitution can be found at the following link: Part 6 01 - Member Code of Conduct.doc.pdf (surreycc.gov.uk).

Officers and third parties

In line with the governance of Committee conflicts of interest, Part 6 of the Administering Authority's Constitution also includes an Officer Code of Conduct document which explains the process by which personal interests and outside commitments of Officers and third parties should be identified and managed. This policy document applies to all Officers within the Administering Authority in addition to agency workers, contractors and their staff whilst working on behalf of the Administering Authority. Specifically, the policy document states that Officers must ensure that:

- Their private interests or beliefs do not conflict with their professional duties
- Their position within the Council is not used to confer an advantage or disadvantage on any person
- They are not involved in, nor influence, any decision or allocation of Council services or resources from which they, their family or friends might benefit.

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Officers are required to declare personal interests whenever there is, or could be perceived to be, a conflict of interest between their duties as an employee and their membership of an organisation. Any conflicts should be approved and reassessed every 12 months by the relevant Officer's Line Manager. Further details relating to the identification and management of Officer conflicts of interest can be found at the following link: Officers code of conduct (surreycc.gov.uk).

Asset Pooling

Border to Coast Pensions Partnership Ltd is an FCA-authorised investment fund manager (AIFM). It operates investment funds for its eleven 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 Pensions Partnership (BCPP) became a fully regulated asset management company on 26 July 2018. The Surrey Pension Fund started transitioning assets to BCPP in 2018.

There are a number of governance issues to be considered under pooling arrangements such as the relationship between the pension fund and asset pool, governance structure of the pool and the role of administering authorities.

Governance

Border to Coast's performance as a company is overseen by shareholder representatives from the Administering Authorities of the Partner Funds both on an ongoing basis and formally once a year at its AGM.

The Partner Funds and Border to Coast work collaboratively to build the investment capabilities required to ensure that the Partner Funds are able to efficiently and effectively deliver their Strategic Asset Allocations in line with the guiding principles. However, in order to hold Border to Coast to account and to meet FCA requirements for a regulated asset manager, the governance structure is designed to ensure sufficient independence between the Partner Funds and Border to Coast during implementation and ongoing management of the sub-funds

10 The Governance Charter can be found on this link which sets out a summary of the governance arrangements for the pool including the structure and roles, responsibilities and authority of the following in relation to Border to Coast.

Governance Structures Supporting the Pension Committees

The following groups and individuals support the Pension Committees in working with and overseeing Border to Coast:

- Joint Committee
- Officers Groups
- Local Pension Boards
- Advisors

Section 4: Financial Performance

Pension Fund Forecast

The tables below set out a summary of the income and expenditure of the Fund for 2023/24 and that budgeted for in 2024/25.

Income

Income Source (£m)	**2023/24 Budget**	**2023/24 Actual**	**2023/24 Variance**	**2024/25 Budget**
Employer contributions	170	162	8	159
Member contributions	50	49	1	49
Total contributions	220	211	9	208
Transfers in	35	24	11	37
Investment income	35	38	-3	45
Total income	**290**	**273**	**17**	**290**

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Expenditure

Expenditure Source (£m)	**2023/24 Budget**	**2023/24 Actual**	**2023/24 Variance**	**2024/25 Budget**
Pensions	-165	-169	4	-177
Commutation/lump sum retirement	-20	-31	7	-21
Other	-5	-5	0	-10
Total benefits	-190	-201	11	-208
Transfers out	-20	-31	11	-37
Administrative expenses	-3	-3	0	-5
Oversight/governance costs	-3	-2	-1	-2
Investment expenses	-12	-8	-4	-9
Taxes on income	-1	0	-1	-1
Total expenditure	**-229**	**-245**	**16**	**-262**

Net income, Market & Fund Value

Income/Values (£m)	**2023/24 Budget**	**2023/24 Actual**	**2023/24 Variance**	**2024/25 Budget**
Net income	**61**	**28**	**33**	**28**
Change in Market Value	100	560	-460	183
Net increase in Fund Value	150	588	-427	211
Fund Value	**5,440**	**5,879**	**-427**	**5,651**

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2024/25 Operational Budget

The table below sets out the operational budget for the Fund for 2024/25.

Budget Item (£000)	2024/25 Budget
Staffing	2800
Non staffing	1270
Overheads	690
Total administration	**4760**
Fund Officers and Management	1377
Advisors	590
Audit	90
Memberships and Benchmarking	240
Pooling Costs (including Governance)	2360
Training	102
Projects	500
Total oversight and governance	**5,259**
Fund Officers	153
Custody fees	130
Investment Management Fees	6250
Total investment and custody	**6,533**
Total operational budget	**16,552**

Three Year Forecast

The table below sets out a high-level forecast of the income and expenditure of the Fund for the three years 2024/25 to 2026/27.

Income/Expenditure (£m)	**2024/25**	**2025/26**	**2026/27**
Total contributions	216	220	224
Transfers in	39	40	41
Investment income	27	28	29
Total income	282	288	294
Total benefits	-223	-235	-240
Transfers out	-18	-19	-19
Management expenses	-19	-20	-20
Total expenditure	-260	-274	-279
Net income	**22**	**14**	**15**

A list of Scheme Employers along with employers' and employees' contributions as a percentage of pensionable pay is given in the Annexe.

The Surrey Pension Team uses a variety of measures to prevent and detect fraud:

- Participation in the National Fraud Initiative
- Use of a mortality screening service
- Participation in the LGPS national database
- Participation in the Tell Us Once programme
- Separation of duties of staff, enforced through role security profiles
- System reporting and audit controls, including duplicate matching and data quality checks
- Internal and external audits
- Education and training of staff on fraud and cybersecurity
- Participation in Surrey County Council data and information security
- Overseas pensioner proof of existence
- Bank account verification
- Member tracing services

Section 5: Pension Fund Accounts 2023/24

The following pages present the draft accounts for the Surrey Pension Fund for the year ended 31 March 2024.

Note: The accounts on the following pages are unaudited. Figures presented therefore remain subject to further review and amendment.

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Surrey Pension Fund Accounts 2023/24

Pension Finance Report on 2023/24 Draft Accounts

The Net Assets of the scheme increased by £588m (11%) in 2023/24. This is in large part due to the Fund's Investment Assets performing strongly due to favourable market conditions, as well as inflation reducing in Q3 and Q4.

Fund Account

Category (£000)	Note	2023/24	2022/23
Contributions receivable	7	212,716	207,586
Transfers in	8	23,538	36,287
Contributions Sub-total	-	**236,254**	**243,873**
Benefits payable	9	(201,674)	(176,888)
Payments to and on account of leavers	10	(30,675)	(26,341)
Benefits Sub-total	-	**(232,349)**	**(203,229)**
Net additions from dealings with members	-	**3,905**	**40,644**
Management expenses	11	(13,738)	(19,765)
Net additions including fund management expenses	-	**(9,833)**	**20,879**
Return on investments	-	-	-
Investment income	12	37,997	41,850
Taxes on income	-	(491)	(1,020)
Profit and (losses) on disposal of investments and changes in the value of investment	17	559,901	(127,825)
Net return on investments	-	**597,407**	**(86,995)**
Net increase in the net assets available for benefits during the year	-	**587,575**	**(66,116)**
Opening net assets of the scheme	-	5,291,396	5,357,512
Closing net assets of the scheme	-	**5,878,971**	**5,291,396**

Net Assets Statement

Assets/Liabilities (£000)	Note	31 March 2024	31 March 2023
Investment assets	14	5,818,738	5,240,381
Investment liabilities	14	(15,237)	-
Total net investments	-	**5,803,500**	**5,240,381**
Current assets	21	192,261	58,896
Total assets	-	**5,995,762**	**5,299,277**
Current liabilities	22	(116,791)	(7,881)
Net assets of the fund available to fund benefits at the end of the reporting period	-	**5,878,971**	**5,291,396**

Note: The Fund’s financial statements do not take account of liabilities to pay pensions and other benefits after the period end. The actuarial present value of promised retirement benefits is disclosed at Note 20.

Notes to the Accounts

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.

(i) General

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 Fuds) Regulations 2016

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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.

The Fund is overseen by the Surrey Pension Fund Committee, which is a committee of Surrey County Council.

(ii) 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.

Membership details are set out below:

Employers

Membership Details	31 March 2024	31 March 2023 *Restated
Number of employers	355	345

Employees in the Scheme

Membership Details	31 March 2024	31 March 2023 *Restated
Surrey County Council	16,101	16,454
Other Employers	20,275	19,360
Total Employees in the Scheme	**36,376**	**35,814**

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Pensioners

Membership Details	31 March 2024	31 March 2023 *Restated
Surrey County Council	15,947	15,469
Other Employers	14,997	14,421
Total Pensioners	**30,944**	**29,890**

Deferred Pensioners

Membership Details	31 March 2024	31 March 2023 *Restated
Surrey County Council	35,953	35,264
Other Employers	27,062	25,725
Total Deferred Pensioners	**63,015**	**60,989**

Total Number of Members

Membership Details	31 March 2024	31 March 2023 *Restated
Total number of members	**130,335**	**126,693**

(iii) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the Fund in accordance with the Local Government Regulations 2013 and ranged from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2023. Employers' contributions are set following triennial actuarial funding valuations. The last such valuation was at 31 March 2022 and new rates applied from April 2023.

The employer contribution rates for 2023/24 ranged from 12.7% to 43.6% of pensionable pay.

(iv) Benefits

Prior to 1 April 2014, pension benefits under the LGPS were based on final salary and length of pensionable service. From 1 April 2014, the scheme became a career average revaluation scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49th. Accrued pension is updated annually in line with the Consumer Prices Index. 10

A range of other benefits are also provided including early retirement, ill health pensions and death benefits, as explained on the LGPS website.

2. Bases of preparation

The Statement of Accounts summarises the Fund's transactions for the 2023/24 financial year and its position at the year end at 31 March 2024. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) 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 2023/24.

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 20 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.

3. Summary of significant accounting policies

Fund account – revenue recognition

(i) 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.

(ii) Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for
10 members who have either joined or left the Fund during the financial year and are
calculated in accordance with the Local Government Pension Scheme Regulations.

Transfers in and out of the Fund 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.

(iii) Investment 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.
- 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.
- 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.
- Changes in the value of investments (including investment properties) are recognised as income and comprise all realised and unrealised profits/losses during the year.

- 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

(iv) 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.

(v) Management expenses

The Fund discloses its management expenses in line with the CIPFA guidance Accounting for Local Government Pension Scheme Management Expenses (2016), as shown below. All items of expenditure are charged to the Fund on an accruals basis as follows: 10

- **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.
- **Oversight and 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.

(vi) 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 end of the year is reported as a current liability.

Net assets statement

(vii) Financial assets

All investment assets are included in the financial statements on a fair value basis as at the reporting date. Loans and receivables 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
10 from changes in the fair value of the assets are recognised by the Fund.

Surrey Pension Fund is a partner fund of Border to Coast Pensions Partnership. Each Partner Fund invested in Class A and B Shares at a cost (transaction price) of £1 and £1,181,818 respectively. This investment has been valued at cost and will continue to be, as the fair value of these assets cannot be reliably estimated.

(viii) 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.

(ix) 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 contracts were matched at the year end with an equal and opposite contract.

(x) Cash and cash equivalents

Cash comprises cash in hand and demand deposits and includes amounts held by the Fund's external managers. All cash balances are short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to minimal risk of changes in value.

(xi) Loans and receivables

Financial assets classed as amortised cost are carried in the net asset statement at the value of outstanding principal receivable at the year-end date plus accrued interest.

10

(xii) 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.

(xiii) 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.

(xiv) 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 employees 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 for information in a note to the accounts.

4. Critical judgements in applying accounting policies

There are no critical judgements in applying accounting policies.

5. Sources of estimation uncertainty

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts. Estimates and assumptions take account of historical experience, current trends and future expectations. However, actual outcomes could be different from the assumptions and estimates made. The items in the net asset statement for which there is a significant risk of material adjustment the following year are as follows:

10

Item	Uncertainties	Effect if actual results differ from assumptions
Private equity	Private equity investments, both limited partnership and fund of funds (pooled investments), 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. These are usually classified as Level 3 Investments.	There is more uncertainty regarding the valuation of these asset types, and could potentially be subject to material adjustments. Sensitivity analysis is provided in note 16 to the accounts.
Property Unit Trust	Valuation techniques are used to determine the carrying amount of pooled property funds.	There is more uncertainty regarding the valuation of these asset types, and could potentially be subject to material adjustments. Sensitivity analysis is provided in note 16 to the accounts.

6. Events after the reporting 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. Adjustments are made 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.

7. Contributions receivable

By Category (£000)

Type of Contributions	2023/24	2022/23
Total Employees' Contributions	**48,340**	**49,142**
Normal contributions	135,729	130,303
Deficit recovery contributions	22,878	27,364
Augmentation contributions	2,662	388
Total Employers' Contributions	**161,268**	**158,055**
Other contributions	3,108	389
Total Contributions Receivable	**212,716**	**207,586**

By Employer (£000)

Employer	2023/24	2022/23
Administering authority	98,447	91,313
Scheduled bodies	108,002	110,045
Admitted bodies	3,159	5,840
Other	3,108	389
Total	**212,716**	**207,586**

8. Transfers in from other pension funds (£000)

Type of Transfer	2023/24	2022/23
Group transfers	-	9,359
Individual transfers	23,538	26,928
Total Transfers	**23,538**	**36,287**

10

9. Benefits Payable

By Category (£000)

Type of Benefits	2023/24	2022/23
Pensions	(169,330)	(151,030)
Commutation and lump sum retirement benefits	(27,246)	(21,206)
Lump sum death benefits	(4,723)	(4,514)
Interest on late payment of benefits	(375)	(138)
Total Benefits Payable	**(201,674)**	**(176,888)**

By Type of Employer (£000)

Employer	2023/24	2022/23
Administering authority	(86,241)	(81,786)
Scheduled bodies	(101,035)	(81,073)
Admitted bodies	(14,398)	(14,029)
Total Benefits Payable	**(201,674)**	**(176,888)**

10. Payments to and on account of leavers (£000)

Type of Payment	2023/24	2022/23
Group transfers to other schemes	(29,884)	(25,529)
Refunds of contributions	(798)	(822)
Payments for members joining state schemes	7	10
Total Payments	**(30,675)**	**(26,341)**

11. Management expenses (£000)

Expense	2023/24	2022/23
Administrative costs	(3,495)	(4,198)
Investment management expenses	(7,725)	(8,131)
Oversight and governance costs	(2,518)	(7,436)
Total Management expenses	**(13,738)**	**(19,765)**

As part of its oversight and governance costs in 2023/24, the Fund had also paid £1,613k (2022/23: £1,521k) in respect of pooling costs payable to the Border to Coast Pensions Partnership (BCPP).

Investment management expenses

2023/24 (£000)

Category	Management fees	Performance related fees	Transaction costs	Total
Equities	(2,375)	-	(460)	(2,835)
Pooled investments	(1,989)	-	(546)	(2535)
Pooled property investments	(989)	-	-	(989)
Private equity	(1,262)	-	-	(1,262)
Sub-total	**(6,615)**	**-**	**(1,006)**	**(7,621)**
Custody fees	-	-	-	(103)
Oversight and governance	-	-	-	(2,518)
Total	**-**	**-**	**-**	**(10,242)**

10

2022/23 (£000)

Category	Management fees	Performance related fees	Transaction costs	Total
Equities	(3,594)	-	(198)	(3,792)
Pooled investments	(631)	-	(245)	(885)
Pooled property investments	(1,256)	-	-	(1,256)
Private equity	(2,031)	-	-	(2,031)
Property	-	-	-	-
Derivatives	-	-	-	-
Cash and FX contracts	-	-	-	-
Sub-total	**(7,512)**	-	**(452)**	**(7,964)**
Custody fees	-	-	-	(167)
Sub-total	-	-	-	**(8,131)**
Oversight and governance	-	-	-	(7,436)
Total	**-**	**-**	**-**	**(15,567)**

12. Investment income (£000)

Income Source	2023/24	2022/23
Income from equities	**8,071**	18,401
Private equity income	**15,925**	10,426
Pooled property investments	**8,757**	10,720
Interest on cash deposits	**2,886**	1,445
Other	**2,358**	858
Total Investment income	**37,997**	**41,850**

13. Other fund account disclosures (£000)

Disclosure	2023/24	2022/23
Payable in respect of external audit	**(99)**	(64)
Payable in respect of other services	**-**	-
Total External audit costs	**(99)**	**(64)**

10

14. Investments

Investment assets and liabilities

Investment/Liability	31 March 2024	31 March 2023
Equity	466,344	485,691
Bonds	849,554	563,595
Pooled funds: Equity unit trusts	3,230,196	2,999,453
Sub-total	**4,546,094**	**4,048,739**
Other investments: Pooled property investments	279,927	293,784
Other investments: Private equity	929,217	795,159
Derivatives	514	22,607
Total net investments	**5,755,752**	**5,160,289**
Cash deposits	60,828	77,750
Other investment balances	2,158	2,342
Sub-total	**5,818,738**	**5,240,381**
Liability: Derivatives	(3,846)	-
Liability: Pending Purchase	(11,391)	-
Total investment assets	**5,803,500**	**5,240,381**

14A. Reconciliation of movements in investments and derivatives

2023/24 (£000)

Investments	Market value 1 April 2023	Purchases and derivative payments	Sales and derivative receipts	Change in value during the year	Market value 31 March 2024
Equities	485,691	244,969	(365,940)	101,623	466,343
Pooled investments	3,563,048	458,860	(420,441)	478,283	4,079,750
Pooled property investments	293,784	74,255	(67,523)	(20,589)	279,927
Private equity	795,159	237,306	(71,526)	(31,722)	929,217
Sub-total	**5,137,682**	**1,015,390**	**(925,430)**	**527,595**	**5,755,237**
Derivatives	22,607	24,930	(83,250)	32,397	(3,316)
Sub-total	**5,160,289**	**1,040,320**	**(1,008,678)**	**559,992**	**5,751,92[illegible]**
Other investment balances: Cash	77,750	-	-	(143)	60,828
Other investment balances	-	-	-	11	(11,391)
Accrued income/other	2,342	-	-	-	2,158
Total	**5,240,381**	**-**	**-**		**5,803,500**

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2022/23 (£000)

Investments	Market value 1 April 2022	Purchases and derivative payments	Sales and derivative receipts	Change in value during the year	Market value 31 March 2023
Bonds	760,065	-	-	-	-
Equities	3,569,755	219,922	(196,128)	(13,836)	485,691
Pooled investments	-	13,350	(285,642)	(104,419)	3,563,048
Pooled property investments	331,775	6,631	(3,997)	(40,624)	293,784
Private equity	548,856	257,061	(92,077)	81,318	795,159
Sub-total	**5,210,451**	**496,964**	**(577,844)**	**(77,560)**	**5,137,682**
Derivatives	(21,552)	133,217	(39,180)	(49,878)	22,607
Sub-total	**5,188,899**	**630,180**	**(617,024)**	**(127,438)**	**5,160,289**
Other investment balances: Cash	133,939	-	-	(387)	77,750
Accrued income/other	2,126	-	-	-	2,342
Total	**5,324,964**	**-**	**-**	**(127,825)**	**5,240,381**

Note: Bonds and Equity assets sub-categorised in 2022/23 between pooled and non-pooled funds.

14B. Investments analysed by fund manager

Investments managed by Border to Coast Pension Partnership (£000)

Fund Manager	Market value 31 March 2024	%	Market value 31 March 2023	%
Border to Coast UK Equity Alpha	875,418	15	499,575	10
Border to Coast Global Equity Alpha	368,447	6	739,481	14
Border to Coast Global MAC	849,560	15	563,595	11
Border to Coast Global Listed Alt	285,286	5	250,709	5
Sub-total	**2,378,711**	**42**	**2,053,360**	**4[illegible]**

10

Investments managed outside Border to Coast Pension Partnership (£000)

Fund Manager	Market value 31 March 2024	%	Market value 31 March 2023	%
LGIM (Legal & General Investment Management)	1,621,031	28	1,509,699	29
Newton Investment Management	478,281	8	490,754	9
CBRE Global Multi-Manager	286,932	5	306,891	6
Private equity/other	961,803	17	857,070	16
Derivatives	(3,332)	-	22,607	-
Sub-total	**3,344,715**	**58**	**3,187,021**	**60**
Total	**5,803,500**	**100**	**5,240,381**	**100**

The table below shows investments that represent 5% or more of the net assets of the scheme.

Fund Manager	Market value 31 March 2024	%	Market value 31 March 2023	%
LGIM Future World Global Equity Index	1,306,376	23	925,281	18
Border to Coast Global Equity Alpha	875,418	15	739,481	14
Border to Coast Multi Asset Credit	849,554	15	563,595	11
Border to Coast UK Equity Alpha	368,429	6	499,573	10
Border to Coast Multi Listed Alternatives	-	-	250,701	5
LGIM World Emerging Markets Fund	-	-	275,163	5
LGIM – TLCV Bespoke (34048)	-	-	187,215	4
Total	**3,399,777**	**59**	**3,441,009**	**67**

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14C. Stock lending

Stock lending is the act of loaning a stock, derivative or other security to an investor or firm. The Fund operates a stock lending programme in partnership with the Fund custodian. As at 31 March 2024 the value of quoted securities on loan was £0 million (£16 million as at 31 March 2023) in exchange for collateral held by the Fund custodian at fair value of £0 million (£17.3 million as at 31 March 2023).

15. Analysis of derivatives

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 2024 the Fund had forward currency contracts in place with a net unrealised gain of £3.3m (net unrealised gain of (£22.6m) at 31 March 2023).

2023/24

Number of contracts	Contract settlement date within	Currency bought	Currency Sold	Notional amount in currency bought £000	Notional amount in local currency sold £000	Asset £000	Liability £000
5	Three months	GBP	EUR	213,560	(249,341)	-	-
2	Three months	GBP	JPY	77,739	(14,628,300)	1	-
8	Three months	GBP	USD	777,226	(986,925)	-	(4)
(Total)	**-**	**-**	**-**	**-**	**-**	**1**	**(4[illegible]**

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2022/23

Number of contracts	Contract settlement date within	Currency bought	Currency Sold	Notional amount in currency bought £000	Notional amount in local currency sold £000	Asset £000	Liability £000
4	Three months	GBP	EUR	199,059	(223,072)	2,636	-
2	Three months	GBP	JPY	66,264	(10,543,400)	1,724	-
7	Three months	GBP	USD	656,649	(790,288)	18,247	-
(Total)	**-**	**-**	**-**	**-**	**-**	**22,607**	**-**

16. 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.

Assets and liabilities have been classified into three levels, according to the quality and reliability of information used to determine fair values.

Description of Asset	Valuation Hierarchy	Basis of Valuation	Observable and Unobservable Inputs	Key Sensitivities Affecting the Valuations Provided
Market quoted investments (equities)	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 on UK bonds	Level 1	Closing bid value on published exchanges	Not required	Not required
Exchange traded pooled investments	Level 1	Closing bid value on published exchanges	Not required	Not required
Unquoted bonds (bonds)	Level 2	Average of broker prices	Evaluated price feeds	Not required
Forward foreign exchange derivatives (derivates and other)	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 at risk	Not required
Pooled investments – overseas unit trusts and property funds (pooled Property)	Level 2 & 3	Closing bid price where bid and offer prices are published. Closing single price where single price published.	NAV-based pricing	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

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Description of Asset	Valuation Hierarchy	Basis of Valuation	Observable and Unobservable Inputs	Key Sensitivities Affecting the Valuations Provided
				cashflows, and by any differences between audited and unaudited accounts.
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	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 (Equities and private equities)	Level 3	Comparable valuation of similar companies in accordance with International Private Equity and Venture Capital Valuation Guidelines (2012)	EBITDA multiple, Revenue multiple, Discount for lack of marketability, Control premium	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.

Sensitivity of assets held at Level 3

The Fund has determined that the valuation methods described above for Level 3 investments 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 2023 and 31 March 2022.

2024

31 March 2024	Potential variation in fair value (+/-%)	Value at 31 March 2024 £000	Potential value on increase £000	Potential value on decrease £000
Private Equity	5	929,217	978,678	879,755
Property Funds	7	116,287	124,035	108,538
Pooled investments	10	124,579	137,037	112,121
Total	**-**	**1,170,083**	**1,239,750**	**1,100,414**

2023

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31 March 2024	Potential variation in fair value (+/-%)	Value at 31 March 2024 £000	Potential value on increase £000	Potential value on decrease £000
Private Equity	10	795,159	874,675	715,643
Property Funds	10	126,189	138,808	113,570
Total	**-**	**921,348**	**1,013,483**	**829,213**

16A. Fair Value Hierarchy

Financial Assets and Liabilities at Fair Value 31 March 2024 (£000)

Financial assets at fair value	Quoted market price Level 1	Using observable inputs Level 2	With significant unobservable inputs Level 3	Total
Equities	466,344	-	-	466,344
Pooled investments	-	3,955,171	124,579	4,079,750
Pooled property investments	-	163,640	116,287	279,927
Private equity	-	-	929,217	929,217
Derivatives	-	514	-	514
Cash*	60,828	-	-	60,82
Other investment balances	1,969	189	-	2,158
Financial liabilities at fair value:	529,141	4,119,514	1,170,083	5,818,738
Derivatives	-	(3,846)	-	-
Pending Investment Purchase	-	(11,391)	-	-
Total	**529,141**	**4,104,277**	**1,170,083**	**5,803,500**

10

Financial Assets and Liabilities at Fair Values 31 March 2023 (£000)

Financial assets at fair value	Quoted market price Level 1	Using observable inputs Level 2	With significant unobservable inputs Level 3	Total
Equities	485,691	-	-	485,691
Pooled investments	-	3,563,048	-	3,563,048
Pooled property investments	-	167,595	126,189	293,784
Private equity	-	-	795,159	795,159
Derivatives	-	22,607	-	22,607
Cash*	77,570	-	-	77,570
10 Other investment balances	2,497	25	-	2,522
Financial liabilities at fair value:	565,758	3,753,275	921,348	5,240,381
Derivatives	-	-	-	-
Total	**565,758**	**3,753,275**	**921,348**	**5,240,381**

*This is financial instrument is classified at amortised cost in note 17.

16B. Reconciliation of Fair Value measurements within Level 3

2023/24 (£000)

Asset	Value at 31 March 2023	Purchases	Sales	Realised gains and losses	Unrealised gains and losses	Value at 31 March 2024
Private Equity	795,158	237,306	(71,526)	18,601	(50,323)	929,216
Pooled investments	-	111,438	(3)	1	13,143	124,579
Property Funds	126,189	7,057	(7,851)	(2,506)	(6,603)	116,287
Total	**921,348**	**355,801**	**(79,380)**	**16,096**	**(43,782)**	**1,170,08[illegible]**

10

2022/23 (£000)

Asset	Value at 31 March 2022	Purchases	Sales	Realised gains and losses	Unrealised gains and losses	Value at 31 March 2023
Private Equity	548,856	256.874	(91,889)	31,018	50,300	795,159
Property Funds	153,524	6,039	(3,997)	-	(29,377)	126,189
Total	**702,380**	**262,913**	**(95,886)**	**31,018**	**20,923**	**921,348**

17. Classification of financial instruments

Financial assets and liabilities 31 March 2024 (£000)

Financial assets	Fair value through profit and loss	Assets at amortised cost	Liabilities at amortised cost
Equities	466,344	-	-
Pooled investments	4,079,750	-	-
Pooled property investments	279,927	-	-
Private equity	929,217	-	-
Derivatives	514	-	-
Cash	-	60,828	-
Other investment balances	-	2,158	(11,391)
Financial liabilities	5,755,752	62,986	(11,391)
Derivatives	(3,830)	-	(16)
Total	**5,751,922**	**62,986**	**(11,407)**

Financial assets and liabilities 31 March 2023 (£000)

Financial assets	Fair value through profit and loss	Assets at amortised cost	Liabilities at amortised cost
Equities	485,691	-	-
Pooled investments	3,563,048	-	-
Pooled property investments	293,784	-	-
Private equity	795,159	-	-
Derivatives	22,607	-	-
Cash	-	77,750	-
Other investment balances	2,342	-	-
Financial liabilities	5,162,631	77,750	-
Derivatives	-	-	-
Total	**5,162,631**	**77,750**	**-**

17A. Net gains and losses on financial instruments

Financial Assets (£000)

Financial assets	2023/24	2022/23
Fair value through profit and loss	527,596	(77,560)
Amortised cost – realised gains on derecognition of assets	-	-
Amortised cost – unrealised gains	53	91

10

Financial Liabilities (£000)

Financial liabilities	2023/24	2022/23
Fair value through profit and loss	32,397	(49,877)
Amortised cost – realised (losses) on derecognition of assets	(144)	(479)
Amortised cost – unrealised (losses)	-	-
Total gain / (loss)	**559,902**	**(127,825)**

18. Nature and extent of risks arising from financial instruments

10 The Fund's primary long-term risk is that the Fund's assets will fall short of its liabilities (i.e., 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 Committee. 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.

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. 10

Other price risk – sensitivity analysis

In consultation with its investment advisors, the Fund has determined that the following movements in market price risk are reasonably possible in the short term, assuming that all other variables, in particular foreign exchange rates and interest rates, remain the same.

2024

Asset	Potential market movement (+/-%)	Value at 31 March 2023 £000	Potential value on increase £000	Potential value on decrease £000
Equities	11	466,344	517,033	415,654
Equity unit trusts	11	3,230,196	3,590,319	2,870,072
Bonds	7	849,554	906,718	792,391
Pooled property investments	7	279,927	298,580	261,274
Cash	7	60,648	65,197	56,099
Private equities	5	929,217	978,678	879,755
Other assets	2	(12,385)	(12,683)	(12,088)
Total	**7**	**5,803,501**	**6,343,842**	**5,263,157**

2023

Asset	Potential market movement (+/-%)	Value at 31 March 2023 £000	Potential value on increase £000	Potential value on decrease £000
Equities	13	485,691	546,888	424,494
Equity unit trusts	6	2,999,453	3,179,420	2,819,486
Bonds	7	563,595	604,117	523,073
Pooled property investments	6	293,784	312,674	274,894
Cash	3	77,750	79,818	75,682
Private equities	6	795,159	844,459	745,859
Other assets	2	24,949	25,548	24,350
Total	**7**	**5,240,381**	**5,592,924**	**4,887,838**

10

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.

Interest rate risk – sensitivity analysis

The analysis that follows assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/- 1% change in interest rates. The analysis demonstrates that a 1% increase in interest rates will not affect the interest received on fixed interest assets but will reduce their fair value, and vice versa. Changes in interest rates do not impact on the value of cash and cash equivalent balances but they will affect the interest income received on those balances.

Assets exposed to interest rate risk;

2024 analysis by asset type (£000)

Asset type	Value at 31 March 2024	Potential value on 1% rate increase	Potential value on 1% rate decrease
Cash and cash equivalents – includes direct and indirect holdings	60,828	60,828	(60,828)
Fixed interest securities	849,554	858,050	(841,059)
Total	**910,382**	**918,878**	**(901,887)**

2023 analysis by asset type (£000)

10

Asset type	Value at 31 March 2024	Potential value on 1% rate increase	Potential value on 1% rate decrease
Cash and cash equivalents – includes direct and indirect holdings	95,497	95,497	(95,497)
Fixed interest securities	563,595	569,231	(557,959)
Total	**659,092**	**664,728**	**(653,456)**

Currency risk

Currency risk represents the risk that the fair value or 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

The tables below show assets with potential non-UK exposures. These assets are identified as overseas investments.

2024

Analysis by asset type	Potential market movement (+/-%)	Value at 31 March 2024 £000	Potential value on increase £000	Potential value on decrease £000
Overseas equities	6	2,090,961	2,222,692	1,959,231
Bonds	6	849,554	903,076	795,032
Property & private equity	6	797,535	847,780	747,290
Total	**6**	**3,738,050**	**3,973,548**	**3,501,553**

2023

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Analysis by asset type	Potential market movement (+/-%)	Value at 31 March 2023 £000	Potential value on increase £000	Potential value on decrease £000
Overseas equities	6	2,073,088	2,204,635	1,941,541
Bonds	6	563,595	599,359	527,832
Property & private equity	6	677,218	720,191	634,245
Total	**6**	**3,313,901**	**3,524,185**	**3,103,618**

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.

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 of those counterparties.

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).

Accounts	**31 March 2024**	**31 March 2023**
Money market fund: Aberdeen MMF	8,100	100
Money market fund: Aviva	25,000	100
Money market fund: Blackrock	5,100	12,700
Money market fund: Deutsche	2,300	3,300
Money market fund: Morgan Stanley	100	400
Sub-total	**40,600**	**16,600**
Current account: HSBC	165	1,147
Internally managed cash	**40,765**	**17,747**
Externally managed cash: LGIM	2	-
Externally managed cash: Custodian	60,826	77,750
Total cash and cash equivalents	**101,593**	**95,497**

10

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 the Orbis Treasury Function 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.

The Fund monitors prospective cash flow. 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.

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
10 to ensure a balanced, diverse pool of assets with internal exposure restrictions to limit the impact of potential market movements.

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). In summary, the key funding principles are as follows:

- Take a prudent long-term view to secure the regulatory requirement for long-term solvency, with sufficient funds to pay benefits to members and their dependants.
- Use a balanced investment strategy to meet the regulatory requirement for long-term cost efficiency (where efficiency in this context means to minimise cash contributions from employers in the long term).
- Where appropriate, ensure stable employer contributions.
- Reflect different employers' characteristics to set their contribution rates, using a transparent funding strategy.
- Use reasonable measures to reduce the risk of 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 have a sufficiently high likelihood of achieving the funding target over 20 years. 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 at least a 70% likelihood that the Fund will achieve the funding target 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 2022. This valuation revealed that the Fund's assets, which at 31 March 2022 were valued at £5,358 million, were sufficient to meet 102% of the liabilities (i.e., the present value of promised retirement benefits) accrued up to that date. The resulting surplus at the 2022 valuation was £101 million.

Each employer had contribution requirements set at the valuation, with the aim of achieving their funding target within a time horizon and likelihood measure as per the FSS. Individual employers' contribution for the period 1 April 2023 to 31 March 2026 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 are described in the 2022 valuation report and FSS.

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 2022 valuation were as follows:

10

Financial assumptions	31 March 2022 %
Discount rate	4.4 pa
Salary increase assumption	3.7 pa
Benefit increase assumption (CPI)	2.7 pa

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 2021 model, with a 0% weighting of 2021 (and 2020) data, standard smoothing (Sk7), initial adjustment of 0.25% and a long term rate of 1.50% p.a. Based on these assumptions, the average future life expectancies at age 65 are as follows:

Average future life expectancy at age 65	Males - Years	Females - Years
Current pensioners	22.3	24.9
Future pensioners (age 45 at the 2022 valuation)	23.1	26.3

Copies of the 2022 valuation report and Funding Strategy Statement are available on request from the Administering Authority to the Fund and on the Fund's website.

Experience over the period since 31 March 2022

Markets were disrupted by the ongoing war in Ukraine and inflationary pressures in 2022 and 2023, impacting on investment returns achieved by the Fund's assets. High levels of inflation in the UK (compared to recent experience), have resulted in higher than expected LGPS benefit increases of 10.1% in April 2023 and 6.7% in April 2024.

However, asset performance has improved towards the end of 2023 and into 2024 and inflation has begun to return towards historical levels and the Bank of England's target (2% pa). There has been a significant shift in the wider economic environment since 2022, resulting in generally higher expected future investment returns and a reduction in the value placed on the Fund's liabilities.

Overall, the funding position is likely to be stronger than at the previous formal valuation at 31 March 2022.

The next actuarial valuation will be carried out as at 31 March 2025. The Funding Strategy Statement will also be reviewed at that time.

Adrian Loughlin

FFA May 2024 10

For and on behalf of Hymans Robertson LLP

20. Actuarial present value of promised retirement benefits

CIPFA's Code of Practice on Local Authority Accounting 2023/24 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. The actuary Hymans Robertson was 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 (£m)

Member type	31 March 2024	31 March 2023
Active members	2,079	1,926
Deferred members	1,410	1,428
Pensioners	2,251	2,311
Total	**5,740**	**5,665**

The promised retirement benefits at 31 March 2024 have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2022. 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.

10

The 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 2024 and 31 March 2023. I estimate that the impact of the change in financial assumptions to 31 March 2024 is to decrease the actuarial present value by £316m. I estimate that the impact of the change in demographic assumptions is to decrease the actuarial present value by £34m.

Financial assumptions

% Rate	31 March 2024	31 March 2023
Pension Increase Rate	2.75	2.95
Salary Increase Rate	3.75	3.95
Discount Rate	4.85	4.75

Demographic assumptions

The longevity assumptions have changed since the previous IAS26 disclosure for the Fund. Life expectancy is based on the Fund's VitaCurves with improvements in line with the CMI 2022 model, with a 25% weighting of 2022 data, 0% weighting of 2021 (and 2020) data, standard smoothing (Sk7), initial adjustment of 0.25% and a long term rate of improvement of 1.5% p.a.

Based on these assumptions, the average future life expectancies at age 65 are summarised below:

Average future life expectancy at age 65	Males - Years	Females - Years
Current pensioners	21.9	24.5
Future pensioners (assumed to be age 45 at the latest formal valuation)	22.6	25.9

10

All other demographic assumptions are unchanged from last year and as per the latest funding valuation of the Fund.

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 obligations are set out below:

Sensitivity to the assumptions for the year ended 31 March 2024	Approximate increase to liabilities %	Approximate monetary amount £m
0.1% p.a. decrease in the Discount Rate	2	104
1 year increase in member life expectancy	4	230
0.1% p.a. increase in the Salary Increase Rate	-	4
0.1% p.a. increase in the Pension Increase Rate (CPI)	2	101

Professional notes

This statement accompanies the ‘Accounting Covering Report – 31 March 2024’ which identifies the appropriate reliance and limitations for the use of the figures above, together with further details regarding the professional requirements and assumptions.

Adrian Loughlin

FFA 17 May 2024

For and on behalf of Hymans Robertson LLP

21. Current assets

Asset (£000)	31 March 2024	31 March 2023
Contributions – employees	-	3,039
Contributions – employer	9,084	8,658
Sundy debtors	142,412	29,452
Sub-total	**151,496**	**41,149**
Cash balances	40,765	17,747
Total	**192,261**	**58,896**

22. Current liabilities

Liability (£000)	31 March 2024	31 March 2023
Sundy creditors	(116,791)	(7,700)
Benefits payable	-	(181)
Total current liabilities	**(116,791)**	**(7,881)**

23. Additional voluntary contributions

Market value (£000)	31 March 2024	31 March 2023
Prudential – market value	15,929	14,753

Contributions Paid (£000)	2023/24	2022/23
Prudential – contributions paid	TBC	1,100

24. Agency services

The Surrey Pension Fund pays discretionary awards to former employees of district councils on an agency basis as shown below. The amounts paid are reclaimed from the employer bodies.

Employer bodies (£000)	2023/24	2022/23
District & Boroughs	2,110	2,007
Other bodies	276	306
Total	**2,386**	**2,313**

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25. Related party transactions

The Surrey Pension Fund is administered by Surrey County Council. During the reporting period, the council incurred costs of £4.813m (2022/23 £4.720m) in relation to the administration and management of the Fund and was reimbursed by the Fund for these expenses.

The council is also the single largest employer of members of the pension fund. Net amounts owed by Surrey County Council to the Fund as at 31 March 2024 were £TBC (£2,047k at 31 March 2023).

Members of both the Pension Fund Committee and Local Pension Board are required to declare their disclosable pecuniary interests in respect of any item to be considered at each meeting. Declarations of interest are recorded in the minutes of each meeting as part of the public record and a copy can be found on the Surrey County Council website.

25A. Key management personnel

Key management personnel are members of the Pension Fund Committee, the Executive Director of Corporate Resources, the Director of Corporate Finance and the Assistant Director – LGPS Senior Officer.

Their renumeration is set out below:

Remuneration (£000)	2023/24	2022/23
Short-term benefits	148	143
Post-employment benefits	18	17
Total Remuneration	**166**	**160**

26. Contingent Liabilities and Contractual Commitments

At 31 December 2023 the Fund held part paid investments on which the liability for future calls amounted to £751 million (£846 million as at 31 March 2023).

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Section 6: Investment and Funding

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Investment Arrangements and Performance

Investments and Funding

Details of the investment administration and custodianship can be found in the Overall Fund Management section of this Annual Report. Northern Trust is the Fund's main custodian. The Fund is managed on both an active and passive basis.

Investment managers have been appointed to undertake day-to-day decisions on the allocation of investment between types of asset and choices of individual investments 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 the managers to assess performance.

Investment performance net of fees for 12 months to 31 March 2024

Investment Name	Amount £m	1Y Return	1Y Benchmark	1Y Relative Return
Total Fund	**5,844.59**	11.30%	15.34%	-4.04%
Active Global Equity	**1,353.9**	-	-	-
BCPP Global Equity Alpha	875.4	18.38%	20.60%	-2.22%
Newton Global Equity	478.5	25.44%	20.60%	4.84%
Active Regional Equity	**653.7**	-	-	-
BCPP UK Equity Alpha	368.4	5.11%	8.43%	-3.31%
BCPP Emerging Markets Alpha	285.3	-	-	-
Passive Global Equity	**1,307.0**	-	-	-
LGIM - Future World Global	1,307.0	21.44%	21.05%	0.39%
Passive Regional Equity	**127.2**	-	-	-
LGIM - Europe Ex-UK	61.3	13.05%	13.42%	-0.37%
LGIM - Japan	19.8	22.37%	22.32%	0.04%
LGIM - Asia Pacific ex-Japan	46.1	4.60%	4.64%	-0.04%
Fixed Income	**974.1**	-	-	-
BCPP MAC	849.6	9.37%	8.67%	0.69%
LGIM - 15 Yr+ Gilts Index Fund	124.6	-	-	-
Private Markets Proxy	**80.1**	-	-	-
BCPP Listed Alternatives	80.1	11.27%	20.60%	-9.34%
Private Markets	**929.2**	-4.97%	16.81%	-21.77%
Real Estate	**288.1**	-	-	-
CBRE	288.1	-4.00%	-0.69%	-3.31%
LGIM Currency Overlay	3.3	-	-	-
LGIM Sterling Liquidity Fund	63.0	-	-	-
Liquidity*	71.5	-	-	-

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The table below shows the Fund's investment mandates and benchmarks for each.

Mandate	Benchmark Index
BCPP UK Equities Alpha	FTSE All Share
BCPP Global Equities Alpha	MSCI ACWI
BCPP Multi-Asset Credit	SONIA
BCPP Listed Alternatives	MSCI ACWI
BCPP Emerging Markets Equity Alpha	MSCI EM
Newton Global Equities	MSCI ACWI
Various Private Markets	MSCI World
CBRE Real Estate	MSCI/AREF UK QPFI All Balanced Property Fund (for UK Assets)
CBRE Real Estate	Global Alpha Fund Absolute Return 9-11%
LGIM Europe ex-UK Equities Index	FTSE Developed Europe ex-UK Net Tax (UKPN)
LGIM Future World Global Equity Index	Solactive L&G ESG Global Markets Net
LGIM Japan Equity Index	FTSE Japan NetTax (UKPN)
LGIM Asia Pacific ex-Japan Development Equity Index	FTSE Developed Asia Pacific ex-Japan NetTax (UKPN)
LGIM Sterling Liquidity	SONIA
LGIM 15 Yr+ Gilts Index	FTA Over 15Y Total Return

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Responsible Investment (RI) Developments

Responsible Investment Policy, Net Zero Date

During the year ended 31 March 2024, the Pension Fund Committee approved its own Responsible Investment (RI) Policy, with the help of Minerva Analytics. After several rounds of review by the Responsible Investment Sub-Committee, a consultation with the Pension Fund members and suggested changes to the wording, the Policy was approved by the Pension Fund Committee in June 2023 and can be found at the link below.

Surrey RI Policy Update (surreypensionfund.org)

In June 2023 the Committee also agreed to set a carbon Net Zero target date of '2050 or sooner' in line with the priority set out in the Fund's RI Policy to 'make a commitment to achieving "net zero" in terms of the Fund's investments,' This commitment was made following rigorous scenario analysis and engagement by the Committee, the Fund's RI Sub-Committee and the Fund's Investment Consultant.

Responsible Investment Activities of our Key Partners

The responsible investment activities undertaken by Border to Coast Pensions Partnership (BCPP) and supporting documents can be found by following the link below.

Publications - Border To Coast - Reports

The responsible investment activities undertaken by Legal & General Investment Management (LGIM) and supporting documents can be found by following the link below.

Responsible Investing | LGIM Institutional

The Fund is a member of the Local Authority Pension Fund Forum, LAPFF, a membership group of LGPS funds that campaigns on Environmental, Social and Governance (ESG), issues. This engagement demonstrates a commitment to sustainable investment and the promotion of high standards of corporate governance and responsibility. More information and engagement activities can be found at the link below.

LAPFF | The leading voice for local authority pension funds across the UK (lapfforum.org)

UK Stewardship Code

During the year ended 31 March 2024, the Fund gathered all evidence in preparation for the May 2024 window to apply to become a signatory to the UK Stewardship Code.

Voting Policy

The Fund's voting policy was reviewed and updated to reflect best practice in the industry. Working with Minerva, the policy was updated to account for best practice from the UK Corporate Governance Code, the International Corporate Governance Network (ICGN), the Organisation for Economic Cooperation and Development (OECD), EU Directives, the Financial Conduct Authority (FCA) diversity rules, guidance from the Pensions and Lifetime Savings Association (PLSA), the Investment Association Principles of Renumeration and BCPP. This policy was approved at the September 2023 Committee meeting and can be found at the link below

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You can find our voting policy on our website: Annual reports | Surrey Pension Fund

Voting reports for the Fund are published quarterly in the Committee papers as a standing item in the RI Update. Committee papers can be found **here**.

Collaborations

The Fund recognises the importance of engaging with industry initiatives and works closely with a range of stakeholders to manage market-wide and systemic risks and promote a well-functioning financial system. The principal industry initiatives that the Fund is involved in are outlined below

Cross-Pool Collaboration Client Group (CPCCG): The Fund's Assistant Director, LGPS Senior Officer represents the Fund as a Member of the CPCCG which was established by and for LGPS Administering Authority Pension Funds involved in investment pooling across the LGPS. The CPCCG comprises representatives from Administering Authorities from the LGPS Investment Pools and meets on at least a bi-monthly basis to enable ideas and best practice to be exchanged between Funds across a wide range of areas including governance, regulatory matters and investment management and pooling.

LAPFF: The Fund is a member of the Local Authority Pension Fund Forum (LAPFF), a collaborative shareholder engagement group representing most of the LGPS Funds and UK Pension Pools that campaigns on ESG issues, thereby demonstrating the Fund's commitment to sustainable investment and the promotion of high standards of corporate governance and responsibility.

LGPS Cross-Pool Responsible Investment Group: The Fund participates in the LGPS Cross-Pool Responsible Investment Group, a collaborative group consisting of representatives from each of the eight LGPS pools. The Fund plays an active role in meetings within the group which aims to share information and best practice in relation to Responsible Investment between funds and pools.

Pensions and Lifetime Savings Association (PLSA): The Fund is a Member of the PLSA and is represented on the Policy Board and in the Local Authority Committee by the Assistant Director, LGPS Senior Officer. The Fund plays an active role in the quarterly meetings held by the Policy Board which guides and decides the public policy positions of the PLSA with a particular focus on the six priority themes of adequacy, pensions dashboards, Defined Benefit funding, Defined Contribution decumulation, responsible investment and the LGPS.

Pensions for Purpose: In 2021, the Fund became a member of Pensions for Purpose, a professional investment member network with the objective of directing capital towards sustainable and impactful investments by empowering members through a range of training platforms, events, and member forums which the Fund has continued to play an active role in throughout this reporting period, as well as an online Knowledge Centre. The network functions to create connections between asset managers, pension funds and their professional advisors to encourage investments that align with environmental and social aims. 10

TCFD: In June 2019, the Fund voluntarily became an early adopter of the Task Force for Climate-Related Financial Disclosures (TCFD), an industry-led initiative created by the Financial Stability Board to provide recommendations regarding climate-related financial risk disclosures across a wide range of sectors to demonstrate the risk that climate change poses at a macro-economic level. In developing such disclosures, the TCFD's aim is that organisations will be better placed to identify and consider relevant information about material climate-related financial risks and opportunities that can have an impact on the decisions made by their stakeholders. The Committee supports the recommendations of the TCFD as a framework to help manage and report on the actions being taken to identify climate change-related risks and opportunities in the Fund's investment strategy. Since its launch, the TCFD has become the de-facto climate framework for global regulators. The Fund became an early adopter of the TCFD because it recognised the importance of understanding climate risks and opportunities relative to its role as an institutional investor. The Fund's first formal annual report on its commitment to the TCFD was approved by the Committee at its meeting on 11 September 2020 and the Fund produces an annual TCFD Report detailing how the Committee maintains oversight to ensure that the Fund's relevant climate-related risks and opportunities are considered appropriately by all stakeholders involved in the day-to-day management of the Fund. The Fund's most recent TCFD can be found at the link below.

[Surrey TCFD report September 2023 (surreypensionfund.org)]

Investment Fees – Cost Transparency

Given the level of scrutiny that had existed historically with the transparency of investment management expenses, a Voluntary Code of Transparency covering investment management fees and costs was developed and approved by the Local Government Scheme Advisory Board and launched in May 2017. A copy of the Code can be found on the LGPS Board website.

Fund managers to the LGPS are encouraged to sign up to this Code and there are currently over 150 signatory firms. The aim of this Code is to improve fee transparency and consistency.

10 In total, managers responsible for over 99% of the Fund's assets, are signatories to the Code and have provided Cost Transparency templates for the production of this year's annual report.

Total investment fees for 2023/24 as submitted by fund managers through CTI templates. This includes both direct and indirect fees. The table below shows actual CTI fees as reported by Fund Managers on templates

2023/24 Investment Management Expenses from CTI Templates	Pooled BCPP £000's	Pooled BCPP - Private £000's	Pooled LGIM £000's	Non-Pooled Equity £000's	Non-Pooled Real Estate £000's	Non-Pooled Private £000's	Total Assets £000's
% of Assets	**43%**	**11%**	**28%**	**8%**	**5%**	**5%**	**100%**
Total Fund Management & Administration Expenses	**6,614**	**28,047**	**954**	**1,863**	**2,843**	**5,487**	**45,808**
Management Fees	6,431	8,934	954	1,863	2,284	3,573	**24,039**
Administration	164	18,843	0	0	235	1,576	**20,818**
Governance & Compliance	19	270	0	0	318	338	**945**
Client Service/ Custody & Communication	0	0	0	0	6	0	**6**
Total Transaction Costs	**2,518**	**0**	**487**	**1,791**	**6,523**	**0**	**11,319**
Indirect transaction costs	0	0	282	0	146	0	**428**
Commissions	499	0	0	137	97	0	**733**
Taxes and stamp duty	568	0	0	324	189	0	**1,081**
Implicit Costs	1,840	0	91	1,330	11	0	**3,272**
Other transaction costs	176	0	196	0	6,100	0	**6,472**
Less: Dilution Levy Offset	-565	0	-82	0	-20	0	**-667**
Total Investment Management Expenses	**9,132**	**28,047**	**1,441**	**3,654**	**9,366**	**5,487**	**57,127**

Strategic Asset Allocation

The table below shows the actual asset allocation as at 31 March 2024 compared with the strategic asset allocation as shown in the Investment Strategy Statement.

Asset Class	Total Fund (£M)	Actual (%)	Target (%)	Advisory ranges %
Listed Equities	**-**	**58.9%**	**55.8**	**52.8 – 58.8**
UK	368.4	6.3%	6.7	-
Global Market Cap	1,353.9	23.2%	21.8	-
Global Regional	127.2	2.2%	2.2	-
Emerging Markets	285.3	4.9%	5.6	-
Global Sustainable	1,307.0	22.4%	19.5	-
Alternatives	**-**	**22.2%**	**27.3**	**22.3-32.3**
Private Equity	328.3	5.6%	5	2.0-8.0
Infrastructure	367.6	6.3%	6	3.0-9.0
Private Debt	165.3	2.8%	6	2.0-8.0
Climate Opportunities	68.0	1.2%	3	0.0-6.0
Listed Alternatives	80.1	1.4%		
Real Estate	288.1	4.9%	7.3	4.3–10.3
Credit	**-**	**14.5%**	**12.1**	**12.1-21.7**
Multi Asset Credit	849.6	14.5%	15.1	12.1-18.1
Fixed Interest Gilts	124.6	2.1%	1.8	0.0-3.6
Cash & Currency Overlay	131.2	**2.2%**	-	-
Total	**5,844.6**	**-**	**100**	-

Pooling

Border to Coast Pensions Partnership (BCPP) is the Fund's selected pooling partner. As at 31 March 2024, 81% of the Fund's assets are pooled or under pool management. The assets outside the pool can be classified into three areas.

Legacy private investment. Private Investment is an illiquid asset type and thus cannot be moved on demand. The remaining legacy portfolio will expire naturally as underlying assets are sold.

Real Estate. Real Estate is currently managed by CBRE. BCPP has been working on developing real estate products for many years and the Committee have agreed to invest in BCPP real estate funds as they become available. As at 31 March 2024, a commitment to the BCPP Global Core Real Estate had been made. The Fund follows the transition plan set by BCPP.

Global Equities. The remaining global equities assets have been designated for meeting private investment capital calls and increasing investment in real estate, both asset classes which are managed by the pool.

Transition Costs and Fee Savings

The cumulative transition and operating costs, as provided by BCPP, are highlighted in the table below.

Pooling Costs 2023/24	Total £000s	Cumulative £000s
Set up and Operating Costs	**358.2**	**5,098.6**
Other Costs	-	903.0
Transition Costs	-	-
Transition Fees	46.3	-
Other Transition Costs Commissions	-	-
Other Transition Costs Taxes and Stamp Duty	-	-
Total Transition costs ex implicit	**46.3**	**1,903.3**
Other Transition Costs Implicit	**-**	**12,649.0**
Total Transition Costs	**404.5**	**20,553.9**

These figures have been provided by BCPP using their own assumptions.

The table below shows historic, expected and cumulative savings that BCPP believes it can deliver.

Cost / Saving (£m)	2016-20 (Cum)	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
Set up and Operating Costs	-1,564	-643	-691	-660	-358	-414	-305	-305	-305
Transition Costs	-1,409	-	-374	-	-	-	-	-	-
Fee Savings	2,075	1,282	3,043	5,636	4,310	4,800	5,270	5,372	5,423
Cumulative Savings	**-898**	**-259**	**1,719**	**6,695**	**10,647**	**15,033**	**19,998**	**25,065**	**30,183**

Asset Table

£m Asset values as at 31 March 2024	Pooled	Under pool management	Not pooled	Total
Equities (including convertible shares)	1,609.2	1,434.2	478.5	3,521.9
Bonds	849.6	124.6	-	974.1
Property	-	-	288.1	288.1
Hedge funds	-	-	-	-
Diversified Growth Funds (including multi-asset funds)	-	-	-	-
Private equity	127.2	-	205.3	332.5
Private debt	165.3	-	-	165.3
Infrastructure	265.4	-	98.0	363.4
Derivatives	-	-	-	-
Cash and net current assets	29.6	59.7	41.9	131.2
Other*	67.9	-	-	67.9
Total	3,114.2	1,618.4	1,111.9	5,844.6

*Other assets include £67.9m of private investment in the BCPP Climate Opportunities Fund, which is made up of various types of private investment - equity, infrastructure and debt.

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Supplementary Table

£m Asset values as at 31 March 2024	Pooled	Under pool management	Not pooled	Total
UK Listed Equities	461.7	44.0	47.0	552.7
UK Government Bonds	-	125.0	-	125.0
UK Infrastructure	60.2	-	6.0	66.2
UK Private Equity	23.2	-	102.3	125.5

UK Levelling Up

As a minimum, the Fund's investment in Darwin Alternative Investment Management Limited can be considered as fulfilling at least two of the Levelling Up Missions and is therefore included in the table below.

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£m Asset values as at 31 March 2024	Pooled	Under pool management	Not pooled	Total
Additional memorandum: UK Levelling up	-	-	95.5	95.5

Implementation of the Funding Strategy Statement

The Local Government Pension Scheme (LGPS) regulations require funds to maintain and publish a Funding Strategy Statement (FSS). The purpose of the FSS is to document the processes the administering authority uses to:

- Take a prudent long-term view to secure the regulatory requirement for long-term solvency, with sufficient funds to pay benefits to members and their dependants
- Use a balanced investment strategy to minimise long-term cash contributions from employers and meet the regulatory requirement for long-term cost efficiency
- Where appropriate, ensure stable employer contribution rates
- Reflect different employers' characteristics to set their contribution rates, using a transparent funding strategy
- Use reasonable measures to reduce the risk of an employer defaulting on its pension obligations.

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To prepare this FSS, the administering authority has used guidance by the Chartered Institute of Public Finance and Accountancy (CIPFA To prepare this FSS, the administering authority has used guidance by the Chartered Institute of Public Finance and Accountancy (CIPFA).

Both the LGPS regulations and most recent CIPFA guidance state the FSS should be prepared in consultation with "persons the authority considers appropriate". This should include 'meaningful dialogue… with council tax raising authorities and representatives of other participating employers'.

The consultation process included:

- A draft version of the FSS was issued to all participating employers on 30/01/2023 for comment.
- The draft FSS was accompanied with a statement setting out the impact of variations from the previous funding strategy.
- There was a consultation period, during which questions regarding the FSS could be raised and answered. The consultation period ended on 17th February 2023
- Following the end of the consultation period the FSS was updated where required and then published on 01/04/2023.

The FSS is made available through the following routes:

- Publishing on the fund website.
- A copy is sent by email to each participating employer in the Fund.
- A copy is included in the Fund annual report and accounts.

- Copies can be sent to independent advisors.
- Copies are available on request.

The FSS is published at [Annual reports | Surrey Pension Fund].

The FSS is reviewed in detail at least every three years as part of the valuation. Amendments may be made before then if there are regulatory or operational changes. Any amendments will be consulted on, agreed by the Pensions Committee, and included in the Committee meeting minutes.

Who is the FSS for?

The FSS is mainly for employers participating in the fund because it sets out how money will be collected from them to meet the fund's obligations to pay members' benefits.

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Different types of employers participate in the fund:

Scheduled bodies

Employers who are specified in a schedule to the LGPS regulations, including councils and employers like academies and further education establishments. Scheduled bodies must give employees access to the LGPS if they can't accrue benefits in another pension scheme, such as another public service pension scheme.

Designating employers

Employers like town and parish councils can join the LGPS through a resolution. If a resolution is passed, the fund can't refuse entry. The employer then decides which employees can join the scheme.

Admission bodies

Other employers can join through an admission agreement. The fund can set participation criteria for them and can refuse entry if the requirements aren't met. This type of employer includes contractors providing outsourced services like cleaning or catering to a scheduled body.

Some existing employers may be referred to as **community admission bodies** (CABs). CABs are employers with a community of interest with another scheme employer. Others may be called **transferee admission bodies** (TABs), that provide services for scheme employers. These terms aren't defined under current regulations but remain in common use from previous regulations.

How does the funding strategy link to the investment strategy?

The funding strategy sets out how money will be collected from employers to meet the fund's obligations. Contributions, assets, and other income are then invested according to an investment strategy set by the administering authority. The fund's Investment Strategy Statement (ISS) includes full details of the employer investment strategies that apply. You can find the investment strategy at [Annual reports | Surrey Pension Fund].

The funding and investment strategies are closely linked. The fund must be able to pay benefits when they are due – those payments are met from a combination of contributions (through the funding strategy) and asset returns and income (through the investment strategy). If investment returns or income fall short the fund won't be able to pay benefits, so higher contributions would be required from employers.

Does the funding strategy reflect the investment strategy?

The funding policy is consistent with the investment strategy. Future investment return expectations are set with reference to the investment strategy, including a margin for prudence which is consistent with the regulatory requirement that funds take a 'prudent longer-term view' of funding liabilities.

Annual Investment Review

The Annual Investment Review has been prepared by the Independent Investment Advisor for the Fund. The purpose of the report is to fulfil the following aims:

- To provide a review of the economic and market background over the 12 months to 31 March 2024
- To provide an overview of market returns by asset class over the last 12 months
- To provide an overview of the Fund's performance versus the Fund specific benchmark for the last 12 months
- To provide an overview of the outlook for market.

The Fund's Annual Investment Review can be found on the following pages.

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DRAFT

Annual Investment Review 2023/2024

Prepared for:

Surrey Pension Fund

July 2024

MJ HUDSON Allenbridge

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1. Economic and market background

Over the Financial year ended 31st March 2024 the global economy turned out to be much more resilient than expected at the start of the year. Although outcomes were mixed, growth was higher than expected in all regions except China. Of the Developed economies US growth was the strongest and while Europe and the UK's growth rates oscillated around zero for the year it was not the extended period of negative growth expected. Chinese domestic growth was much weaker than expected as the property market contraction impacted consumer sentiment and the post covid bounce did not materialise. Despite stubbornly high core inflation data and higher for longer interest rates economic activity was supported by higher Fiscal spending and higher real incomes from both earnings and savings and a significant improvement in world trade flows, see chart 1 below.

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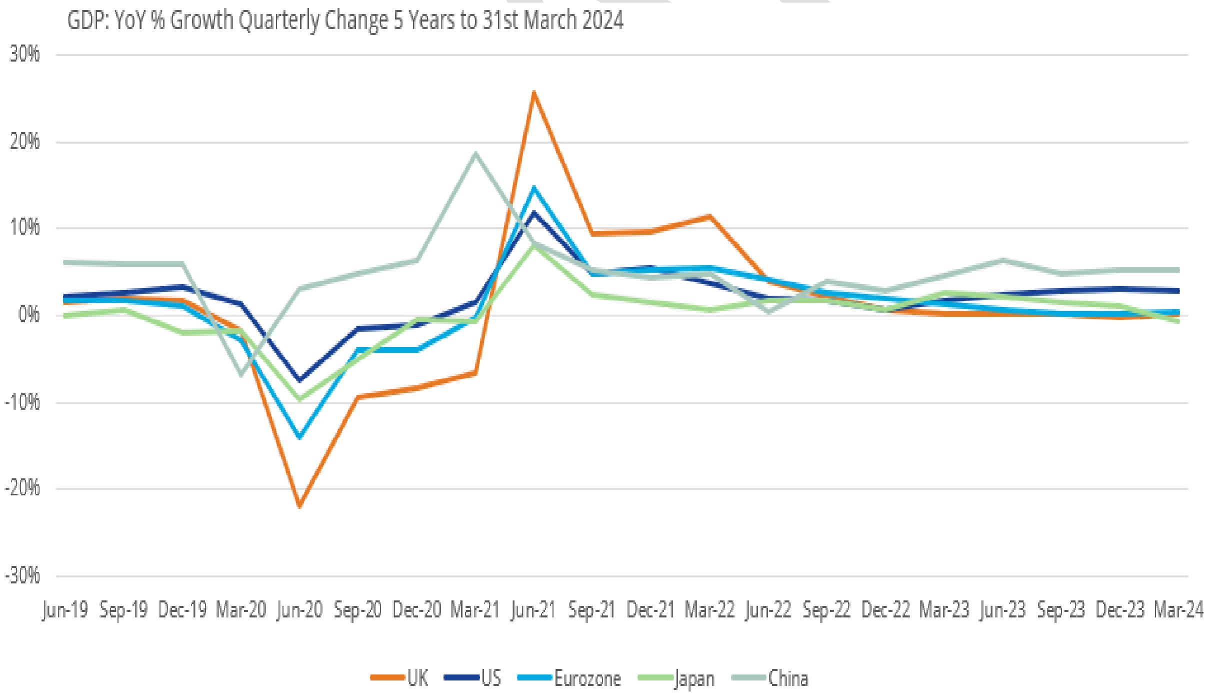
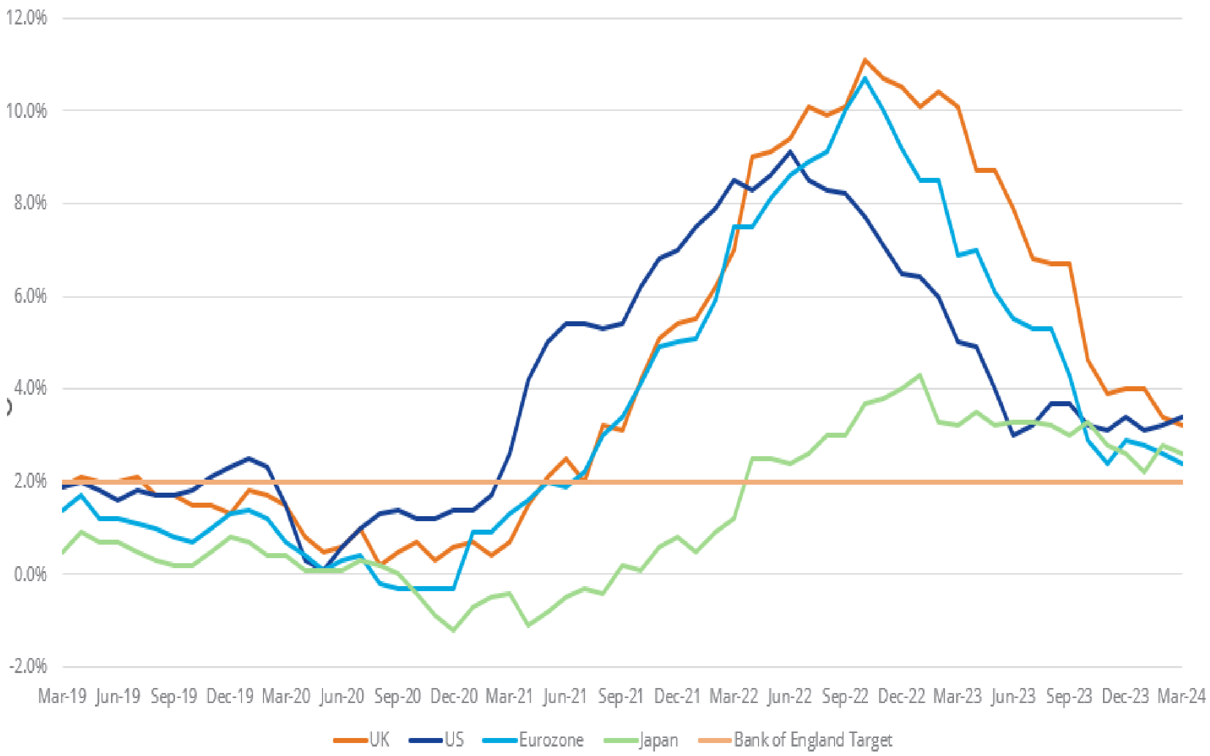
In the second half of the financial year a new conflict between Israel and Gaza had the potential to renew inflationary pressures in Europe, especially as tensions in the middle east increased attacks on shipping in the Red Sea causing traffic to re-route around Africa rather than using the Suez Canal.

Chart 1: - GDP growth, quarterly % change. (Source: - Bloomberg.)



Just as last year the dominant macro-economic factor of the financial year remained higher and more persistent inflation than expected. As can be seen in chart 2 below, base effects from the energy and food price spike following the invasion of Ukraine and falling goods prices following the improvements in the flow of global trade have enabled headline inflation rates to continue to trend lower but tight labour markets and strong wage growth has kept core rates much higher. Stronger than expected growth and high core rates of inflation have made it much more difficult for central banks to cut rates.

Chart 2: - Headline CPI inflation and the Central bank target rate. (Source: - Bloomberg.)



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Central Banks

As can be seen in chart 2 above US headline inflation (dark blue line), continued to fall in the early part of the financial year and this caused the US Fed to stop raising interest rates in the summer of 2023. Sharp falls in the headline rate of CPI over the summer also enabled the Bank of England (BoE) and the European Central Bank (ECB) to stop increasing rates shortly afterwards. By November 2023 the US Fed governor was so optimistic about the possibility of further falls in the US headline rate of inflation that he suggested there could be three 0.25% interest rate cuts starting early in 2024.

Unfortunately, as can be seen in the chart US headline CPI ticked up towards the end of the financial year. In 2024, continued strong economic growth, the increase in the headline rate and stubbornly high core rates of inflation have caused the US Fed to suggest that interest rate cuts will have to be delayed until much later in the year. If the Fed has not cut rates by September, they may not cut rates until late November, because they will not want to be accused of influencing the US Presidential Election campaign, which will be getting into full swing in the autumn.

While it could be possible for the BoE and ECB to cut rates ahead of the US Fed, because the level of growth is much lower, I believe it is unlikely that there will be more than one 0.25% cut until the US Fed starts to cut rates.

Elsewhere central bank policy has changed in Japan, where for the first time in over 20 years they have started to tighten monetary policy. Firstly, by announcing the end of their bond purchase programme and in March 2024 by increasing the overnight rate from below 0% to a positive range of 0% to 0.1%. The Peoples Bank of China on the other hand has been forced to ease monetary policy with measures aimed at reducing the impact of the very weak property market on the domestic economy.

Market Returns

As can be seen in table 1 below, over the financial year in sterling terms Global equities delivered very strong returns of 21.3%, UK and emerging equity markets
10 performed poorly by comparison. While Japan delivered its strongest performance in decades the largest contribution to global equity returns came from the exceptional performance of the US Mega-cap Tech stocks, referred to as the "Magnificent 7". These stocks alone were responsible for almost all of the uplift in US stock market indices and because the US is around 65% of the weight in the Global indices, in effect the vast majority of the return enjoyed by these indices also came from the same US companies. Emerging equity markets were held back by the poor performance of Chinese equity, China has a dominant weight in these indices. Chinese equity returns were held back by the very poor performance of the domestic property market and the weakness of its post Covid economic recovery.

Government bond markets continued to deliver negative returns, with the highly interest rate sensitive UK index linked Gilt market achieving a second year of negative returns. Higher than expected and for longer than expected, inflation and interest rates were the main drivers of returns. Investment grade and high yield, non-government bonds with their much lower interest rate sensitivity, higher yields and greater economic sensitivity, significantly outperformed as spreads narrowed.

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 2024.

% Total return dividends reinvested		
	Market returns	
	Period end 31st March 2024	
	3 months	**12 months**
Global equity - FTSE – All World	+9.3	+21.3
FTSE Regional indices		
UK All Share	+3.6	+8.4
Japan	+11.6	+22.3
Emerging	+3.3	+5.8
UK Gilts - Conventional All Stocks	-1.9	-0.5
UK Gilts - Index Linked All Stocks	-2.5	-5.6
UK Corporate bonds*	+0.2	+7.2
Overseas Government Bonds**	-0.4	+1.8
UK Property quarterly^	-1.1	-2.7
Sterling 7 day SONIA	1.4	5.1

FTSE Indices except where noted * ICE £ Corporate Bond; **ICE Global Government ex UK hedged; ^ MSCI.

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UK property markets continue to be affected by higher inflation and interest rates and by the poor demand and supply dynamics, returning -2.7%. Higher inflation and rates also reduced the returns available from Private markets assets (not represented in the table above). This had the biggest impact on Infrastructure and private equity, which delivered mixed returns, private debt delivered steady positive returns.

2. Fund Performance and Manager Structure

At the end March 2024, the Surrey Pension Fund was valued at £5,845 million, this represents an increase of £588 million, since 31st March 2023. The Fund's total net investment return was +11.3%, which was below the benchmark returns of +15.3%. Over the last 3 years the Fund has achieved a total return of +5.3% p.a. which is below the benchmark return of +7.4% p.a. Over the year the "Past Service funding level" of the Surrey Pension Fund improved from 127% to 135%.

10 Equity markets were again volatile over the first half of the financial year, however from October they showed steady gains supported by two factors: a belief that interest rates would be cut on falling inflation and the exceptional performance of the "Magnificent 7" referenced earlier. Towards the end of the financial year stock performance narrowed even further with Nvidia's earnings performance exceeding the extreme expectations of the most optimistic equity analysts.

UK Government bonds on the other hand saw yields rise and another year of negative returns. The 10 year benchmark yield increased from 3.5% to 4.1%, yield curves also steepened for longer maturity bonds, as markets worried about persistent inflation combined with concerns about the size of government deficits and the increased cost of funding them. Markets were not without volatility, yields that had been steadily increasing through the first half of the financial year, fell dramatically on mis-placed optimism fuelled by the US central bank that they were going to cut rates in 1q24. Needless to say, when US growth turned out to be better than expected and inflation stopped falling the cuts were not forthcoming and yields increased to finish the financial year much higher. Fortunately for the Surrey Pension Fund, exposure to Government bonds is very low and the much higher yielding, less interest rate sensitive bonds owned by the Multi-Asset Credit (MAC) fund delivered strong returns throughout the year. Property and Private markets returns were also disappointing over the year. The main driver of Surrey's poor relative to benchmark performance over the financial year and last three years was the underperformance of the active equity funds managed by BCPP on Surrey's behalf.

In terms of the overall Fund structure there was some rebalancing between asset classes driven by changes to the Fund's strategic asset allocation. Active UK equity exposure was reduced and invested in the passively managed LGIM Future World Global Fund, further sales of active UK and global equity were used to increase exposure to MAC. In terms of fund management approach, the passive emerging equity exposure was transferred to a new active fund managed by BCPP and the Fund's bespoke holdings in UK Government bonds was transferred to a passive fund managed by LGIM. New capital calls to existing private market commitments were funded predominantly as planned by sales of assets in the BCPP Listed Alternatives Fund and the LGIM Liquidity Fund.

Towards the end of the financial year the Fund also decided to commit new cash to Series 2C of the BCPP Private markets Programme and invest in the Series 2 Climate Opportunities Fund and a new fund called UK Opportunities.

3. Economic and Market outlook

Over the last year forecasters have been consistently wrong on growth and inflation and I expect them to make the same mistake over the next financial year. GDP forecasts for 2024 have recently been revised up. Most of the drivers of economic activity remain positive. Fiscal spending in all the developed economies is still increasing, higher interest rates mean savers have more money and while employment data may be softening, higher incomes are likely, unless one becomes unemployed. As headline inflation continues to fall, cost pressures for businesses are stabilising and higher wages and interest income, are resulting in real increases in spending power. Forward looking indicators in all the major developed economic regions are now in positive / expansionary territory. 10

The resilience of growth and sticky inflation, especially in the US has made it more difficult for the Fed, and to date they have been unable to justify a cut interest rates even though they have indicated they would like to. Some commentators have even suggested the Fed may have to increase rates. I still expect the next decision by the Fed will be to cut rates, probably before September to avoid being accused of political bias as the Presidential election campaign properly gets underway. The new question is, will the ECB and the BoE take the decision to cut before the Fed? It is increasingly possible that they could, as inflation could be within acceptable target ranges over the summer. The reason they may not is labour markets remain tight and core services inflation remains high. Also, just as in the US it is possible that headline inflation could pick up as nearly all the benefit of base effects from the previous year falls away, the BoE has suggested as much in its recent inflation report.

The weakness of the Chinese domestic economy caused by the property market overhang is having a significant impact on growth. Weak domestic demand and repaired supply chains are encouraging increased Chinese exports, which could lead to further softening goods prices. In a US election year this could lead to increased talk of trade restrictions, especially as China has become a dominant manufacturer of higher quality goods.

In terms of markets, I believe the end of the rising interest rate cycle may lead to continued good returns from non-government bonds. However, I believe government bonds could continue to underperform. The size of the fiscal deficits and cost of funding them and the lack of any plans to reduce these burdens could lead to market volatility and a gradual steepening in yield curves.

I am also concerned about the increasing narrowness of the equity market rally and would not be surprised to see increased price volatility especially in the highly valued sectors of the market. Having said that many regions and sectors have become relatively very cheap by comparison to the US. This cheapness is encouraging companies and investors to look elsewhere for returns and the stabilisation and a potential small fall in interest rates later in the year could lead to a rotation into less overvalued sectors of the equity market.

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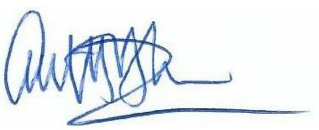

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Section 7: Administration

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Overview

The Service Delivery team is part of the wider Surrey Pension Team (SPT) sitting within the Corporate Finance Division of the Resources Directorate of Surrey County Council. Service Delivery provides a full range of pension services to current and former members and pensioners of the Surrey Pension Fund (the Fund). The Service provision includes:

- Administering the Local Government Pension Scheme (LGPS) in accordance with relevant legislation and Committee decisions
- Administering the early retirement arrangements and local policies for 355 employers in accordance with the relevant legislation, discretion polices and Committee decisions
- Maintaining a central database of all scheme members
- Actively contributing to the formulation of national pension policy to reflect the Fund's preferred approach
- 10 Providing advice to scheme members, employers, and other key parties in line with scheme legislation
- Maximising the technology available to improve standards and efficiency to deliver excellent customer service.
- Proactively training and developing staff to meet service objectives.

The Service Delivery team consists of 50 FTE staff; split across 5 teams in 2 sections – Operations and Benefits Administration. The work of each section is as follows:

Benefits Administration

This section is overseen by the Deputy Head of Service Delivery - Benefits Administration and is responsible for the effective administration of all member benefits in line with the legislation and the operation of the service wide Customer Relationship Team.

Immediate Benefits Team:

This team is managed by the Immediate Benefits Manager and deals with the processing of entitlements for: forthcoming retirements, pensions and deaths benefits.

Future Benefits Team:

The team is managed by the Future Benefits Manager and deals with the processing of entitlements for: refunds, transfers into and out of the Fund and deferred benefits.

Customer Relationship Team:

The team provides an advisory service through varying communication channels for our members, employers, and other key stakeholders. Additionally, the team coordinates and monitors the complaints procedure for the wider service.

Operations

This section is overseen by the Deputy Head of Service Delivery - Operations and is responsible for effective management of the pension administration system, ensuring data integrity of the database and the processing of new entrants to the scheme.

Pension Trainee Team:

This team is managed by the Membership and Data Manager and deals with the setting up of new members, incoming correspondence and provides flexible support across the SPT when required. 10

Data Quality Team:

This team is managed by the Membership and Data Manager and deals with the cleansing and validation of data; both that which is currently held in the administration system and any new incoming data.

Systems Team:

This team is managed by the Systems Manager and deals with maintaining and developing the administration system, including implementing additional software products, ensuring it's fit for purpose.

General

The team has an active role in the delivery of scheme events and key projects such as Annual Benefit Statements, Annual Allowance statements and other required projects, both on a legislative and a continuous improvement basis. Additionally, the team takes an active role in dealing with complaints raised; both on an informal basis and/or where these have been raised through the two stage Independent Dispute Resolution Procedure (IDRP) within the LGPS regulations.

The Head of Service Delivery is Tom Lewis, and he has two deputies in Jim Woodlingfield (Deputy Head of Service – Benefits Administration) and John Coombes (Deputy Head of Service – Operations). The management group is contactable through our Customer Relationship Team at crtpensions@surreycc.gov.uk

The Service Delivery team reports to the Assistant Director – LGPS Senior Officer, Neil Mason.

Key Works Update

During the year there has been a series of additional works carried out to drive the service forward and improve the services provided to our customers.

- Data has always been important within the Fund to support key events such as valuation however, there has been an increased focus this year with the Pensions Dashboard go live moving ever closer. The roll out of monthly employer returns has been at the forefront of our plans, recognising the benefits this will bring to our members on several fronts. As of 31 March 2024, 54% of the scheme employers have been enrolled onto monthly returns, representing 70% of the total scheme membership.
- One of the key priorities within Service Delivery this year was to significantly reduce the backlog cases and ensure our members benefits were correctly calculated and given the correct member status, supporting the cleansing requirements for the Pension Dashboard. It will also provide a clear platform to drive through other service improvements and place the fund in a good position for the next triennial valuation. Having identified circa' 12,000 items of work that constituted a backlog, made up of unchecked deferred, undecided leavers, transfers and aggregation cases, a team of 8 FTE was recruited specifically to target this area of work. During the period between August 2023 – March 2024 the backlog had been reduced by 63%, with the team expected to fully remove this by the end of 2024.
- Delivering a high-quality service is an ongoing objective for the team and meeting our KPIs is a good indicator to monitor this. However, this can often be a reactive measure rather than encouraging a proactive approach. Therefore, the development and enhanced use of management intelligence data is of growing importance to the team. By instilling the use of an analytics dashboard to forecast work, track cases as they approach the SLA, and understand the case trends in more depth, is enhancing the focus on productivity, both at a team and individual level, to improve our customer experience. In the coming year this will become fully embedded across the service and used to improve the performance levels and processes where required.
- To ensure that we place our customers at the heart of everything we do, an anonymous survey was undertaken with tranches of employers and members. The surveys were undertaken on our behalf by an independent third-party provider as face-to-face group discussions carried out over Microsoft Teams. With these results having now been compiled, the feedback will be utilised to

determine where improvements can be made to variety of processes, communications and engagement initiatives in the coming year, forming part of service improvements plans.

Regulatory Update

- The GMP Reconciliation project has been ongoing, working in partnership with a third-party administrator Aptia to deliver this. Whilst there had been some progress made in understanding the data and affects it may have on our members, the work was paused just prior to pension increase to minimise any impact on this key area of work. Work will continue into 2024/25 to fully deliver the reconciliation and ensure the impact is understood for both the affected members and the Fund itself.
- The McCloud Remediation project has affected amendments to the regulations during this year which the Fund has continued to track and monitor throughout. To date Surrey Pensions has received more than 90% of the expected employer returns containing the necessary data, which has gone through a series of quality assurance checks in partnership with a third-party data specialist, ITM. Alongside this, our pension system provider Heywood Pension Technologies has continued to develop the tools and modules to accommodate theses changes in regulation. This has led to a detailed set of scenario testing in response to system upgrades throughout the year. Work is currently on track to deliver this in time for the 31 March 2025 deadline.
- This year saw the successful production of annual benefit statements for over 99% of the deferred membership, with 46,014 issued. There were 34,104 (99%) issued to our active members.
- Each year we are required to provide data scores as part of the Pensions Regulator's Annual Scheme Return. The data is split into two categories. Common Data relates to member data such as name, date of birth, National Insurance number. Scheme Specific Data (SSD) refers to member information held to process a benefit such as their status or events taken place during membership. The results are as follows:

Data Type	2021	2022	2023
Common Data	95%	96%	96%
Scheme Specific Data (SSD)	95%	98%	98%

Fund members and employers

The table below shows membership by type at 31 March in each of the last five years. [TABLE TO FOLLOW]

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A summary of the number of active and ceased (with some current outstanding liability) analysed by scheduled, admitted, designating bodies, and academies is shown below.

[TABLE TO FOLLOW]

A list of Scheme Employers along with employers' and employees' contributions as a percentage of pensionable pay is given in the annexe.

Key Performance Summary

Below is a summary of some main headlines identified from the Service Delivery KPIs over the course of this year.

Total Casework

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- With a focus on reducing backlogs this year and with the introduction of a designated project team of 8 FTE to reduce these cases, the team were able to process 3,948 deferred cases in addition to the 3,868 processed as part of day-to-day operations. Thus, giving a total case completion rate of 186%.
- The number of new scheme joiners is significantly lower this year due a series of delays in receiving the necessary monthly returns from our largest employer Surrey County Council, due to the introduction of a new finance and payroll system. An additional 3,085 new joiners were processed in June 2024 that related to the 2023/24 period, which would have seen the total closer to 6,486.

Time Taken to Process Work

- On the whole performance has remained consistent with the previous year, with some slight movement of performance in both directions.
- There has been a significant increase in the issuance of quotation communications to deferred members taking their pension, rising from 81% to 96%.
- There has also been a reduction in the performance when issuing an active member their actual pension and payment figures, reducing from 73% to 61%.
- There have been changes made to the team structure which will look to increase the service's resilience levels and improve its ability to flex resource to meet customer demands.

Details of the actual performance against our KPIs is given on page 125.

Pensioner Membership Demographics

Please see pension member demographics below:

Age	Number of Pensioners	Number of Dependants	Total
0-20	-	195	195
21-30	-	38	38
31-40	2	28	30
41-50	21	65	86
51-60	1,563	292	1,855
61-70	11,661	721	12,382
71-80	10,741	1,222	11,963
81-90	3,545	1,054	4,599
Over 90	597	352	949
Total	**28,130**	**3967**	**32,097**

Value for Money Statement

CEM Benchmarking services were procured to better understand the service levels being provided to our members and employers, with a view to understanding the quality and cost effectiveness of our service delivery.

Information was supplied to the detailed survey covering key criteria such as:

- Service costs
- Membership activity
- Service provisions offered to our members and employers
- Online and digital services
- Regulatory compliance for scheme events such as PI and ABS
- Customer query handling

Using a consistent scoring criterion, the results provided a summary report that presented Service Delivery with both an individual service provision score that indicated where we ranked against our peers within the LGPS and similar schemes.

Based on these findings it was determined that the administration and customer services provided were as follows:

- Overall, the services provided were above those classified as a basic administration service

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- The cost per member was below our peer average
- Services offered in the telephony space were higher than our peers, with a good level of targeted newsletter campaigns and excellent ABS provisions
- Areas where improvements could be made were obtaining employer and member feedback and increasing levels of member tracing services

With this benchmarking exercise to be repeated each year, it will support the Funds ambition to provide a high-quality service in the most cost effective way.

Dispute Resolution

There are instances when Scheme members and employers may disagree with the Administering Authority regarding a pension issue. The initial approach is to discuss these situations and aim to find a suitable resolution for all parties however, if this is not possible the Fund has an established Internal Dispute Resolution Procedure in place.

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The IDRP is a two-stage process. Stage 1 provides a formal process for which the member, pensioner or beneficiary can apply to the employer or the Fund to have their complaint reviewed. If the complainant is dissatisfied with the Stage 1 decision, they can invoke Stage 2 of the IDRP process within 6 months of the Stage 1 decision.

If after the Stage 2 decision the complainant is still dissatisfied with the outcome, they can contact the Pension Ombudsman (TPO) for help in dealing with their complaint.

Below are the Fund's IDRP statistics for the last 3 years:

2023/24

Result of Procedure	Stage 1	Stage 2	PO
Complaint Not Upheld	1	2	0
Complaint Upheld	6	1	0
Withdrawn	0	0	0
Total	**7**	**3**	**0**

2022/23

Result of Procedure	Stage 1	Stage 2	PO
Complaint Not Upheld	0	1	0
Complaint Upheld	5	2	1
Withdrawn	0	0	0
Total	**5**	**3**	**1**

2021/22

Result of Procedure	Stage 1	Stage 2	PO
Complaint Not Upheld	2	0	0
Complaint Upheld	2	0	1
Withdrawn	0	0	0
Total	**4**	**0**	**1**

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Formal complaints received outside of the IDRP are reported quarterly to the Local Pension Board along with a summary of each complaint. During the year 54 complaints were received.

Communications Statement Report

In accordance with regulation 61 of the Local Government Pension Scheme Regulations 2013, the Fund's Communications Policy Statement has been reviewed as part of the production of this report.

The revised policy was presented and considered at the meeting of the Local Pension Board on 16 February 2024 and the Pension Fund Committee on 22 March 2024. There is no immediate need to review the policy further at this time.

The key objective was to ensure that Surrey Pension Team delivers clear, timely and accessible communication to broad range of stakeholders.

Member Communication Summary

The Surrey Pension Team issued newsletters to pensioners (in April), deferred members (in June) and active members (in April and August). Information contained in the newsletters included legislation changes, details of changes to the LGPS, pension scam awareness, helpful resources, pension scheme tax implications and notification of increases to pensions.

Pensioner Members received pay advice slips and a P60 in April.

An improved member website (www.surreypensionfund.org.uk) was launched in January 2024 with improved access to forms, glossary terms and guidance videos.

Annual Benefit Statements were issued to active and deferred members by the August deadline.

Videos were produced for members on the topics of Annual Benefit Statements and using the ‘My Pension’ Portal.

Walk in pension clinics operated throughout this period, providing members with an opportunity to ask the Customer Relationship Team LGPS pension queries face to face or via Microsoft Teams.

In addition to our existing LGPS Pension overview webinars, a reoccurring monthly new joiner webinar was introduced as a way of engaging with new members. This webinar has been promoted on the website, new joiner letters/emails and in both the member and employer newsletters.

Employer Communication Summary

10 The Surrey Pension Team produced 4 newsletters to Employers detailing key changes to the LGPS and helpful resources for both employers and their scheme members.

Industry Communication Summary

The Surrey Pension Team regularly posted on LinkedIn promoting team achievements, award nominations, recruitment and conference attendance.

The Communications Policy can be found at [Annual reports | Surrey Pension Fund]

Accessibility

We are committed to providing accessible websites that are easy to use by anyone, whatever their age, background, access device or level of ability/disability. This includes the documents that can be accessed on the websites.

This means that our pages and documents are written to be clear and easy to understand, with a function introduced to our member website which explains industry terms when hovered over or selected.

Our websites are designed to work well when used with access devices such as screen readers, braille readers, as well as smart phones and other devices.

Visitors to the website are able to:

- change colours, contrast levels and fonts

- zoom in up to 300% without the text spilling off the screen
- navigate most of the website using just a keyboard
- navigate most of the website using speech recognition software
- listen to most of the website using a screen reader (including the most recent versions of JAWS, NVDA and VoiceOver)

We recognise that not all scheme members will be able to access our services electronically. In response to this:

- we will deal with cases individually, for instance use a British Sign Language interpreter, provide Braille or use large font in documents when requested.
- we use the communication preferences (when a member says they want to be written to and not sent emails) this is stored in our system and used when we send out communications.
- we have a telephone line and postal service.
- we can also receive visitors at our Dakota office at 11 De Havilland Drive, Weybridge, KT13 0YP and
- we will make sure a suitable member of staff is available to discuss the query, we ask members to contact us in advance to make an appointment.

Administration Key Report Indicators

Table A – Total number of casework

Ref	Casework KPI	Total number of cases open as of 31 March (stating position)	Total number of new cases created in the year (1 April to 30 March)	Total number of cases completed in year	Total % of cases completed in year	Total number of cases completed in previous year	Total % of cases completed in previous year
A1	Deaths recorded of active, deferred, pensioner and dependent members	7	893	890	99%	701	99%
A2	New dependent member benefits	15	325	311	96%	351	100%
A3	Deferred member benefits	168	1,294	1,357	98%	1,126	90%
A4	Active member benefits	59	818	803	93%	738	92%
A5	Deferred benefits	3,643	4,195	3,868	92%	4,576	56%
A6	Transfers in (including interfund in, club transfers)	543	2,466	2,128	86%	2,276	78%
A7	Transfers out (including interfund out, club transfers)	91	729	627	86%	612	90%
A8	Refunds	132	4,035	3,960	98%	4,029	99%
A9	Divorce quotations issued	14	203	190	94%	186	96%

Ref	Casework KPI	Total number of cases open as of 31 March (stating position)	Total number of new cases created in the year (1 April to 30 March)	Total number of cases completed in year	Total % of cases completed in year	Total number of cases completed in previous year	Total % of cases completed in previous year
A10	Actual divorce cases	2	12	13	105%	12	83%
A11	Member estimates requested either by scheme member or employer	45	336	351	97%	412	90%
A12	New joiner notifications	0	3,401	3,401	100%	8,345	100%
A13	Aggregation cases	175	727	661	91%	697	80%
A14	Optants out received after 3 months membership	0	1	1	100%	2	100%

Table B – Time taken to process casework

Ref	Casework KPI	Suggested fund target*	% completed within fund target in year	% completed in previous year
B1	Communication issued with acknowledgement of death of active, deferred, pensioner and dependent member	5 days	90%	91%
B2	Communication issued confirming the amount of dependents pension	10 days	78%	84%
B3	Communication issued to deferred member with pension and lump sum options (quotation)	15 days	96%	81%
B4	Communication issued to active member with pension and lump sum options (quotation)	15 days	74%	80%
B5	Communication issued to deferred member with confirmation of pension and lump sum options (actual)	15 days	68%	69%
B6	Communication issued to active member with confirmation of pension and lump sum options (actual)	15 days	61%	73%
B7	Payment of lump sum (both actives and deferred)	15 days	98%	100%
B8	Communication issued with deferred benefit options	40 days	83%	88%
B9	Communication issued to scheme member with completion of transfer in	20 days	80%	80%
B10	Communication issued to scheme member with completion of transfer out	20 days	85%	90%

Ref	Casework KPI	Suggested fund target*	% completed within fund target in year	% completed in previous year
B11	Payment of refund	20 days	98%	96%
B12	Divorce quotation	45 days	68%	61%
B13	Communication issued following actual divorce proceedings i.e. application of a Pensions Sharing Order	15 days	69%	58%
B14	Communication issued to new starters	30 days	100%	100%
B15	Member estimates requested by scheme member and employer	10 days	61%	81%

*Days in this column are a suggested Fund target for completion and not the statutory timescale.

Table C – Communications and engagement

Ref	Engagement with online portals	Percentage as of 31 March
C1	% of active members registered	56%
C2	% of deferred member registered	52%
C3	% of pensioner and survivor members	36%
C4	% total of all scheme members registered for self-service	47%
C5	Number of registered users by age	Unknown at this stage
C6	% of all registered users that have logged onto the service in last 12 months	10%

Communication

Ref	Engagement with online portals	Total as of 31 March
C7	Total number of telephone calls received in year	19,789
C8	Total number of email and online channel queries received	20,700
C9	Number of scheme member events held in year (total of in-person and online)	10
C10	Number of employer engagement events held in year (in-person and online)	5
C11	Number of active members who received a one-to-one (in-person and online)	54
C12 (a)	Number of times a communication (i.e. newsletter) issued to active members	2

Ref	Engagement with online portals	Total as of 31 March
C12 (b)	Number of times a communication (i.e. newsletter) issued to deferred members	1
C12 (c)	Number of times a communication (i.e. newsletter) issued to pensioners	1

Table D – Resources

Ref	Resources	Total as of 31 March
D1	Total number of all administration staff (FTE)	46.5
D2	Average service length of all administration staff	Unknown
D3	Staff vacancy rate as %	20%
D4	Ratio of all administration staff to total number of scheme members (all staff including management)	1:2795
D5	Ratio of administration staff (excluding management) to total number of scheme members	1:3333

Table E – Data Quality

Annual Benefit Statements

Ref	Data	Result
E1	Percentage of annual benefit statements issued as of 31 August	TBC
E2	Short commentary if less than 100%	N/A

Data category

Ref	Data	Result
E3	Common data score	96%
E4	Scheme specific data score	98%
E5	Percentage of active, deferred and pensioner members recorded as 'gone away' with no home address held, or address is known to be out of date.	2.3%
E6	Percentage of active, deferred and pension members with an email address held on file	77%

Employer performance

Ref	Data	Result
E7	Percentage of employers set up to make monthly data submissions	54%
E8	Percentage of employers who submitted monthly data on time during the reporting year	Unknown

Section 8: Actuarial Report on Fund

Surrey Pension Fund (the Fund) Actuarial Statement for 2023/24

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). In summary, the key funding principles are as follows:

- take a prudent long-term view to secure the regulatory requirement for long-term solvency, with sufficient funds to pay benefits to members and their dependents
- use a balanced investment strategy to meet the regulatory requirement for long-term cost efficiency (where efficiency in this context means to minimize cash contributions from employers in the long term)
- where appropriate, ensure stable employer contribution rates
- reflect different employers' characteristics to set their contribution rates, using a transparent funding strategy
- use reasonable measures to reduce the risk of 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 have a sufficiently high likelihood of achieving the funding target over 20 years. 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 at least a 70% likelihood that the Fund will achieve the funding target 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 2022. This valuation revealed that the Fund's assets, which at 31 March 2022 were valued at £5,358 million, were sufficient to meet 102% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting surplus at the 2022 valuation was £101 million. Each employer had contribution requirements set at the valuation, with the aim of achieving their funding target within a time horizon and likelihood measure as per the FSS. Individual employers' contributions for the period 1 April 2023 to 31 March 2026 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 2022 valuation report and FSS.

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.

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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 2022 valuation were as follows:

Financial assumptions	31 March 2022
Discount rate	4.4% pa
Salary increase assumption	3.7% pa
Benefit increase assumption (CPI)	2.7% pa

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 2021 model, with a 0% weighting of 2021 (and 2020) data, standard smoothing (Sk7), initial adjustment of 0.25% and a long term rate of 1.50% p.a. Based on these assumptions, the average future life expectancies at age 65 are as follows:

Current/Future	Males	Females
Current Pensioners	22.3 years	24.9 years
Future Pensioners*	23.1 years	26.3 years

*Aged 45 at the 2022 Valuation

Copies of the 2022 valuation report and Funding Strategy Statement are available on request from the Administering Authority to the Fund and on the Fund's website.

Experience over the period since 31 March 2022

Markets were disrupted by the ongoing war in Ukraine and inflationary pressures in 2022 and 2023, impacting on investment returns achieved by the Fund's assets. High levels of inflation in the UK (compared to recent experience), have resulted in higher than expected LGPS benefit increases of 10.1% in April 2023 and 6.7% in April 2024. However, asset performance has improved towards the end of 2023 and into 2024 and inflation has begun to return towards historical levels and the Bank of England's target (2% pa). There has been a significant shift in the wider economic environment since 2022, resulting in generally higher expected future investment returns and a reduction in the value placed on the Fund's liabilities. Overall, the funding position is likely to be stronger than at the previous formal valuation at 31 March 2022.

The next actuarial valuation will be carried out as at 31 March 2025. The Funding Strategy Statement will also be reviewed at that time.

Adrian Loughlin FFA

For and on behalf of Hymans Robertson LLP

The full Valuation Report is published at:

[230330-surrey-county-council-2022-final-valuation-report.pdf (surreypensionfund.org)]

Section 9: External Audit Option

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Internal Audit

Internal Audit compiles a planned annual programme of audit work for SPT including a contingency allocation (number of days) in consultation with the Pension Senior Leadership Team (PSLT) which is presented to the LPB in May of each year. Quarterly updates on the progress of the audits in the audit plan are a standing item at every LPB meeting to provide assurance to senior management and Board members. During 2023/24, audits were undertaken as set out in the table below.

Area of Work	Assurance Rating
Follow up of the LGPS Performance Management Review	Substantial Assurance
Cyber Security	Reasonable Assurance
Altair Pensions Administration i-Connect application	Fieldwork underway
Pension Administration (Transfers In)	Reasonable Assurance
Pension Fund Banking Controls	No opinion given, further follow up work will be completed in 2024/2025

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Audit Opinions and Definitions

Opinion	Definition
Substantial Assurance	Controls are in place and are operating as expected to manage key risks to the achievement of system or service objectives.
Reasonable Assurance	Most controls are in place and are operating as expected to manage key risks to the achievement of system or service objectives.
Partial Assurance	There are weaknesses in the system of control and/or the level of non-compliance is such as to put the achievement of the system or service objectives at risk.
Minimal Assurance	Controls are generally weak or non-existent, leaving the system open to the risk of significant error or fraud. There is a high risk to the ability of the system/service to meet its objectives.

Summary of Freedom of Information requests

The Freedom of Information Act is part of a group of policies aimed to modernise government and ensure decision-making is more open and accountable.

We keep a record of freedom of information requests and responses in the Surrey County Councils **disclosure log online**.

The table below summarises Freedom of Information requests received during the period of 2023/24.

Period – Month received	No of requests received
April 2023	2
May 2023	2
June 2023	0
July 2023	2
August 2023	2
September 2023	1
October 2023	1
November 2023	4
December 2023	1
January 2024	1
February 2024	1
March 2024	2
Total	**19**

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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 Pension 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.

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.

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

Safekeeping 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.

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.

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.

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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.

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.

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.

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.

Unit Trust

A pooled fund in which investors can buy and sell units on an ongoing basis.

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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 percentage.

Annexe : Employer list and contributions received

Employing Organisation	Type	Employer % Contribution Rate	Employees Contributions £000	Employer Contributions £000
Ability Housing Association	Admitted Bodies	39.0%	6	36
ABM Catering - (Northmead Junior School)	Admitted Bodies	22.4%	0	1
ABM Catering (Unity Schools Trust)	Admitted Bodies	28.8%	4	18
Achieve Lifestyle	Admitted Bodies	38.9%	10	49
ACM (Academy of Contemporary Music)	Academy	15.4%	1	4
Activate learning Guildford College	Scheduled Bodies	23.9%	358	1413
Albury Parish Council	Designated Bodies	17.7%	3	1
Alliance in Partnership	Admitted Bodies	25.1%	4	19
Aramark (Frimley & Tomlinscote School)	Admitted Bodies	28.5%	4	17
Ash Grange School	Academy	23.0%	32	126
Ash Parish Council	Designated Bodies	17.7%	12	36
Ashcombe School	Academy	20.2%	28	93
Ashley CofE Primary School	Academy	19.7%	36	130
Aspens (Learning Partners Academy Trust)	Admitted Bodies	19.6%	0	1
Aspens (St Martins CofE)	Admitted Bodies	27.5%	1	4
Aspens Ltd (Wishmore Cross Academy)	Admitted Bodies	27.1%	3	15
Auriol Junior School	Academy	18.9%	22	73

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Employing Organisation	Type	Employer % Contribution Rate	Employees Contributions £000	Employer Contributions £000
Banstead Infant School	Academy	18.1%	12	38
Barnardos (Tandridge)	Admitted Bodies	27.4%	0	1
Barnardos (Waverley)	Admitted Bodies	28.5%	8	40
Barnsbury Primary School	Academy	19.0%	33	113
Beaufort Primary School	Academy	19.0%	42	144
Bishop David Brown School	Academy	21.8%	27	97
Bisley Parish Council	Designated Bodies	17.7%	3	8
Blenheim High School	Academy	18.7%	70	213
Bletchingley Village Primary School	Academy	18.2%	22	70
Bourne Education Trust	Academy	18.9%	0	0
Boxgrove Primary Academy	Academy	18.6%	13	44
Bramley CofE Aided Infant School	Academy	19.7%	7	24
Bramley Oak School	Academy	17.5%	37	108
Bramley Parish Council	Designated Bodies	17.7%	2	6
Bright Futures Learning Trust	Academy	18.6%	70	226
Broadmere Primary School	Academy	18.9%	23	73
Broadwater School	Academy	18.0%	56	163

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Employing Organisation	Type	Employer % Contribution Rate	Employees Contributions £000	Employer Contributions £000
Brooklands College	Scheduled Bodies	31.6%	144	746
Brookwood Park Ltd	Admitted Bodies	24.0%	5	14
Brookwood Primary School	Academy	18.9%	15	51
Burstow Parish Council	Designated Bodies	17.7%	3	9
Busbridge Infant School	Academy	17.7%	10	30
Byfleet Primary School	Academy	17.9%	11	35
Cardinal Newman Catholic Prim	Academy	19.6%	6	23
Carrington School	Academy	20.2%	17	60
Carwarden House Community School	Academy	18.0%	29	88
Catalyst (Southern Addictions Advisory Service (SADAS))	Admitted Bodies	40.7%	13	51
Caterlink (Good Shepherd Trust)*	Admitted Bodies	-	-	-
Caterlink (Therfield School)	Admitted Bodies	28.3%	2	12
Caterlink (Weyfield School)	Admitted Bodies	24.2%	0	2
CH & Co (Pirbright School)	Admitted Bodies	30.1%	0	1
Chartwells (GLF Schools)	Admitted Bodies	20.0%	1	2
Chertsey High School	Academy	18.9%	38	119
Chiddingfold Parish Council	Designated Bodies	17.7%	0	0

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Employing Organisation	Type	Employer % Contribution Rate	Employees Contributions £000	Employer Contributions £000
Christs College	Academy	19.7%	35	118
Churt Parish Council	Designated Bodies	17.7%	1	5
Clarion Housing Group	Admitted Bodies	38.5%	4	22
Cleantec (The Abbey School)*	Admitted Bodies	-	-	-
Cleves School	Academy	19.0%	45	146
Cobham Free School	Academy	18.3%	53	167
Collingwood College	Academy	17.7%	70	203
Compass (Chartwell Services - Salesians)	Admitted Bodies	20.4%	2	8
Compass (EEEA)	Admitted Bodies	21.4%	0	2
Connaught Junior School	Academy	19.3%	4	14
Cordwalles Junior School	Academy	18.1%	11	35
Cranleigh Parish Council	Designated Bodies	17.7%	10	26
Cranmere Primary School	Academy	23.0%	5	19
Crawley Ridge Infant School	Academy	19.3%	2	8
Crawley Ridge Junior School	Academy	19.3%	3	9
Cross Farm Infant School	Academy	20.5%	9	32
Crowhurst Parish Council	Designated Bodies	17.7%	0	1

Employing Organisation	Type	Employer % Contribution Rate	Employees Contributions £000	Employer Contributions £000
Cucina (Jubilee High)	Admitted Bodies	25.9%	2	10
Cucina (Matthew Arnold School)	Admitted Bodies	25.6%	2	7
Cucina (St Michaels Primary)*	Admitted Bodies	-	-	-
Cuddington Community Primary	Academy	19.4%	16	56
Cuddington Croft School	Academy	18.1%	23	73
Danetree Primary School	Academy	18.1%	42	136
Darley Dene Primary School	Academy	18.1%	17	53
De Stafford School	Academy	18.1%	28	89
Dormansland Parish Council	Designated Bodies	17.7%	1	3
Dovers Green School	Academy	18.0%	34	110
Dunsfold Parish Council	Designated Bodies	17.7%	1	2
East Horsley Parish Council	Designated Bodies	17.7%	3	8
East Surrey College	Scheduled Bodies	19.1%	248	763
East Surrey Rural Transport	Admitted Bodies	39.7%	5	23
Eastwick Schools	Academy	19.4%	45	158
Echelford Primary School	Academy	18.1%	23	75
Edwards & Ward (Chennestone)*	Admitted Bodies	-	-	-

Employing Organisation	Type	Employer % Contribution Rate	Employees Contributions £000	Employer Contributions £000
Edwards & Ward (St Joseph's Catholic School)	Admitted Bodies	26.9%	1	3
Effingham Parish Council	Designated Bodies	17.7%	2	6
Elmbridge Building Control Services	Admitted Bodies	12.7%	11	16
Elmbridge Council	Scheduled Bodies	17.1%	903	2175
ElmWey Learning Trust	Academy	20.0%	9	24
Elstead Parish Council	Designated Bodies	17.7%	2	5
Engage, Enrich, Excel Academies	Academy	17.9%	7	15
Enlighten Learning Trust	Academy	21.8%	16	46
Epsom & Ewell Council	Scheduled Bodies	17.4%	600	1550
Epsom and Ewell High School	Academy	18.9%	112	299
Epsom Primary School	Academy	18.9%	50	163
Esher Church School	Academy	20.9%	5	18
Esher CofE High School	Academy	21.8%	53	188
Esher Sixth Form College	Academy	17.5%	56	155
Everychild Partnership Trust	Academy	19.3%	7	20
Farnham Heath End School	Academy	19.3%	39	124
Farnham Town Council	Designated Bodies	16.9%	29	73

Employing Organisation	Type	Employer % Contribution Rate	Employees Contributions £000	Employer Contributions £000
Folly Hill Infant School	Academy	20.5%	6	24
Fordway Centre	Academy	16.8%	2	7
Fox Grove School	Academy	19.4%	48	162
Freedom Leisure - Guildford (Wealden Leisure)	Admitted Bodies	16.4%	24	62
Freedom Leisure - Woking (Wealden Leisure)	Admitted Bodies	16.2%	12	32
Frensham Parish Council	Designated Bodies	17.7%	2	5
Frimley Junior School	Academy	19.9%	24	85
Fullbrook School	Academy	18.6%	19	58
Fusion Lifestyle	Admitted Bodies	16.0%	1	2
Galliford Try (Surrey Police)	Admitted Bodies	25.0%	1	6
George Abbot School	Academy	18.6%	22	69
Glencross St Peters Catholic School	Admitted Bodies	15.3%	2	4
GLF Central	Academy	18.1%	174	445
GLL (Mole Valley Leisure)*	Admitted Bodies	-	-	-
Glyn School	Academy	18.1%	45	138
Godalming College	Academy	17.4%	71	198
Godalming Town Council	Designated Bodies	17.7%	31	82

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Employing Organisation	Type	Employer % Contribution Rate	Employees Contributions £000	Employer Contributions £000
Goldsworth Primary School	Academy	18.6%	30	96
Gordons School Academy Trust	Academy	18.8%	52	157
Great Bookham School	Academy	17.7%	11	35
Greensand Multi Academy Trust	Academy	18.0%	24	57
Guildford Borough Council	Scheduled Bodies	17.2%	1432	3733
Guildford County School	Academy	18.6%	18	55
Guildford Grove Primary School	Academy	18.6%	12	38
Hale Primary School	Academy	20.5%	24	88
Hammond School	Academy	18.1%	11	35
Hamsey Green Primary School	Academy	18.2%	20	63
Hanover Housing Association	Admitted Bodies	39.6%	7	36
Haslemere Town Council	Designated Bodies	17.7%	9	23
Hatchlands Primary School	Academy	18.1%	12	37
Hawkedale School	Academy	23.0%	15	61
Heathside School	Academy	20.0%	55	184
Heathside Walton	Academy	20.0%	8	28
Hendeca Group	Admitted Bodies	30.1%	2	3

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Employing Organisation	Type	Employer % Contribution Rate	Employees Contributions £000	Employer Contributions £000
Highfield South Farnham Primary	Academy	17.7%	18	65
Hillcroft Primary School	Academy	18.1%	24	77
Hinchley Wood Primary School	Academy	17.6%	39	121
Hinchley Wood Secondary School	Academy	18.9%	108	338
Hoe Valley School	Academy	17.5%	60	171
Holland Junior School	Academy	22.7%	10	41
Holly Lodge Primary School	Academy	20.5%	18	67
Holmesdale Infant School	Academy	18.0%	23	74
Holy Family Catholic Primary	Academy	19.6%	7	24
Holy Trinity CofE Primary School	Academy	19.3%	4	15
Horley Town Council	Designated Bodies	17.7%	13	32
Howard of Effingham School	Academy	19.4%	64	210
Hurst Park Primary School	Academy	20.1%	15	53
IESE ltd	Admitted Bodies	37.0%	41	172
Impact Food (Carrington School)*	Admitted Bodies	-	-	-
IMS (St Ignatius School)*	Admitted Bodies	-	-	-
Inclusive Education Trust	Academy	16.8%	2	6

Employing Organisation	Type	Employer % Contribution Rate	Employees Contributions £000	Employer Contributions £000
Independent Catering (The Priory School)	Admitted Bodies	35.1%	1	10
Innovate Services Ltd (Ash Manor)	Admitted Bodies	22.4%	2	9
Innovate Services Ltd (Farnham Heath)	Admitted Bodies	26.7%	1	6
ISS (The Howard Partnership Trust)	Admitted Bodies	25.2%	2	7
Jubilee High School	Academy	18.9%	46	140
Kenyngton Manor Primary School	Academy	19.4%	35	121
KGB (Kings Interna College)	Admitted Bodies	24.2%	0	2
Kingfield Primary School	Academy	19.0%	23	78
Kings College Guildford	Academy	18.6%	11	36
Knaphill Lower School	Academy	18.6%	8	28
Knaphill School	Academy	18.6%	9	29
Lakeside Primary School	Academy	20.5%	21	78
Leaps Nursey	Academy	18.1%	5	17
Learning Partners Academy Trust	Academy	18.6%	9	35
Leatherhead Trinity School and Children's Centre	Academy	18.6%	19	56
Lightwater Village School	Academy	18.1%	10	32
Lime Tree Primary School Academy	Academy	18.1%	20	65

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Employing Organisation	Type	Employer % Contribution Rate	Employees Contributions £000	Employer Contributions £000
Linden Bridge School	Academy	19.4%	52	176
Lingfield Parish Council	Designated Bodies	17.7%	1	3
Loseley Fields Primary School	Academy	18.6%	8	25
Lumen Learning Trust	Academy	18.1%	33	98
Marden Lodge Primary School and Nursery	Academy	18.1%	13	43
Marston Holdings	Admitted Bodies	19.1%	18	58
Maybury Primary School	Academy	17.9%	13	41
Meadhurst Primary School	Academy	19.4%	44	150
Meadow Primary School	Academy	18.9%	40	133
Merstham Park School	Academy	18.1%	28	86
Merstham Primary School	Academy	18.1%	10	32
Merton & Sutton Joint Cemetary Board	Admitted Bodies	20.0%	0	1
Milestone Infrastructure Ltd	Admitted Bodies	21.8%	23	68
Mole Valley Council	Scheduled Bodies	17.1%	692	1743
Moor House School	Academy	30.7%	28	148
Mytchett Primary School	Academy	20.5%	14	51
Nescot College	Scheduled Bodies	22.5%	203	683

Employing Organisation	Type	Employer % Contribution Rate	Employees Contributions £000	Employer Contributions £000
New Haw Community Junior School	Academy	20.6%	6	21
New Monument Primary School	Academy	18.9%	13	42
Nexgen (Tandridge Learning Trust)	Admitted Bodies	26.2%	1	5
Normandy Parish Council	Designated Bodies	17.7%	3	8
Northmead Junior School	Academy	18.6%	7	25
Nviro (SCC)	Admitted Bodies	22.8%	8	34
Nviro (SCC - SFM)*	Admitted Bodies	-	-	-
Olive Dining (Bell Farm Primary School)	Admitted Bodies	18.2%	1	4
Olive Dining (West Byfleet)*	Admitted Bodies	-	-	-
Ottershaw CofE Schools	Academy	19.7%	43	86
Our Lady Of The Rosary RC Primary School	Academy	15.9%	12	40
Oxted School	Academy	19.4%	84	282
Pabulum (Burpham Primary School)	Admitted Bodies	33.8%	0	2
Peaslake Free School	Academy	19.7%	4	13
Pine Ridge and Lorraine Schools Federation	Academy	18.1%	16	52
Pirbright Village School	Academy	18.6%	6	21
Pond Meadow School	Academy	17.1%	56	167

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Employing Organisation	Type	Employer % Contribution Rate	Employees Contributions £000	Employer Contributions £000
Potters Gate CofE Primary School	Academy	19.7%	35	122
PS Catering (Bourne Education Trust)*	Admitted Bodies	-	-	-
Pyrcroft Grange Primary	Academy	18.9%	32	105
Pyrford Church of England Aided Primary School	Academy	20.7%	31	110
Queen Eleanors CofE Junior	Academy	19.7%	21	73
Rapid Clean (St Augustines School)	Admitted Bodies	24.5%	0	2
Ravenscote Community Junior School	Academy	17.9%	19	61
Reigate & Banstead Council	Scheduled Bodies	15.0%	1202	2628
Reigate Grammar School	Academy	38.8%	105	529
Reigate Learning Alliance	Academy	18.0%	32	97
Reigate School	Academy	18.0%	76	231
Reigate Valley College	Academy	16.8%	17	45
Ringway Infrastructure Services	Admitted Bodies	31.5%	3	14
Riverbridge Primary School	Academy	18.1%	32	102
Rodborough School	Academy	19.3%	37	117
Rosebery School	Academy	18.1%	33	99
Runnymede Council	Scheduled Bodies	17.6%	1042	2681

Employing Organisation	Type	Employer % Contribution Rate	Employees Contributions £000	Employer Contributions £000
Russell Education Trust	Academy	14.5%	43	80
Salesian School	Academy	19.6%	61	192
Salfords Primary School	Academy	18.1%	19	59
Sandcross Primary School	Academy	18.1%	26	83
Sandfield Primary School	Academy	18.6%	4	13
Sandringham School	Academy	20.5%	13	49
Saxon Primary School	Academy	18.1%	19	60
Sayes Court Primary School	Academy	18.9%	17	55
Scott Broadwood CofE Infant School	Academy	19.7%	5	19
Send Parish Council	Designated Bodies	17.7%	1	2
Serco	Admitted Bodies	15.9%	17	42
Shalford Infant School	Academy	18.6%	2	7
Shalford Parish Council	Designated Bodies	17.7%	2	5
Shawley Community Primary School	Academy	20.1%	26	50
Sight For Surrey	Admitted Bodies	25.0%	4	18
Sir William Perkins School	Academy	37.7%	1	5
South Camberley Primary and Nursery School	Academy	17.9%	23	72

Employing Organisation	Type	Employer % Contribution Rate	Employees Contributions £000	Employer Contributions £000
South Farnham Education Trust	Academy	17.7%	44	137
Spelthorne Borough Council	Scheduled Bodies	17.3%	991	2562
Springfield Primary School	Academy	18.1%	15	47
Spurgeons (Family Centres)	Admitted Bodies	26.6%	13	52
St Albans Catholic Primary School	Academy	19.6%	14	52
St Andrews CofE Infant School	Academy	19.7%	4	13
St Andrew's CofE Primary School	Academy	21.8%	6	21
St Annes Catholic Primary School	Academy	19.6%	15	55
St Augustines Catholic Primary	Academy	19.6%	16	55
St Charles Borromeo Primary	Academy	19.6%	11	40
St Cuthbert Mayne	Academy	19.6%	6	22
St Edmunds Primary	Academy	19.6%	7	27
St Hugh of Lincoln Primary School	Academy	19.6%	6	22
St Ignatius RC Primary School	Academy	15.9%	16	55
St John the Baptist	Academy	19.6%	23	77
St John's Church of England Primary School	Academy	19.7%	25	89
St Johns Primary School	Academy	18.0%	18	57

10

Employing Organisation	Type	Employer % Contribution Rate	Employees Contributions £000	Employer Contributions £000
St John's Primary School (Knaphill)	Academy	18.6%	10	33
St Lawrence Primary School	Academy	19.4%	11	42
St Mark & All Saints CofE Primary School	Academy	19.7%	17	59
St Martins CofE School	Academy	21.8%	22	84
St Marys CofE Primary (Godalming)	Academy	19.7%	16	55
St Marys CofE Primary (Oxted)	Academy	17.8%	39	120
St Matthews CofE Primary School	Academy	17.8%	25	76
St Michael Catholic Primary School	Academy	15.9%	18	61
St Pauls Catholic College	Academy	15.9%	68	175
St Pauls CofE Primary School	Academy	19.7%	27	91
St Peters Catholic School	Academy	19.6%	44	145
St Polycarps Catholic Primary	Academy	19.6%	14	52
St Stephens CofE Primary School	Academy	17.8%	24	76
St Thomas Primary School	Academy	19.6%	17	61
Stanwell Fields CofE Primary School	Academy	17.1%	18	53
Stoughton Infant School	Academy	18.6%	8	25
Sunbury Manor School	Academy	19.1%	53	185

Employing Organisation	Type	Employer % Contribution Rate	Employees Contributions £000	Employer Contributions £000
Surrey Choices	Admitted Bodies	19.8%	33	99
Surrey County Council	Scheduled Bodies	14.8%	2902	6354
Surrey Heath Borough Council	Scheduled Bodies	17.2%	745	1841
Surrey Hills All Saints CofE Primary School	Academy	19.7%	9	31
Surrey Police	Scheduled Bodies	16.5%	1693	4231
Surrey Schools	Academy	23.0%	957	3834
Surrey Sports Park	Scheduled Bodies	30.6%	6	19
Sythwood Primary School	Academy	18.9%	64	209
Tandridge District Council	Scheduled Bodies	17.1%	594	1448
Tatsfield Parish Council	Designated Bodies	17.7%	1	3
Tatsfield Primary School	Academy	18.2%	8	26
Thames Ditton Junior School	Academy	17.6%	24	93
Thamesmead School	Academy	17.9%	72	209
The Abbey School	Academy	19.3%	27	93
The Alliance Multi Academy Trust (TAMAT)	Academy	19.3%	54	180
The Beacon School	Academy	18.1%	46	140
The Bishop Wand CofE School	Academy	19.1%	38	121

Employing Organisation	Type	Employer % Contribution Rate	Employees Contributions £000	Employer Contributions £000
The Good Shepherd Trust	Academy	19.7%	54	124
The Grove Primary School	Academy	20.5%	28	105
The Hermitage School	Academy	19.0%	24	83
The Horsell Village School	Academy	19.0%	15	51
The Howard Partnership Trust	Academy	19.4%	225	647
The Kite Academy Trust	Academy	20.5%	49	149
The Magna Carta School	Academy	21.8%	37	136
The Marist Catholic Primary	Academy	19.6%	19	65
The Matthew Arnold School	Academy	18.9%	49	152
The Mead Infant School	Academy	18.9%	26	86
The Oaktree School	Academy	19.0%	28	97
The Park School	Academy	19.3%	25	84
The Raleigh School	Academy	17.7%	13	40
The Ridgeway School	Academy	19.3%	50	168
The Swan Trust	Academy	19.0%	15	44
The Vale Primary School	Academy	18.1%	9	29
The Weald CofE Primary School	Academy	19.7%	10	36

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Employing Organisation	Type	Employer % Contribution Rate	Employees Contributions £000	Employer Contributions £000
Therfield School	Academy	20.2%	18	61
Thomas Knyvett College	Academy	19.4%	48	158
Three Rivers Academy	Academy	19.4%	67	222
Tomlinscote School	Academy	19.9%	96	319
Town & Country Housing	Admitted Bodies	37.4%	2	14
Unified Academy	Academy	17.8%	27	78
Unity Trust	Academy	21.8%	39	116
University of Creative Arts	Scheduled Bodies	15.2%	1281	2840
University of Surrey	Scheduled Bodies	30.6%	462	2146
Valley End Primary	Academy	19.7%	10	36
Wallace Fields Infant School	Academy	17.7%	15	48
Walsh CofE Junior School	Academy	19.7%	21	94
Walsh Memorial CofE Controlled Infant School	Academy	19.7%	4	19
Walton Oak School	Academy	18.1%	23	72
Warlingham Parish Council	Designated Bodies	17.7%	1	4
Warlingham School	Academy	18.2%	66	197
Warlingham Village Primary Academy	Academy	18.1%	12	38

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Employing Organisation	Type	Employer % Contribution Rate	Employees Contributions £000	Employer Contributions £000
Warren Mead Infant School	Academy	18.1%	6	19
Warren Mead Junior School	Academy	18.1%	11	33
Waverley Abbey CofE Junior School	Academy	19.7%	25	84
Waverley Borough Council	Scheduled Bodies	17.2%	1016	2489
Waverley Hoppa Transport	Admitted Bodies	40.4%	6	41
Welcare (Surrey County Council)	Admitted Bodies	27.8%	3	13
West Ashtead Primary School	Academy	20.1%	19	77
West End Parish Council	Designated Bodies	17.7%	2	6
West Ewell Primary School	Academy	18.9%	47	156
West Hill School	Academy	19.4%	36	129
Westfield Primary School	Academy	17.9%	16	51
Wey Valley College	Academy	16.8%	9	25
Weydon School	Academy	19.3%	86	265
Weyfield Primary Academy	Academy	18.4%	14	47
Whyteleafe Primary School	Academy	18.1%	22	73
Whyteleafe Village Council	Designated Bodies	17.7%	1	3
Windlesham Parish Council	Designated Bodies	17.7%	7	20

Employing Organisation	Type	Employer % Contribution Rate	Employees Contributions £000	Employer Contributions £000
Windlesham Village Infant School	Academy	19.3%	1	4
Winston Churchill School	Academy	23.0%	90	336
Wishmore Cross Academy	Academy	17.8%	22	64
Witley Parish Council	Designated Bodies	17.7%	5	15
Woking Borough Council	Scheduled Bodies	17.0%	1022	2438
Woking College	Academy	17.9%	16	49
Woking High School	Academy	22.6%	38	141
Woodlea Primary School	Academy	18.2%	8	25
Woodmansterne School	Academy	18.9%	27	90
Woolmer Hill School	Academy	19.3%	35	117
Worplesdon Parish Council	Designated Bodies	17.7%	7	21
Wray Common Primary School	Academy	18.0%	29	92
Wyke Primary School	Academy	20.5%	11	42
Xavier Catholic Education Trust	Academy	19.6%	36	98
YMCA East Surrey	Admitted Bodies	17.8%	2	6

*TUPE Transfer in being finalised

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SURREY PENSION FUND COMMITTEE REPORT

SURREY COUNTY COUNCIL

SURREY PENSION FUND COMMITTEE

DATE: 13 SEPTEMBER 2024

LEAD OFFICER: ANNA D'ALESSANDRO, EXECUTIVE DIRECTOR, FINANCE AND CORPORATE SERVICES

SUBJECT: INVESTMENT MANAGER PERFORMANCE AND ASSET/LIABILITIES UPDATE

SUMMARY OF ISSUE:

This report is a summary of manager issues for the attention of the Pension Fund Committee, as well as an update on investment performance and the values of assets and liabilities.

RECOMMENDATIONS:

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It is recommended that the Pension Fund Committee:

1. Note the main findings of the report in relation to the Fund's valuation and funding level, performance returns and asset allocation.

REASON FOR RECOMMENDATIONS:

To assess and acknowledge performance of the Fund's investment managers against the Fund's target returns, and whether it is meeting its Strategic Investment objective.

DETAILS:

Funding Level

1. The funding level is derived as the ratio of the value of the Fund's assets to the value of its liabilities. The Fund's liabilities are the future benefit payments due to members in respect of their service accrued in the Fund. The Fund's assets are used to pay member benefits accrued to date.

2. For the purpose of providing the quarterly funding updates following the 2022 valuation, it is appropriate (and the Fund Actuary's recommendation) that the 70% level of prudence remains fixed in the determination of the discount rate. This dynamic discount rate each quarter-end would therefore reflect the change in investment return expectations since the 2022 valuation date.

3. Assessing the liabilities using the dynamic discount rate also ensures that the factors leading to a change in asset values are being reflected in

liability values. There is not a direct relationship (ie assets and liabilities do not react in the exact same way to changes in market conditions) but measuring the liabilities using the dynamic discount rate means that the assets and liabilities are being measured on a consistent market basis over time.

4. Results and assumptions when using a dynamic discount rate are in the table below.

Dynamic Discount Rate Table	**31 March 2022**	**31 March 2024**	**30 June 2024**
Assets (£bn)	5.36	5.83	5.98
Past Service Liabilities (£bn)	5.26	4.30	4.19
Surplus (£bn)	0.10	1.52	1.79
Funding Level	102%	135%	143%
Discount Rate	4.4%	6.3%	6.5%
Salary Increases	3.7%	3.4%	3.3%
Pension Increases	2.7%	2.4%	2.3%
Likelihood of success	70%	70%	70%
Required return to be 100% funded	4.3%	4.5%	4.4%

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5. The liability values in the above table as at 31 March 2024 and 30 June 2024 make allowances for both the April 2023 Pension Increase Order of 10.1% and the April 2024 Pension Increase Order of 6.7%.

6. The funding level has increased over the quarter from 31 March 2024. Investment performance has been positive (with the Fund achieving a return of 1.84% over the quarter) and liabilities have fallen due to improved assumptions: a higher expected future return (discount rate) and a lower pension increase assumption. Both the impact of higher assets and lower liabilities have improved the funding position.

7. The net position has increased from a surplus of £1.52bn at 31 March 2024 to a surplus of £1.79bn at 30 June 2024.

8. The improvement in the funding level since the 2022 valuation, whilst welcome, is primarily due to an increase in the expected rate of future investment returns, i.e. the discount rate. In the absence of these higher return expectations, it is likely that the funding level would have fallen since the 2022 valuation due to higher than expected inflation experience. To illustrate this, as noted on page 2 of the funding update report, the required return (the level of returns required to ensure the Fund remains 100% funded) is slightly higher as at 30 June 2024 (4.4%) than it was as at 31 March 2022 (4.3%) i.e. higher asset returns are now required to maintain a funding level of 100%.

9. For comparison, the actuaries have also estimated the updated funding position of the Fund as 30 June 2024 based on the fixed discount rate of 4.4%, which was set at the 31 March 2022 valuation, results of which are shown in the table below.

Static Discount Rate Table	**30 June 2024**
Assets (£bn)	5.98
Past Service Liabilities (£bn)	5.98
Surplus (£bn)	0.0
Funding Level	100%
Discount Rate	4.4%
Salary Increases	3.3%
Pension Increases	2.3%
Likelihood of success	88%

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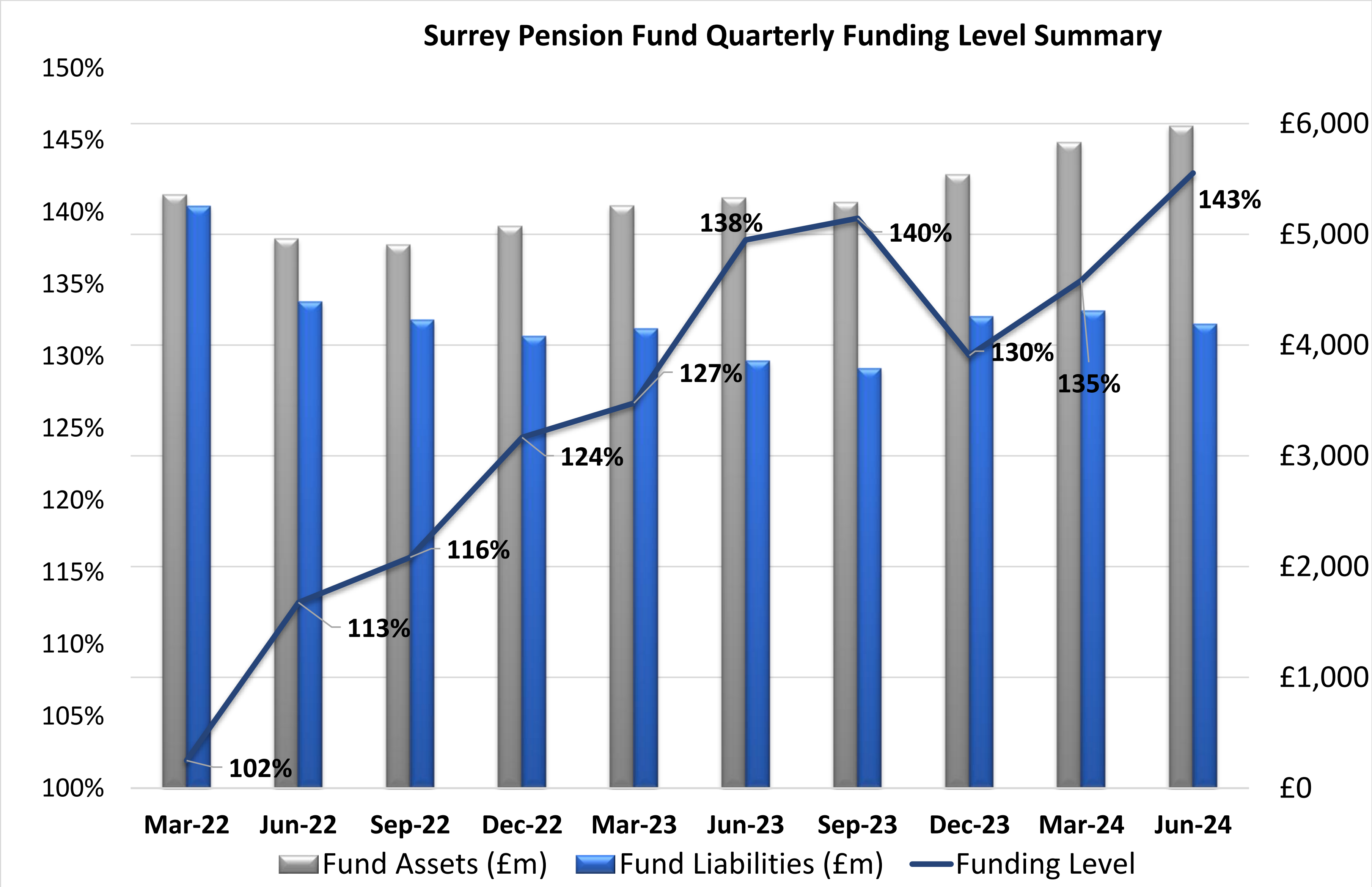
10. The graph below shows the development of the funding ratio since the last valuation.



Market Review

11. Global equity markets rose over the quarter. The key drivers were improving inflation figures, growing hopes over interest rate cuts, and positive corporate earnings momentum, driven by the technology sector. The MSCI World Index and several local indices reached new all-time highs.

12. US equities rose over the quarter and outperformed global equities, with the S&P 500 and Nasdaq trading at new highs. Chipmaker Nvidia* continued to surge, achieving a $3 trillion market cap. Year to date, Nvidia has accounted for 30% of gains recorded by the S&P 500. US inflation slowed to 3.3% in May and there was some mixed data in the labour market

13. European shares were lower over the quarter. France was notably weak in June reflecting on the EU parliamentary elections and President Macron's decision to call an election in France. The European Central Bank (ECB) went ahead with its first rate cut in June, becoming the first of the major central banks to do so.

14. UK equities rose, with the FTSE 100 hitting new all-time highs. The market was supported by inflation declining to 2% in May – the lowest figure since July 2021 – which, crucially, hit the Bank of England's (BoE's) target level. GDP expanded by 0.7% quarter-on-quarter, beating estimates and becoming the strongest figure in more than two years. 11

15. Japanese equities also rose. The yen hit another 38-year low versus the US dollar and inflation accelerated to 2.8% in May. There was increasing talk of intervention and another interest rate hike in July. Investors are becoming concerned about the fragility of the economy as monetary policy changes.

16. Government bond yields rose mildly, and so prices fell, over the quarter to end June 2024. Benchmark 10-year yields in the US, the UK, Germany and Japan all ended the quarter higher. Yields on 10-year US Treasuries rose from 4.21% to 4.37%. Expectations for the magnitude of interest rate cuts by the Federal Reserve (Fed) were reduced once more. By the end of the period, the Fed had kept rates unchanged and guided for only one rate cut this calendar year, while forecasting four interest-rate cuts in 2025.

17. Having been the first of the major central banks to cut interest rates, the ECB warned that it would not automatically cut at its next meeting, and raised inflation forecasts for 2024 and 2025. Inflation in the eurozone rose slightly, to 2.6% in May.

18. Ten-year gilt yields rose from 3.94% to 4.17%. Expectations that the BoE would soon cut rates abounded, but the move was likely delayed by the announcement of a snap UK general election in June. Economic data was mixed, with GDP expansion whilst unemployment picked up to 4.4% in April.

19. In Japan, the 10-year government bond yield rose from 0.72% to 1.03% as the Bank of Japan (BoJ) kept rates unchanged but signalled that it would soon reduce the pace of its monthly bond purchases. Investors began to speculate that the BoJ will increase rates again in July, partly to support the weak yen.

20. The quarter saw yields on global credit rise in the US, the eurozone and the UK. Bond prices consequently fell. Credit spreads widened.

21. The US dollar, euro and sterling were flat against each other over the quarter, but all rose against the Japanese yen.

Performance Review

22. Overall, the Fund returned 1.84% in Q1 2024/25 (April-June 2024), in comparison to the benchmark of 2.66%.

23. BCPP Global Equity Alpha was the single largest contributor to the overall Fund underperformance. Six of the seven underlying managers underperformed, driven by the correlated risk of being underweight the highest capitalised companies, particularly technology companies such as Nvidia and Apple. This continues a series of underperformance and, as agreed at the June 2024 Committee meeting, the Fund's concerns have been escalated to BCPP's Chief Investment Officer to explore understanding and options for change.

11

24. Newton Global Equity also underperformed the benchmark but to a much lesser extent and after solid performance over 1 and 3 years. Emerging Market equity was the best performing asset class in absolute terms over the period. BCPP Emerging Markets Alpha returned just over 4%, but underperformed the benchmark by 0.9%. This underperformance was mainly driven by one of the dedicated China managers, Fountain Cap, who were underweight the large banks and technology companies that performed strongly in a volatile market. BCPP UK Equity Alpha had a flat quarter relative to the benchmark.

25. Within the passively managed part of the portfolio, the Fund's largest mandate, LGIM Future World Global, returned 3.32% in absolute terms, outperforming the other global equity mandates.

26. A very disappointing return was reported for the LGIM Europe Ex-UK fund as it underperformed the benchmark by 2.65%. When dividends are paid by overseas companies, the local tax authorities may require the payer to make a deduction on account of tax before making the payment, known as withholding tax. Depending on tax treaties, this withholding tax may subsequently be recoverable. Where withholding tax is likely to be refunded, it is accrued into the net asset value (NAV) of the fund.

27. Within the Future World and Europe Ex-UK funds, accruals have been made for a number of years for the withholding tax from Swiss and Belgian investments. However, LGIM no longer believes that the withholding tax will be recoverable from these countries. Therefore, LGIM has taken the decision to remove the accruals relating to Swiss and Belgian holdings from the NAVs, negatively impacting value.

28. The impact on the LGIM Europe Ex-UK fund was –2.415%. The impact on the LGIM Future World Global fund was –0.014%. This equates to a loss of value for the Fund of over £1.5m, predominantly from the Europe Ex-UK fund.

29. Correspondence from LGIM can be found in Annexe 2, part 2.

30. Within the Alternatives allocation, BCPP Listed Alternatives was impacted by the snap election called in France and Private Markets continues to suffer in comparison to its global listed equity benchmark, previously discussed.

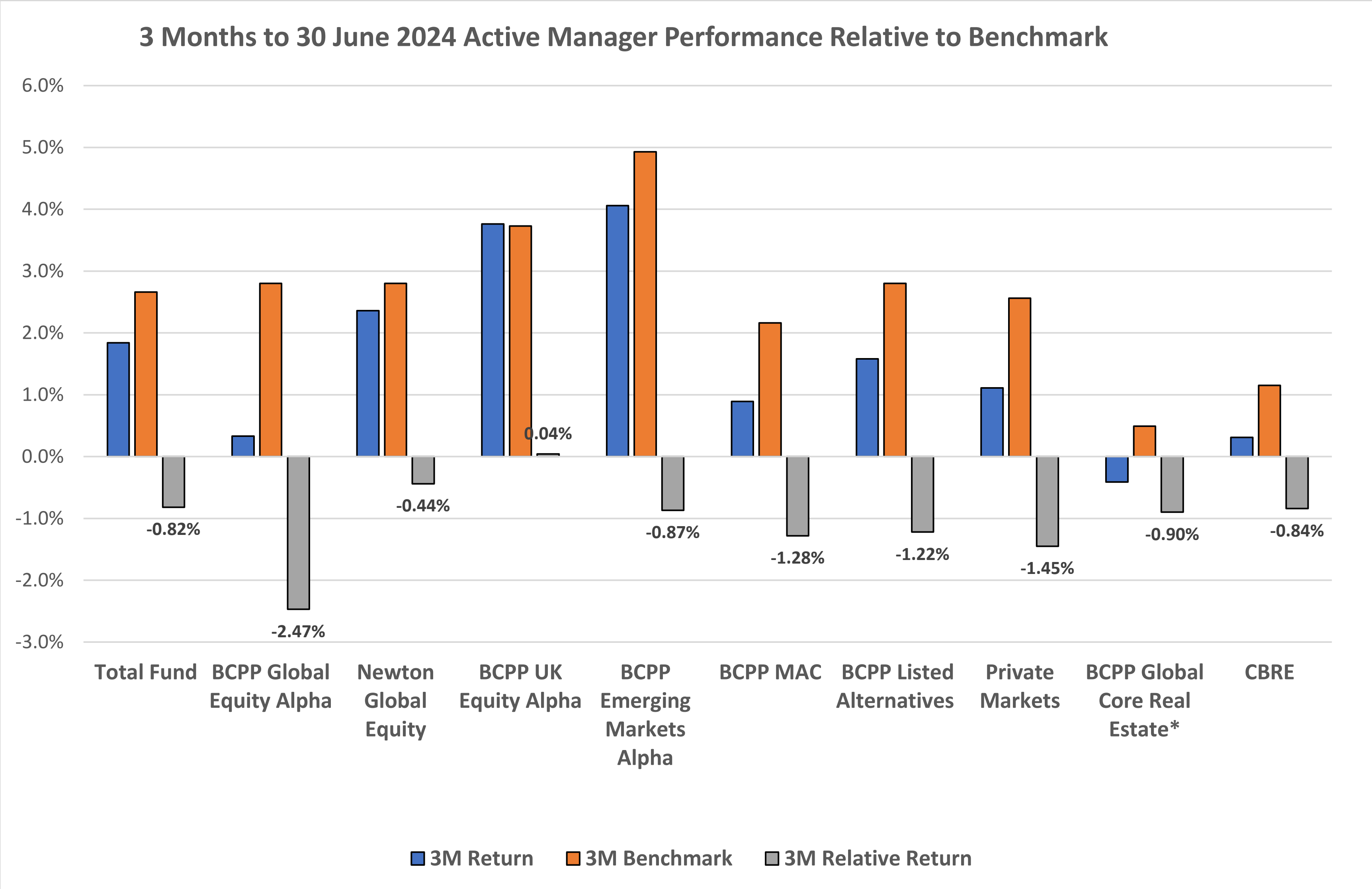
Fund Performance – Summary of Quarterly Results

31. The table below shows manager performance for Q1 2024/25 (April – June 2024), net of investment manager fees, against manager specific benchmarks using Northern Trust data.

As at 30 June 2024	£m	3M Return	3M Benchmark	3M Relative Return	1Y Return	1Y Benchmark	1Y Relative Return	3Y Return	3Y Benchmark	3Y Relative Return
Total Fund	**5,972.81**	1.84%	2.66%	-0.82%	11.61%	15.86%	-4.25%	4.23%	6.52%	-2.30%
Active Global Equity	**1,368.1**	-	-	-	-	-	-	-	-	-
BCPP Global Equity Alpha	878.3	0.33%	2.80%	-2.47%	15.91%	20.06%	-4.15%	7.36%	8.60%	-1.24%
Newton Global Equity	489.8	2.36%	2.80%	-0.44%	21.39%	20.06%	1.33%	9.88%	8.60%	1.28%
Active Regional Equity	**679.2**	-	-	-	-	-	-	-	-	-
BCPP UK Equity Alpha	382.3	3.76%	3.73%	0.04%	9.78%	12.98%	-3.21%	2.72%	7.40%	-4.69%
BCPP Emerging Markets Alpha	296.9	4.06%	4.93%	-0.87%	-	-	-	-	-	-
Passive Global Equity	**1,355.0**	-	-	-	-	-	-	-	-	-
LGIM - Future World Global	1,355.0	3.32%	3.25%	0.07%	21.03%	20.67%	0.35%	-	-	-
Passive Regional Equity	**125.3**	-	-	-	-	-	-	-	-	-
LGIM - Europe Ex-UK	59.8	-2.73%	-0.08%	-2.65%	9.61%	12.84%	-3.23%	5.30%	6.40%	-1.10%
LGIM - Japan	19.0	-4.61%	-4.63%	0.02%	13.32%	13.30%	0.03%	5.29%	5.30%	0.00%
LGIM - Asia Pacific ex-Japan	46.5	0.83%	0.94%	-0.11%	8.02%	8.14%	-0.13%	-0.42%	-0.33%	-0.09%
Fixed Income	**973.0**	-	-	-	-	-	-	-	-	-
BCPP MAC	851.9	0.89%	2.16%	-1.28%	8.86%	8.90%	-0.05%	-	-	-
LGIM - 15 Yr+ Gilts Index Fund	121.1	-2.76%	-2.77%	-0.01%	-	-	-	-	-	-
Private Markets Proxy	**53.9**	-	-	-	-	-	-	-	-	-
BCPP Listed Alternatives	53.9	1.58%	2.80%	-1.22%	12.96%	20.06%	-7.10%	-	-	-
Private Markets	**976.2**	-	-	-	-	-	-	-	-	-
Private Markets	976.2	1.11%	2.56%	-1.45%	1.88%	20.88%	-19.00%	9.21%	10.07%	-0.86%
Real Estate	**294.2**	-	-	-	-	-	-	-	-	-
BCPP Global Core Real Estate	3.0	-	-	-	-	-	-	-	-	-
CBRE	291.2	0.31%	1.15%	-0.84%	-3.15%	0.06%	-3.21%	0.37%	0.64%	-0.27%
LGIM Currency Overlay	0.1	-	-	-	-	-	-	-	-	-
LGIM Sterling Liquidity Fund	43.6	1.31%	1.32%	-0.01%	5.44%	5.39%	0.05%	-	-	-
Liquidity*	104.4	-	-	-	-	-	-	-	-	-

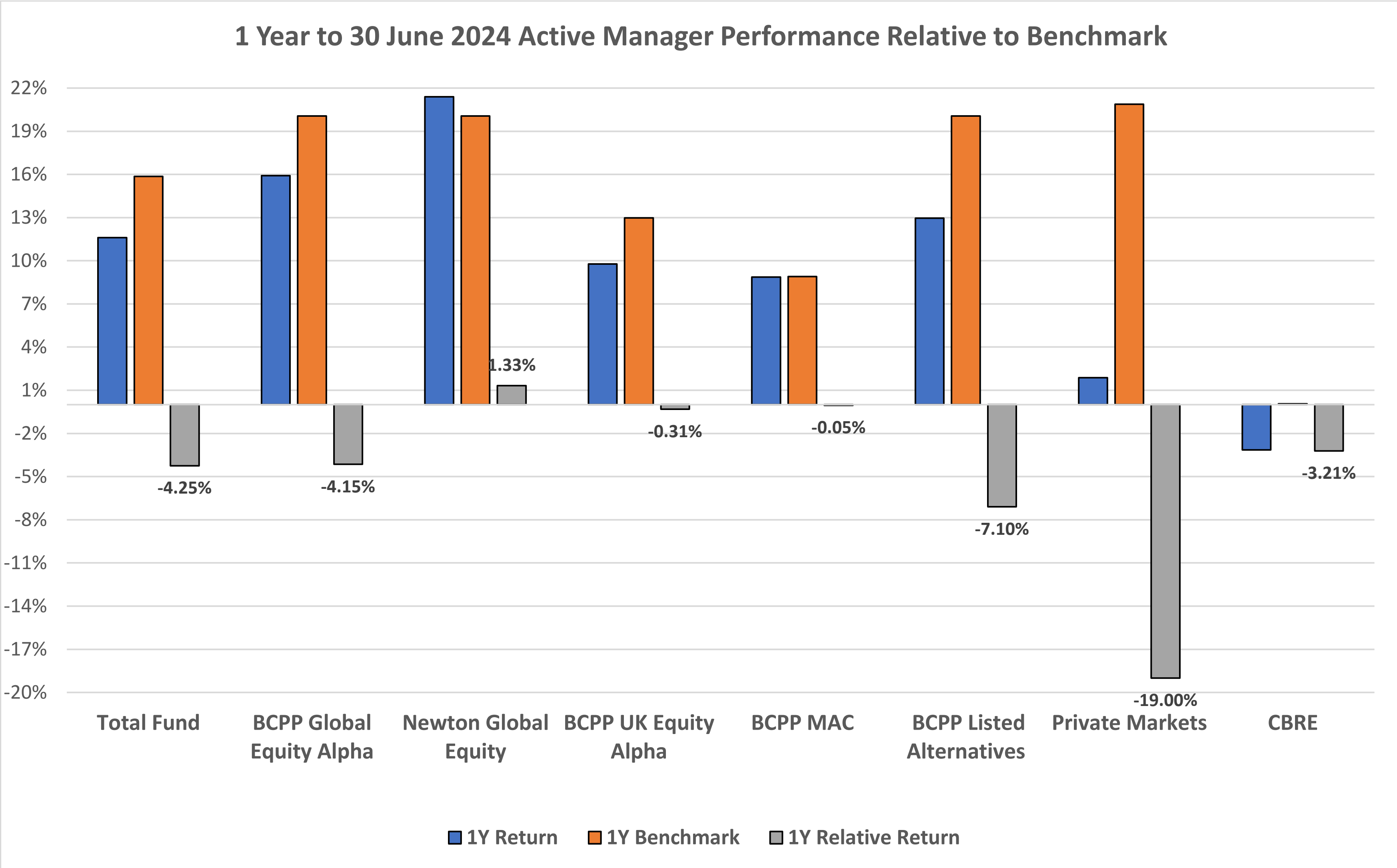
*Includes £69.8m of money market funds

32. The chart below shows the performance, for the latest 3 months to 30 June 2024 for the actively managed portfolios.

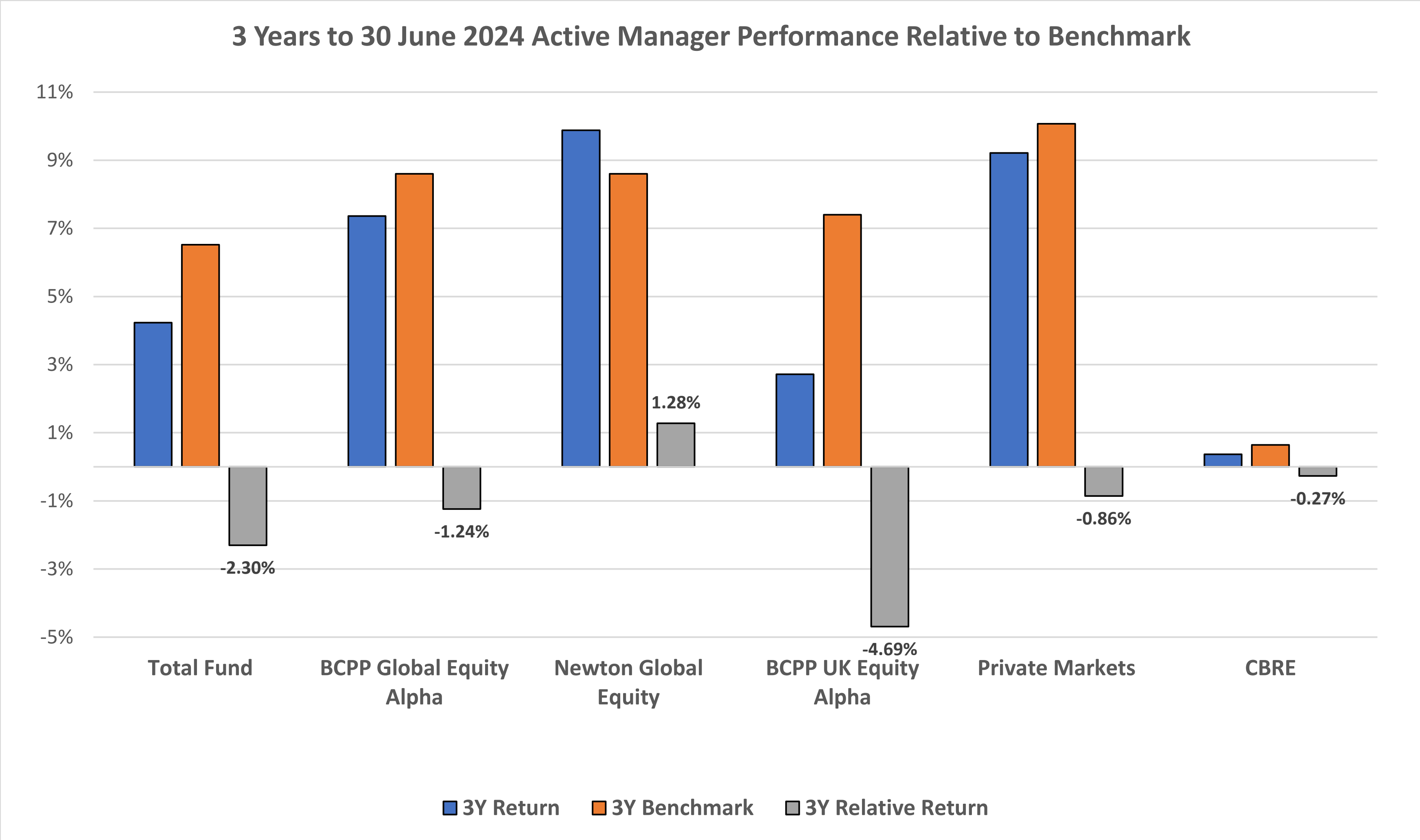


*1 month performance returns

33. The chart below shows the performance for the latest 12 months to 30 June 2024 for the actively managed portfolio



34. The chart below shows the performance for the latest 3 years to 30 June 2024 for the actively managed portfolio.



Recent Transactions

35. From the second half of 2022 the Fund has used BCPP Listed Alternatives, BCPP UK Equity Alpha and LGIM Liquidity Fund as a source of funds for private market capital calls.

36. The asset allocation agreed in the December 2022 Committee meeting resulted in a series of transactions taking place in 2023.

37. In April 2023, the Fund invested another £100m into the LGIM Future World Global Equity Index Fund, funded by the redemption of £89m from the BCPP UK Equity Alpha Fund and an £11m in specie transfer from LGIM Future World Emerging Markets Fund. Also in April 2023, £60m was switched from LGIM Bespoke to the LGIM Sterling Liquidity Fund, thus reducing fees.

38. In July 2023, the Fund invested £267m into the BCPP Emerging Markets Equity Alpha Fund, which was funded by the full redemption of the Fund's remaining holding in the LGIM Emerging Markets Fund.

39. Following the Committee's approval of the Investment Strategy
Statement in June 2023, the MAC fund exposure was increased. As at
11 30 September 2023, £60m of BCPP UK Equity Alpha had been sold
and £60m of MAC purchased. In October 2023, £60m of Newton
Global Equity was sold and £60m of MAC purchased. In November
2023, a further £60m of MAC was purchased.

40. The re-structure of the legacy LGIM Bespoke fund was approved by the Committee in September 2023. In November 2023, in line with that decision, the LGIM Bespoke Fund was liquidated, and a corresponding amount was purchased in the LGIM Over 15Y Gilt fund. The amount of the transaction was £111.4m.

41. To align the exposure to MAC to the Investment Strategy Statement (ISS), the final purchase was completed in January 2024. This amounted to a £60m purchase of MAC and takes the weighting to approximately 15%. There was a corresponding £60m sale of Newton Global Equity.

42. A sale of £20m in Listed Alternatives was completed in January 2024 to help fund ongoing private market capital commitments and drawdowns. Since December 2022, £317m has been redeemed from BCPP Listed Alternatives Fund to fund capital calls in private markets.

43. Capital calls have predominantly been funded by the BCPP Listed Alternatives Fund. Going forward, these calls may increasingly be funded by Newton Global Equity and LGIM Sterling Liquidity Fund assets.

44. The private market commitments to the BCPP programme for April 2024 are £50m to Climate Opportunities, £80 to Private Credit and £90m to UK Opportunities, as agreed at the Committee meeting in March 2024.

45. A sale of £20m in LGIM Sterling Liquidity Fund was completed in April 2024 and a redemption of £27m from Listed Alts in May 2024 to help fund ongoing private market capital commitments and drawdowns.

46. Funding of €2.3m was requested from BCPP for the first transaction in the BCPP Global Real Estate Fund.

47. Looking ahead, due to a build-up of money market funds, the Accounting & Governance team has requested that that regular transfer of income from the MAC and CBRE accounts should stop.

Stock Lending

48. In the quarter to 30 June 2024, stock lending earned a net income for the Fund of £14,663 compared with £1,494 for the quarter ended 31 March 2024.

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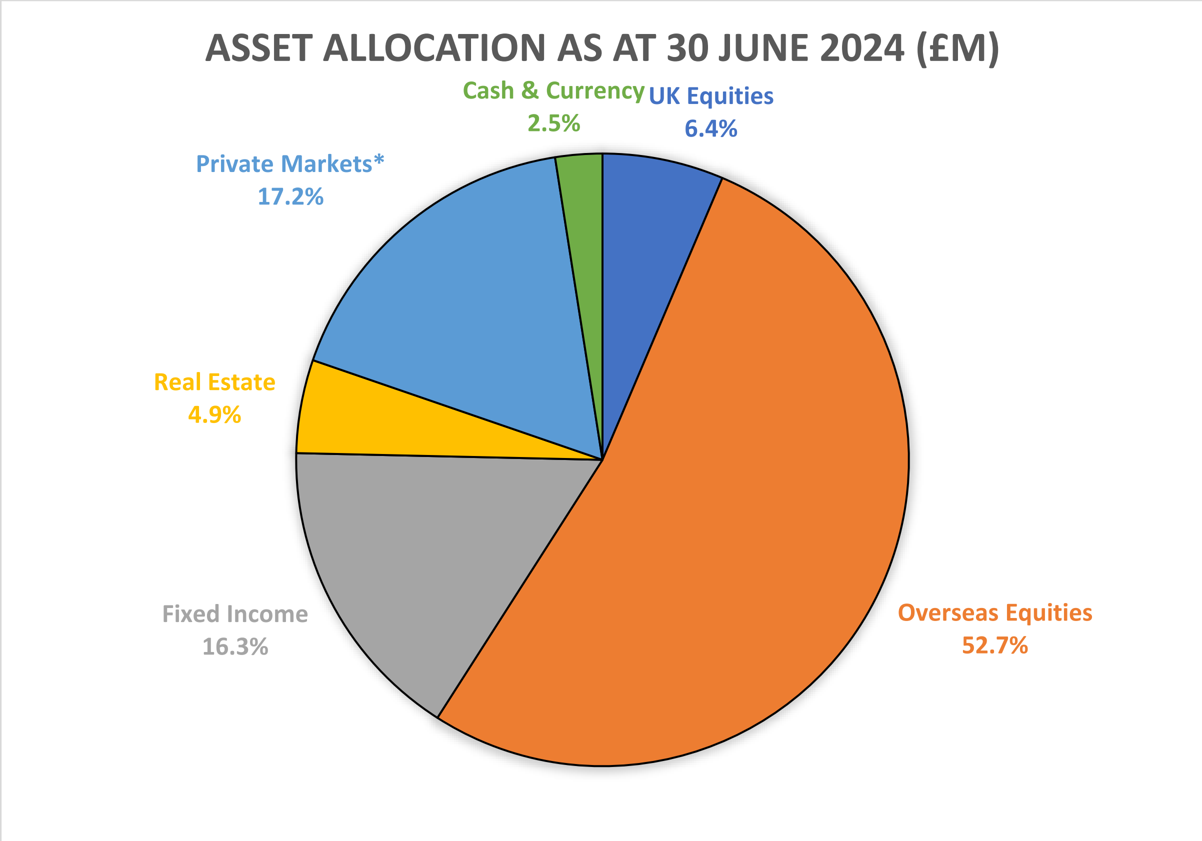
Asset Allocation

49. The table and the graph below show the target and actual asset allocations for the quarter ending 30 June 2024. These allocations were agreed by the Pension Fund Committee in the June 2023 meeting.

As at 30 June 2024	Total Fund (£M)	Actual (%)	Target (%)	Advisory ranges %	Role(s) within the strategy
Listed Equities	**-**	**59.1%**	**55.8**	**52.8 – 58.8**	Generate returns in excess of inflation, through exposure to the shares of domestic and overseas companies.
UK	382.3	6.4%	6.7	-	-
Global Market Cap	1,368.1	22.9%	21.8	-	-
Global Regional	125.3	2.1%	2.2	-	-
Emerging Markets	296.9	5.0%	5.6	-	-
Global Sustainable	1,355.0	22.7%	19.5	-	-
Alternatives	**-**	**22.2%**	**27.3**	**22.3-32.3**	Generate returns in excess of inflation, through exposure to illiquid assets that are not publicly traded, whilst providing some diversification away from listed equities and bonds.
Private Equity	331.2	5.5%	5	2.0-8.0	-
Infrastructure	381.0	6.4%	6	3.0-9.0	-
Private Debt	173.5	2.9%	6	2.0-8.0	-
Climate Opportunities	90.4	1.5%	3	0.0-6.0	-
Listed Alternatives	53.9	0.9%			-
Real Estate	294.2	4.9%	7.3	4.3–10.3	-
Credit	**-**	**16.3%**	**16.9**	**12.1-21.7**	Offer diversified exposure to global credit markets to capture both income and capital appreciation of underlying bonds.
Multi Asset Credit	851.9	14.3%	15.1	12.1-18.1	-
Fixed Interest Gilts	121.1	2.0%	1.8	0.0-3.6	-
Cash & Currency Overlay	148.0	**2.5%**	-	-	-
Total	**5,972.8**	-	**100**	-	-

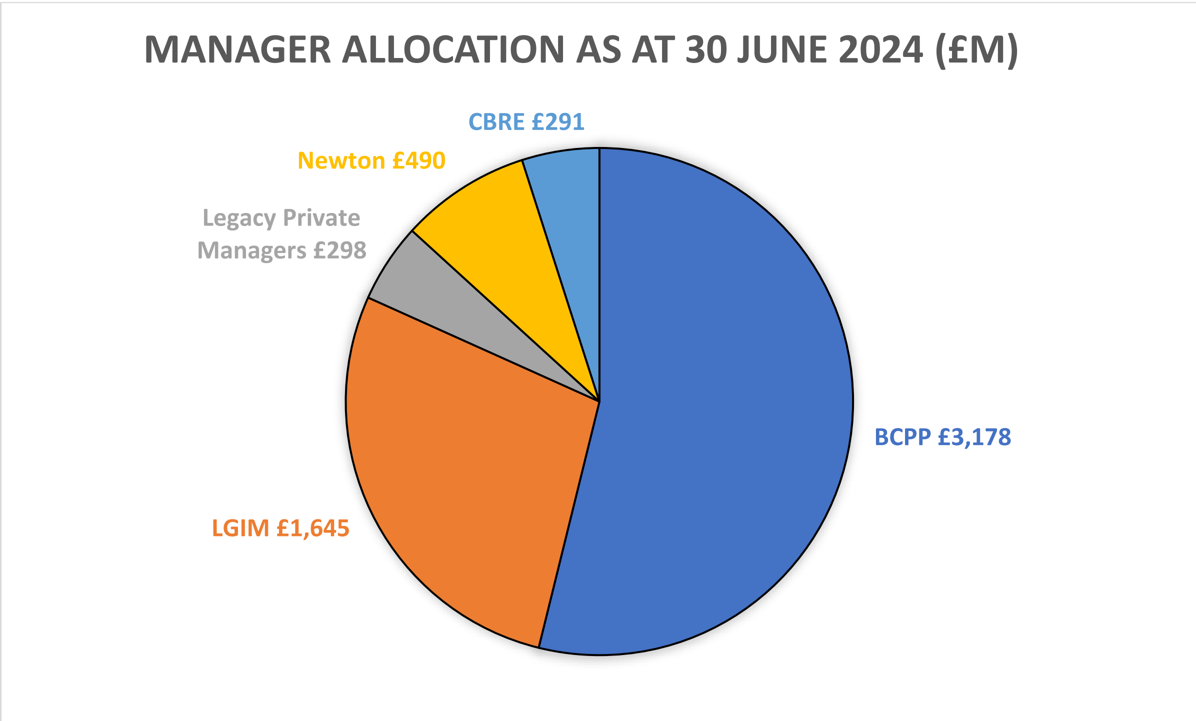
50. The graph below shows the asset allocation for the quarter ending 30 June 2024.



*Private investment in this chart includes Listed Alternatives.

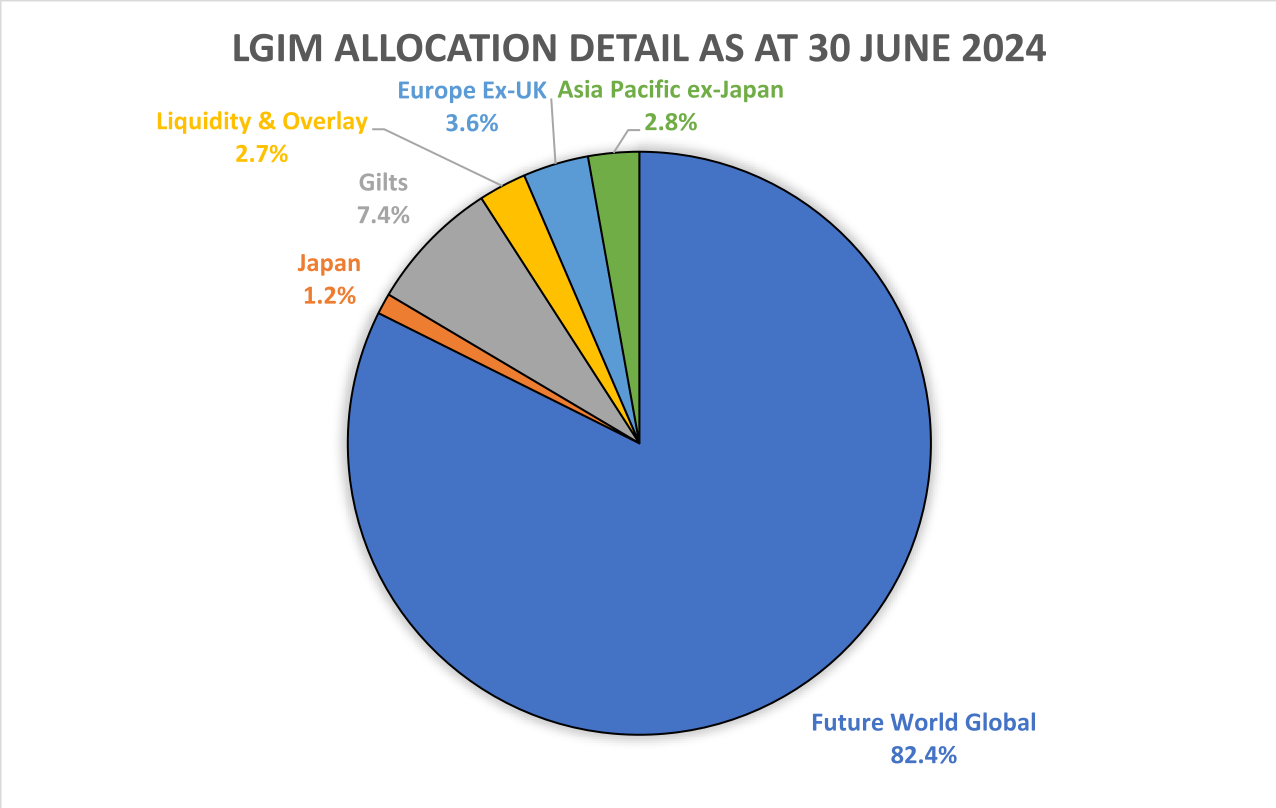
Manager Allocation

51. The graph below shows the manager allocation for the quarter ending 30 June 2024.



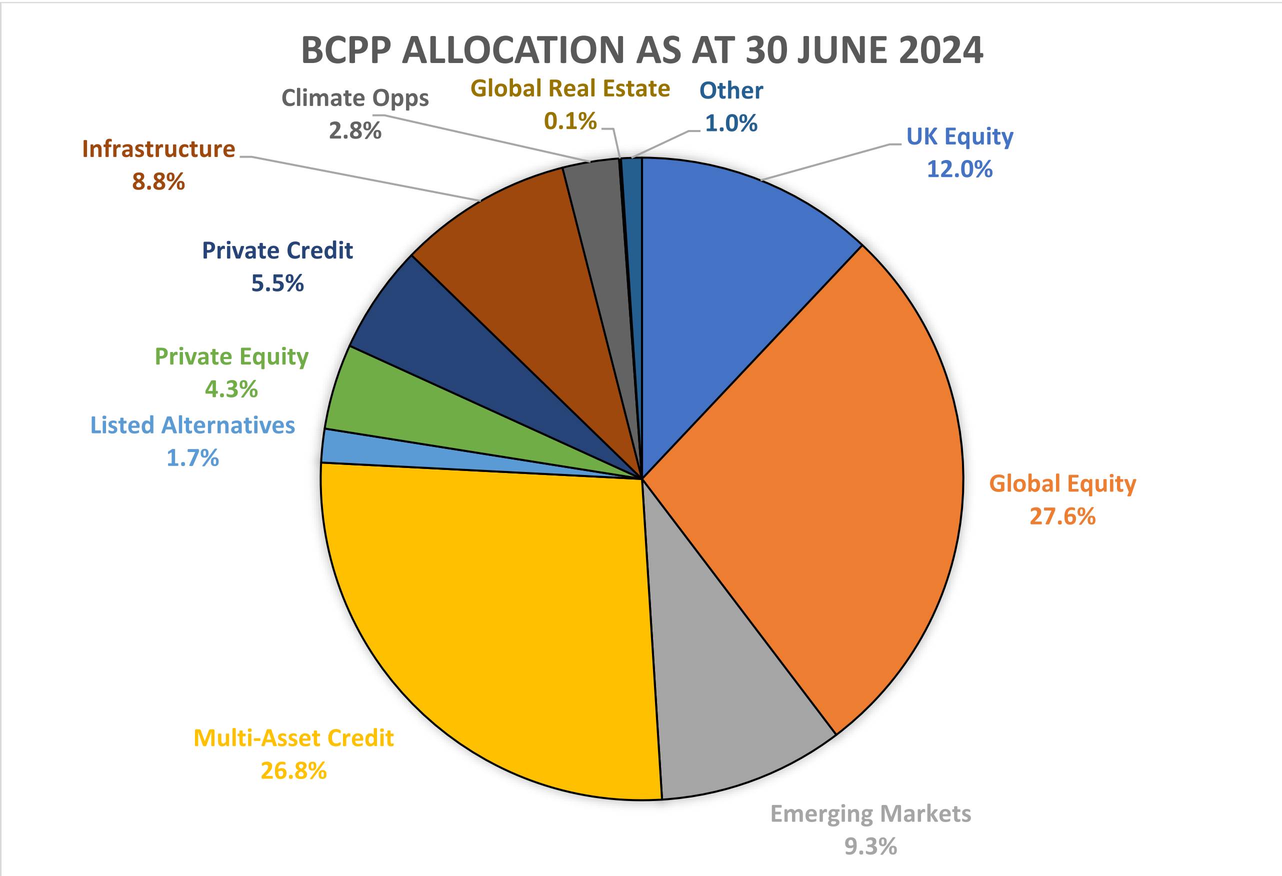
11

52. The graph below shows the asset allocation within LGIM as at 30 June 2024.



11

53. The graph below shows the asset allocation withn BCPP as at 30 June 2024.



Cashflow

54. Contributions are derived from employers and employees. Pension benefits are derived from pensions and lump sum benefits paid to retired members and benefits paid to employees on leaving the Fund. The table below shows the total contributions received, the total pension benefits paid and the net cashflow for the two most recent quarters to 30 June 2024.

Period	Total contributions received £m	Total pension benefits paid £m	Net cashflow £m
Quarter 4 2023/24 (1 Jan 2024 – 31 Mar 2024)	54.9	60.4	-5.5
Quarter 1 2024/25 (1 Apr 2024 – 30 Jun 2024)	55.4	62.9	-7.5

55. Quarterly cashflow information has been provided by the Accounting & Governance Team.

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Membership Trends

56. An indication of the current membership trends is shown by movements in membership over Q4 and Q1. Member data for the last two quarters to 30 June 2024 as provided by the Accounting & Governance Team is listed below.

Period	Active members	Deferred members	Pension members	Total members
Quarter 4 2023/24 (1 Jan 2024 – 31 Mar 2024)	34,329	46,695	31,688	112,712
Quarter 1 2024/25 (1 Apr 2024 – 30 Jun 2024)	36,770	46,404	31,993	115,167

Benchmark Table

57. The table below shows the fund managers, the mandate, the benchmark and performance target.

Manager	Mandate	Benchmark Index	Performance Target relative to Benchmark
All	Surrey Pension Fund	Weighted across Fund	+1.0
BCPP	UK Equities Alpha	FTSE All Share	+2.0%
BCPP	Global Equities Alpha	MSCI ACWI	+2.0%
BCPP	MAC	SONIA	+3.5%
BCPP	Listed Alternatives	MSCI ACWI	
BCPP	Emerging Markets Equity Alpha	MSCI EM Index	+2.0%
Newton	Global Equities	MSCI ACWI	+2.0%
Various	Private Markets	MSCI World Index	+5.0%
CBRE	Real Estate	MSCI/AREF UK QPFI All Balanced Property Fund Index (for UK Assets)	+0.5%
LGIM	Europe ex-UK Equities Index	FTSE Developed Europe ex-UK Net Tax (UKPN)	-
LGIM	Future World Global Equity Index	Solactive L&G ESG Global Markets Net	-
LGIM	Japan Equity Index	FTSE Japan NetTax (UKPN)	-
LGIM	Asia Pacific ex-Japan Development Equity Index	FTSE Developed Asia Pacific ex-Japan NetTax (UKPN)	-
LGIM	Sterling Liquidity	SONIA	-
LGIM	15 Yr+ Gilts Index	FTA Over 15 Yr Total Return	-

11

CONSULTATION:

58. The Chair of the Pension Fund Committee has been consulted on this report.

RISK MANAGEMENT AND IMPLICATIONS:

59. Any relevant risk related implications have been considered and are contained within the report.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS:

60. Any relevant financial and value for money implications have been considered and are contained within the report.

EXECUTIVE DIRECTOR OF FINANCE & CORPORATE COMMENTARY:

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

LEGAL IMPLICATIONS – MONITORING OFFICER:

62. There are no legal implications or legislative requirements.

EQUALITIES AND DIVERSITY:

63. There are no equality or diversity issues.

OTHER IMPLICATIONS:

64. There are no other implications.

NEXT STEPS:

65. The following steps are planned:
    a) Continue to implement asset allocation shifts as agreed by the Committee.
    b) Continue to monitor performance and asset allocation.

Contact Officer:

Lloyd Whitworth, Head of Investment & Stewardship

11

Annexes:

1. Annexe 1 – Manager Fee Rates (Part 2)
2. Annexe 2 – Correspondence from LGIM (Part 2)

Sources/Background papers:

None

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SURREY PENSION FUND COMMITTEE REPORT

SURREY COUNTY COUNCIL

SURREY PENSION FUND COMMITTEE

DATE: 13 SEPTEMBER 2024

LEAD OFFICER: ANNA D'ALESSANDRO, EXECUTIVE DIRECTOR, FINANCE AND CORPORATE SERVICES

SUBJECT: COMPANY ENGAGEMENT & VOTING UPDATE

SUMMARY OF ISSUE:

This report is a summary of various Environmental, Social & Governance (ESG) engagement and voting issues that the Surrey Pension Fund (the Fund), Local Authority Pension Fund Forum (LAPFF), Robeco, and Border to Coast Pensions Partnership (BCPP) have been involved in, for the attention of the Pension Fund Committee (Committee). Also included in this paper are links to the Quarterly Engagement Report from LAPFF and the Public Engagement Report for BCPP. The Fund is a member of LAPFF so enhances its own influence in company engagement by collaborating with other Pension Fund investors through the Forum. Robeco has been appointed to provide voting and engagement services to BCPP, so acts in accordance with BCPP's Responsible Investment (RI) Policy, which is reviewed every year by all 11 partner funds within the Pool.

RECOMMENDATIONS:

It is recommended that the Pension Fund Committee:

1. Reaffirms that ESG Factors are fundamental to the Fund's approach, consistent with the RI Policy through:
    a) Continuing to enhance its own RI approach and Sustainable Development Goal (SDG) alignment.

    b) Acknowledges the outcomes achieved for quarter ended 30 June 2024 by LAPFF and Robeco through their engagements.

2. Note the voting by the Fund in the quarter ended 30 June 2024.

REASON FOR RECOMMENDATIONS:

The Fund is required to fulfil its fiduciary duty to protect the value of the Fund, with a purpose to meet its pension obligations. Part of this involves consideration of its wider responsibilities in RI as well as how it exercises its influence through engaging as active shareholders.

12

DETAILS:

Background

1. The informed use of shareholder votes, whilst not a legal duty, is a responsibility of shareholders and an implicit fiduciary duty of pension fund trustees and officers to whom they may delegate this function. Such a process is strengthened by the advice of a consultant skilled in this field.

2. The Fund has commissioned Minerva Analytics (formerly Manifest) since 2013 to provide consultancy advice on share voting and the whole spectrum of company corporate governance. Minerva Analytics has assisted in ensuring the Fund's RI and voting policies reflect the most up-to-date standards and that officers learn of the latest developments and can reflect these developments in the Investment Strategy Statement (ISS). Minerva operates a customised voting policy template on behalf of the Fund and provides bespoke voting guidance in accordance with the Fund's policies.

3. LAPFF is a collaborative shareholder engagement group representing most of the Local Government Pension Scheme (LGPS) funds and UK Pension Pools, including BCPP. Its aim is to engage with companies to promote the highest standards of corporate governance and corporate responsibility amongst investee companies.

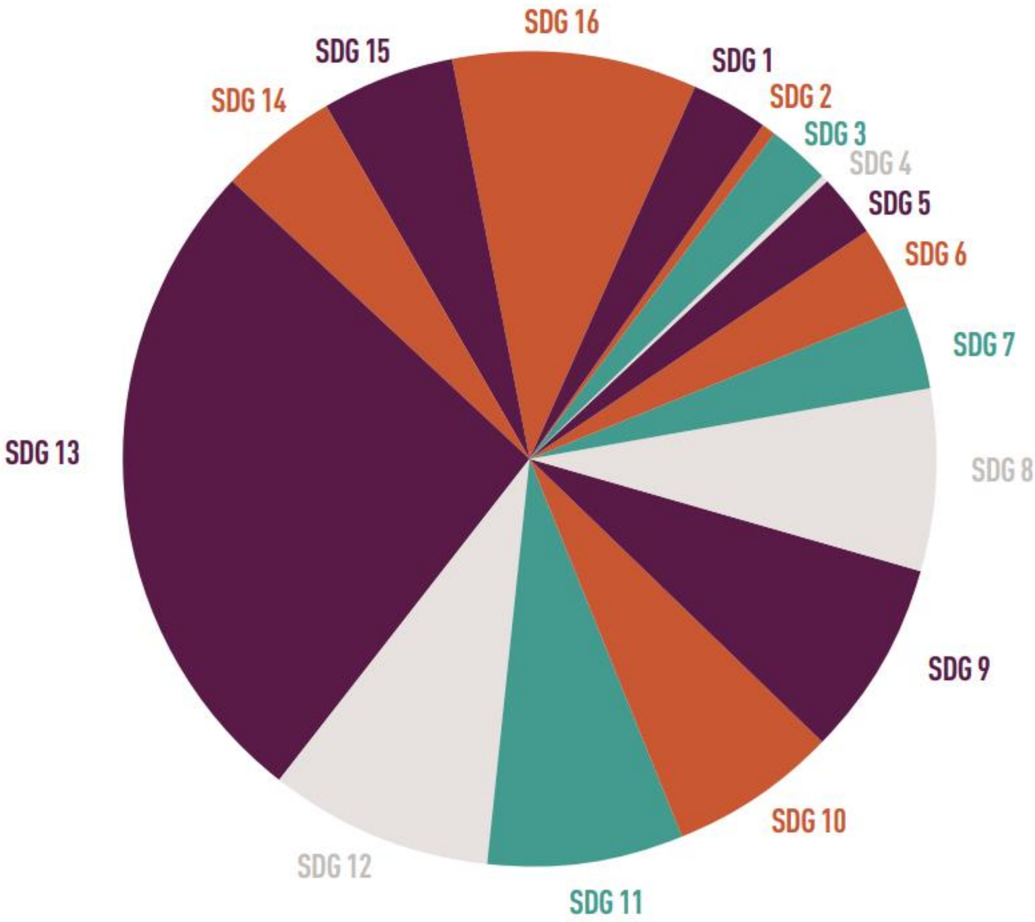
4. BCPP appointed Robeco as its voting & engagement provider to ensure votes are executed in accordance with BCPP's Corporate Governance & Voting Guidelines. A proxy voting platform is used with proxy voting recommendations produced for all meetings, managed by Robeco.

LAPFF Engagement

5. The LAPFF Quarterly Engagement Report details progress on engagements over the quarter ended 30 June 2024 and can be found at the link below. Highlights this quarter include nature stewardship, water stewardship, continued engagement with banks and energy companies and human rights.

   LAPFF_QER_Q2_2024.pdf (lapfforum.org)

6. The chart below shows how LAPFF engaged over the quarter in relation to the UN Sustainable Development Goals (SDGs). As usual, the most significant SDG was 13, Climate Action, although there was a good spread across most of the SDGs.



LAPFF SDG ENGAGEMENTS	
SDG 1: No Poverty	8
SDG 2: Zero Hunger	1
SDG 3: Good Health and Well-Being	6
SDG 4: Quality Education	1
SDG 5: Gender Equality	6
SDG 6: Clean Water and Sanitation	8
SDG 7: Affordable and Clean Energy	8
SDG 8: Decent Work and Economic Growth	17
SDG 9: Industry, Innovation, and Infrastructure	19
SDG 10: Reduced Inequalities	16
SDG 11: Sustainable Cities and Communities	19
SDG12: Responsible Production and Consumption	21
SDG 13: Climate Action	64
SDG 14: Life Below Water	11
SDG 15: Life on Land	13
SDG 16: Peace, Justice, and Strong Institutions	23
SDG 17: Strengthen the Means of Implementation and Revitalise the Global Partnership for Sustainable Development	0

7. Nature Stewardship - Natural capital encompasses ecosystems, biodiversity, and land. The degradation of these assets poses significant financial risks with more than half of the world's GDP moderately or highly dependent on nature. Biodiversity is declining faster than at any time in human history. LAPFF has joined a series of engagements this quarter through the Nature

Action 100 initiative, meeting with AbbVie, Merck & Co, Procter & Gamble, and Novo Nordisk. Subsequent to the letters sent by Nature Action 100 to all focus companies in September 2023, engagement groups and dialogues have been established. The aim is to understand if companies have mapped the extent to which nature loss could affect their business model, including both operations and supply chain activities. Outside of the initiative, LAPFF selectively engaged with Nestlé regenerative agriculture in Q1 2024. LAPFF intends to engage with large food and beverage producers on this topic, as it begins to form strategies, not just from a nature and biodiversity perspective, but as part of some climate strategies as well.

8. Water Stewardship - LAPFF has been engaging with water utilities since 2022 following concerns about the pollution of rivers and coastal areas caused by storm overflows. LAPFF wants to ensure that progress is being made to reduce the number of overflows and that the next five-year business plans will be delivered cost-efficiently. This quarter LAPFF met with United Utilities and Pennon. LAPFF will continue to engage to ensure progress is being made against overflow targets and will also follow final determinations by the regulator to ensure plans are delivered cost efficiently to benefit shareholders and wider stakeholders alike.

9. LAPFF has been engaging with Chipotle on its approach to water stewardship since 2019. The initial objective was met in 2022 by undertaking an ingredient level water risk assessment to identify water stress areas within its supply chain. Now the expectation is setting measurable and time-bound targets. Shortly after the engagement Chipotle published its sustainability report which included a goal to support water stewardship efforts in priority regions.

   Climate / Banking and Finance - LAPFF's focus on banks and climate change looks at the risk of lending to a declining sector. Engagements with HSBC saw a comprehensive energy transition plan and learning that risk is assessed at the subsidiary level, both positive outcomes.

10. Canadian banks are increasing lending to oil and gas companies. The scale of this lending and material shareholders prompted this focus. In April, LAPFF met with three of the largest Canadian banks: Bank of Nova Scotia, Royal Bank of Canada, and Toronto Dominion. This was the first engagement and the companies shared their climate reporting efforts and were receptive to providing more disclosure. LAPFF focused on the banks' approaches to client engagement in the energy sector and renewable energy finance. Scotiabank demonstrated the greatest commitment to taking climate change seriously among the three banks. Overall the objectives were met in this round of engagement with constructive dialogues providing a solid foundation for further discussions.

11. LAPFF works with the Asia Research and Engagement (ARE) platform for energy transition to engage with banks and power generation companies in

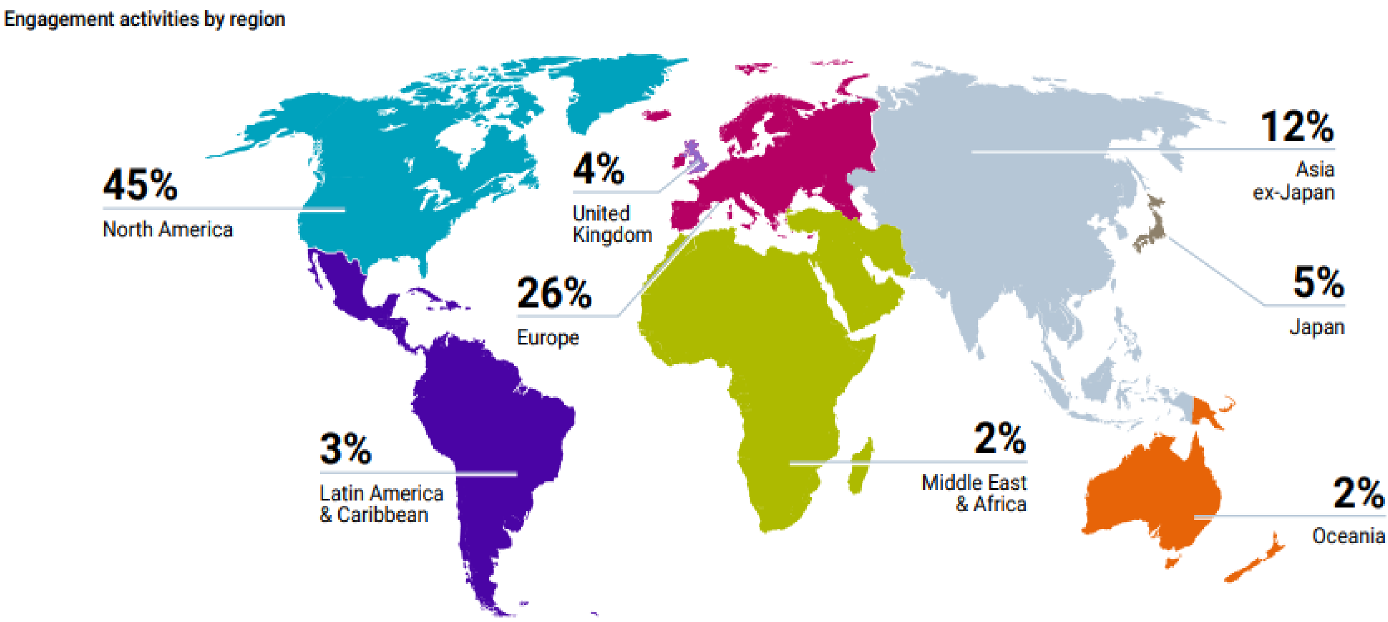
Asia. This quarter LAPFF engaged with United Overseas Bank (UOB) who showed a positive outlook on its transition pathway and the regulatory landscape in which it is operating. UOB has also set up a Sustainability Advisory Panel, comprising three independent members, which advises the Bank's Board on various sustainability issues.

Robeco Engagement

12. This quarter Robeco voted at 604 shareholder meetings, voting against at least one agenda item in 68% of cases. The Robeco report can found by following the link below.

    Border-to-Coast-Public-Engagement-Report-2024-Q2.pdf

13. The picture below shows the quarterly engagement activity by geographical region.



14. The four themes this quarter are good governance, labour practices in a post covid-19 world, climate and nature transition of financials and SDG engagement - each in different stages of the engagement cycle. There is also a section for proxy voting.

15. Good governance - The second quarter of the year is often seen as the pinnacle of corporate governance, with the most annual general meetings (AGMs) and associated engagements taking place. AGMs are crucial platforms for approving and discussing key governance mechanisms, including questions on climate change, remuneration issues, capital allocation plans, human capital management, lobbying procedures, board elections and the annual report. Robeco remain committed to active ownership.

16. Labour practices in a post covid-19 world - As the economy started to recover, and as costs of living started to rise, workers were no longer prepared to

accept jobs with low pay, bad working conditions, high health risks and limited social benefits. The engagements, initiated in 2021 and now concluded, focused on food retail, online food delivery and hotel sectors. For human capital to be seen as an investment rather than a minimizable cost, a strategic discussion about competitive business models is required, broadening social benefits to include adequate sick pay, health insurance and robust pension plans. One common strategy was the strong focus on human capital development and the prospects for career growth.

17. Climate and nature transition of financial institutions – This theme was launched in 2021 with four main objectives: governance, strategy, risk management, and targets and metrics. After three years the first set were closed successfully with climate change being sufficiently addressed While almost all the EU banks have progressed well in decreasing their financed emissions, the US banks showed little positive progress, and progress was slow at the Asian banks.

18. Given the mixed engagement results and the growing importance of financed emissions, Robeco has extended and expanded engagement in this sector. The current engagement objectives are based on the TCFD guidelines and have been extended with the same guidelines of the Taskforce on Nature-related Financial Disclosures (TNFD). The same four guidelines of governance, strategy, risk management, and targets and metrics will be used and specific sub-objectives for climate and nature will be set on each one. To reflect these changes, the theme has been renamed to ‘Climate and nature transition of financial institutions’.

19. SDG Engagement – The SDG Engagement is to encourage companies to improve their impact on one or more of the 17 UN SDGs. The theme aims to address to what extent companies’ products and services can make a clear contribution to addressing sustainable development challenges, in developing new business models, expanding into otherwise underserved markets, or adjusting existing business processes to advance industry best practices.

20. Three key processes guide the theme. 1) setting milestones, company-specific, measurable objectives; 2) the engagement itself, providing in-depth insights into companies’ approaches towards sustainable development; and 3) evaluating the impact by applying an impact measurement framework. The impact framework is key and is discussed in detail in the full report.

21. The initial results have been promising. Participating companies shared that engagements have helped improve sustainability disclosures and raise internal awareness on discussed topics, which in some cases even reached the board or led to better performance indicators.

Surrey Share Voting

22. The full voting report produced by Minerva is included in Annexe 1. The table below shows the total number of resolutions which the Fund was entitled to vote, along with the number of contentious resolutions voted during the quarter as produced by Minerva.

Votes against Management by Resolution Category:

Resolution Category	Total Resolutions	Voted Against Management	% Against Management	% All Votes Against Management
Audit & Reporting	73	26	35.62%	12.75%
Board	390	71	18.21%	34.80%
Capital	90	6	6.67%	2.94%
Charitable Activity	1	0	0.00%	0.00%
Corporate Action	8	0	0.00%	0.00%
Other	3	3	100.00%	1.47%
Political Activity	9	5	55.56%	2.45%
Remuneration	94	59	62.77%	28.92%
Shareholder Rights	30	4	13.33%	1.96
Sustainability	44	30	66.18%	14.71%
Total	742	204	27.49%	100.00%

23. As seen in the table above and reflected in the engagement activity of LAPFF and Robeco, Q2 is a busy quarter for AGMs and voting. Surrey voted against management on 27.49% of the resolutions for which votes were cast during 2024 Q2. Surrey was more active than the average shareholder in expressing concerns through votes at corporate meetings. Whereas general shareholder dissent stood at 5.40%, Surrey opposed management on 27.49% of resolutions.

24. During Q2 2024, no resolutions proposed by management were defeated and two shareholder-proposed resolutions were successful. This compares to no defeated management-proposed resolutions and no successful shareholder-proposed resolutions in 2024 Q1.

25. The two successful shareholder proposals were requests filed at NVIDIA Corp and Roper Technologies Inc requesting the removal of supermajority voting provisions and adoption of the simple majority vote standard. Supermajority voting provisions make it harder for shareholders to approve a resolution and can be used as an entrenching mechanism by management. Surrey voted in favour of the proposals as the fund considers the use of a simple majority vote to be good practice and that enactment would enhance shareholder rights and governance practices

26. Annexes 2, 3, 4 & 5 provide a high-level overview of ESG performance for Global Equity Alpha, UK Equity Alpha, EM Equity Alpha and Listed Alternatives using a variety of measurements. The reports highlight specific examples which provide insight into how ESG integration works in practice.

CONSULTATION:

27. The Chair of the Pension Fund Committee has been consulted on this report.

RISK MANAGEMENT AND IMPLICATIONS:

28. Any relevant risk related implications have been considered and are contained within the report.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS:

29. Any relevant financial and value for money implications have been considered and are contained within the report.

EXECUTIVE DIRECTOR OF FINANCE & CORPORATE COMMENTARY:

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

LEGAL IMPLICATIONS – MONITORING OFFICER:

31. There are no legal implications or legislative requirements.

EQUALITIES AND DIVERSITY:

32. There are no equality or diversity issues.

OTHER IMPLICATIONS:

33. There are no other implications.

NEXT STEPS:

34. The following steps are planned:

   a) The Pension Fund will continue to monitor the progress of the voting and engagement work carried out by BCPP, LAPFF and Robeco over the medium and long term, and how this can impact investment decisions.

Contact Officer:

Lloyd Whitworth, Head of Investment & Stewardship

Annexes:

1. Annexe 1 – Surrey Voting Report (Minerva) Q2 2024
2. Annexe 2 – BCPP ESG Global Equity Alpha Q2 2024
3. Annexe 3 – BCPP ESG UK Equity Alpha Q2 2024
4. Annexe 4 – BCPP ESG Emerging Markets Equity Alpha Q2 2024
5. Annexe 5 – BCPP ESG Listed Alternatives Q2 2024

Sources/Background papers:

None

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The Surrey Pension Fund

Voting Report: Q2 2024

1. VOTING VOLUMES

This section shows the number of Meetings, Meeting Types & Resolutions voted by the Surrey pension fund.

1.1 MEETINGS

Table 1 below shows that Surrey voted at 40 AGMs during the Quarter under review.

Table 1: Meetings Voted

Region	Meeting Type							Total
	AGM	Class	Court	EGM	GM	OGM	SGM	
Asia & Oceania: Developed	2	0	0	0	0	0	0	2
Europe: Developed	8	0	0	0	0	0	0	8
Japan	1	0	0	0	0	0	0	1
North America	24	0	0	0	0	0	0	24
UK & Ireland	5	0	0	0	0	0	0	5
Total	**40**	**0**	**0**	**0**	**0**	**0**	**0**	**40**

In all tables:

AGM	The Annual General Meeting of shareholders, normally required by law.
Class	A Class Meeting is held where approval from a specific class of shareholders is required regarding a business item.
Court	A Court Meeting, where shareholders can order an annual meeting or a special meeting from a court or where a meeting is called by a Court of Law to approve a Scheme of Arrangement.
EGM	An Extraordinary General Meeting of shareholders, where a meeting is required to conduct business of an urgent or extraordinary nature. Such business may require a special quorum or approval level.
GM	A General Meeting, a term often used interchangeably with the terms EGM and OGM depending on the term used by the company in question.
OGM	An Ordinary General Meeting, a term often used interchangeably with the terms EGM, and GM depending on the term used by the company in question.
SGM	A Special General Meeting of shareholders, where a meeting is required to conduct special business. Often business which requires a special quorum or approval level.

1.2 RESOLUTIONS

Table 2 shows the total number of resolutions voted by region, broken down by meeting type.

In the Quarter under review, the fund was eligible to vote on 742 resolutions.

Table 2: Resolutions Voted

Region	Meeting Type							
	AGM	Class	Court	EGM	OGM	GM	SGM	Total
Asia & Oceania: Developed	25	0	0	0	0	0	0	25
Europe: Developed	191	0	0	0	0	0	0	191
Japan	11	0	0	0	0	0	0	11
North America	401	0	0	0	0	0	0	401
UK & Ireland	114	0	0	0	0	0	0	114
Total	**742**	**0**	**0**	**0**	**0**	**0**	**0**	**742**

1.3 MEETINGS BY MONTH

The table below shows the majority of the meetings voted at by Surrey in the Quarter were held in May reflecting the relatively condensed AGM season for companies in North America, Europe and the UK.

Table 3: Meetings Voted Per Month

Event	April	May	June	Total
AGM	9	23	8	40
Class	0	0	0	0
Court	0	0	0	0
EGM	0	0	0	0
GM	0	0	0	0
OGM	0	0	0	0
SGM	0	0	0	0
Total	**9**	**23**	**8**	**40**

2. VOTING PATTERNS

This section analyses some patterns of voting by resolution category and voting policy.

2.1 VOTES AGAINST MANAGEMENT

Table 4 shows the total number of resolutions which Surrey was entitled to vote along with the number of contentious resolutions voted during the Quarter. Surrey voted against management on 27.49% of the resolutions for which votes were cast during 2024 Q2, which is a slightly higher dissent rate than the proportion opposed in the previous quarter (2024: Q1; 26.85%, 2023: Q4: 26.98%, 2023 Q3: 18.37%, Q2: 28.98%).

Board resolutions accounted for 52.56% of all resolutions voted on during the Quarter and 18.21% of the total resolutions voted against management. The majority of Surrey's dissenting votes on board-related resolutions related to votes cast against management proposed director candidates.

62.77% of Remuneration resolutions were voted against management. Of the 59 resolutions opposed, 29 were remuneration report approvals, 12 were remuneration policy approvals, 11 concerned the total remuneration paid to an individual director during the year, three were long-term incentive plan approvals, two were non-executive remuneration items and two were shareholder proposals.

22 of Surrey's oppositional votes in the Audit & Reporting category were votes cast against the appointment of an external auditor due to concerns with audit tenure and independence. The remaining oppositional votes were votes cast against the report & accounts due to various disclosure concerns.

Surrey opposed management on six Capital-related resolutions. Of the resolutions opposed, four related to share buyback authorities and two related to share issue authorities.

Surrey voted against management on four resolutions in the Shareholder Rights category. All four resolutions were shareholder proposals seeking enhanced shareholder rights and/or governance practices, such as asking for the removal of supermajority voting provisions and the adoption of the one-share one-vote principle.

Surrey voted against management on 29 shareholder proposals in the Sustainability category and against one management-proposed resolution. The management resolution concerned a resolution to approve the sustainability report where Surrey had concerns with the level of disclosure provided. The majority of the shareholder proposals supported related to human rights & workforce issues and environmental practices (including climate change). All Political Activity-related resolutions voted against management concerned votes cast in favour of shareholder proposals seeking enhanced disclosure on political expenditure and/or lobbying.

Surrey voted in line with management on all resolutions in the Charitable Activity and Corporate Action categories and against all resolutions in the 'Other' category.

Table 4: Votes Against Management By Resolution Category

Resolution Category	Total Resolutions	Voted Against Management	% Against Management	% All Votes Against Management
Audit & Reporting	73	26	35.62%	12.75%
Board	390	71	18.21%	34.80%
Capital	90	6	6.67%	2.94%
Charitable Activity	1	0	0.00%	0.00%
Corporate Action	8	0	0.00%	0.00%
Other	3	3	100.00%	1.47%
Political Activity	9	5	55.56%	2.45%
Remuneration	94	59	62.77%	28.92%
Shareholder Rights	30	4	13.33%	1.96
Sustainability	44	30	66.18%	14.71%
Total	**742**	**204**	**27.49%**	**100.00%**

2.2 DISSENT BY RESOLUTION CATEGORY

Table 5 shows the number of resolutions voted by Surrey, broken down by resolution category, along with Surrey's level of dissent and average general shareholder dissent in each category.

Surrey was more active than the average shareholder in expressing concerns through votes at corporate meetings. Whereas general shareholder dissent stood at 5.40%, Surrey opposed management on 27.49% of resolutions.

Resolutions opposed by Surrey received average general shareholder dissent of 11.65%, a much higher level than the dissent received on resolutions that Surrey supported (3.07%). This highlights that Surrey has a robust policy which is consistent and aligned with other investors' governance concerns.

Table 5: Dissent by Resolution Category

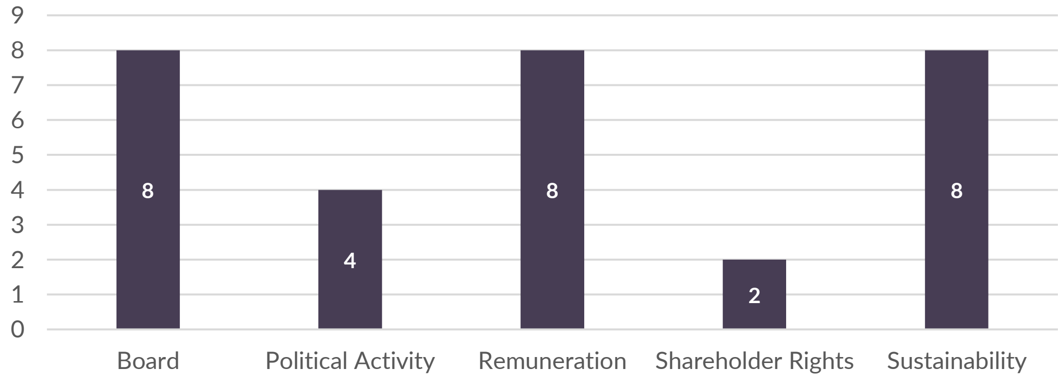
Resolution Category	Total Resolutions	% Surrey Against Management	Average Shareholder Dissent %
Audit & Reporting	73	35.62%	2.16%
Board	390	18.21%	4.19%
Capital	90	6.67%	3.38%
Charitable Activity	1	0.00%	0.43%
Corporate Action	8	0.00%	11.16%
Other	3	100.00%	-
Political Activity	9	55.56%	16.23%
Remuneration	94	62.77%	10.19%
Shareholder Rights	30	13.33%	5.40%
Sustainability	44	68.18%	12.10%
Total	**742**	**27.49%**	**5.40%**

Poll data was collected for 98.11% of resolutions voted by Surrey during the Quarter.

2.2.1 VOTE OUTCOMES

The UK Corporate Governance Code recommends boards to take action where 20% or more of votes are cast against the board recommendation on a resolution. As such, a shareholder dissent level of 20% is generally considered to be significant. During the Quarter, Surrey voted against management on 30 resolutions that received shareholder dissent of more than 20%. This compares to four resolutions opposed with high dissent in the previous quarter.

Figure 1: High Dissent Resolutions by Resolution Category



During 2024 Q2, no resolutions proposed by management were defeated and two shareholder-proposed resolutions were successful. This compares to no defeated management-proposed resolutions and no successful shareholder-proposed resolutions in 2024 Q1.

The two successful shareholder proposals were requests filed at NVIDIA Corp and Roper Technologies Inc requesting the removal of supermajority voting provisions and adoption of the simple majority vote standard.

A supermajority voting standard requires a large majority of shareholders to approve a resolution, e.g., 66% votes in favour to pass a resolution. In contrast, a simple majority voting standard requires a vote of more than 50% to approve a resolution. Because of the higher threshold requirement, supermajority voting provisions make it harder for shareholders to approve a resolution and can be used as an entrenching mechanism by management. Surrey voted in favour of the proposals as the fund considers the use of a simple majority vote to be good practice and that enactment would enhance shareholder rights and governance practices.

The board of directors of NVIDIA and Roper Technologies both stated that they were interested in understanding the viewpoints of shareholders on the matter and therefore made no recommendation to shareholders on how to vote on the proposal. In both cases the proposals were supported by a majority of shareholders, with 89.99% of votes cast in favour at NVIDA and 94.41% of votes cast in favour at Roper Technologies.

Table 6: Top Five Dissent Resolutions (excluding resolutions with no board recommendation)

Company	Resolution	Shareholder Dissent	Surrey Vote Rationale
Alcon AG	To approve the remuneration report	50.73%	Concerns were held with the structure of incentive pay as well as with the transparency and disclosure on performance targets. Additional concerns were held with a material increase in CEO long-term incentive opportunity.
JPMorgan Chase & Co	To request the Board, establish a policy of the Chairman being an independent director	43.49%	The shareholder proposal if enacted, would enhance independent oversight on the Board and governance practices.
Danaher Corp	To request the Board to lower the threshold required for shareholders to call a special shareholder meeting	43.32%	The shareholder proposal if enacted, would improve shareholder rights.
Adidas AG	To approve the remuneration report	41.08%	Concerns were held with severance provisions and the transparency and disclosure provided on the performance conditions applicable to long-term incentive awards.
JPMorgan Chase & Co	To request that the Board adopt a policy giving opportunity to vote on excessive golden parachutes	41.02%	The shareholder proposal if enacted would provide information to aid shareholder understanding of the matter.

Although the resolution to approve the remuneration report at Alcon AG received over 50% shareholder dissent, the resolution passed as the number of votes cast 'For' exceeded the votes cast 'Against', as abstentions are not counted as a vote under Switzerland Company Law. This highlights the potential pitfalls of abstaining when concerns are held.

2.3 RESOLUTION TYPES AND SUB-CATEGORIES

2.3.1 SHAREHOLDER PROPOSED RESOLUTIONS

58 resolutions voted during the period were proposed by shareholders. All of the shareholder resolutions were proposed in the North America region. Surrey voted on seven shareholder proposals in the previous quarter.

Shareholder proposals are resolutions put forward by shareholders who want the board of a company to implement certain measures, for example around corporate governance, social and environmental practices. Although they are generally not binding, they are a powerful way to advocate publicly for change on policies such as climate change and often attract relatively high levels of votes against management.

On average, the shareholder proposals received 16.21% dissent i.e., a vote against management recommendation) during the Quarter. Management provided no recommendation on two resolutions and recommended shareholders to vote against 56 shareholder proposals.

Table 7: Shareholder Proposed Resolutions

Company	Shareholder Proposal	Surrey Vote	% Dissent
Alphabet Inc	To approve a shareholder proposal to amend the Bylaw to approve director compensation.	For	0.82%
Alphabet Inc	To approve a shareholder proposal regarding EEO policy risk report	Against	0.52%
Alphabet Inc	To request a report on electromagnetic radiation and wireless technologies risks.	For	1.26%
Alphabet Inc	To r request a policy for director transparency on political and charitable giving.	Against	0.43%
Alphabet Inc	To request a report on climate risks to retirement plan beneficiaries.	For	6.62%
Alphabet Inc	To request the Board to prepare a report to shareholders on lobbying	For	15.99%
Alphabet Inc	To approve a shareholder proposal regarding equal shareholder voting.	For	31.43%
Alphabet Inc	To request a report on reproductive healthcare misinformation risks	For	6.86%
Alphabet Inc	To approve a shareholder proposal regarding AI principles and Board oversight.	For	7.58%
Alphabet Inc	To request a report on generative AI misinformation and disinformation risks	For	17.84%
Alphabet Inc	To request a human rights assessment of AI-driven targeted ad policies.	For	18.78%
Alphabet Inc	To request a report on online safety for children	For	14.90%

Company	Shareholder Proposal	Surrey Vote	% Dissent
Amazon.com Inc	To request that the Board to Establish a Public Policy Committee	For	8.72%
Amazon.com Inc	To request that the Board to Establish an additional board Committee to oversee financial impact of policy positions.	Against	2.38%
Amazon.com Inc	To request that the Board produce a report on customer due diligence	For	15.54%
Amazon.com Inc	To request the Board to prepare a report to shareholders on lobbying	For	30.15%
Amazon.com Inc	To request that the Board to provide additional reporting on Racial and Gender Pay Gap	For	29.68%
Amazon.com Inc	To request the Board to prepare a report on viewpoint restriction	Against	1.48%
Amazon.com Inc	To request that the Board to provide additional reporting on stakeholder impacts	For	23.94%
Amazon.com Inc	To request the Board to prepare a report on packaging materials.	For	29.11%
Amazon.com Inc	To request that the Board provide additional reporting on freedom of association.	For	32.27%
Amazon.com Inc	To request that the Board provide alternative emissions reporting	Against	15.89%
Amazon.com Inc	To request the Board to prepare a report on customer use of certain technologies	For	19.76%
Amazon.com Inc	To request the Board to prepare a report to shareholders on the Company's political donations	Against	1.43%
Amazon.com Inc	To request that the Board to Establish an additional board Committee to oversee artificial intelligence	For	10.54%
Amazon.com Inc	To request the Board to prepare a report to shareholders on warehouse working conditions	For	31.70%
Danaher Corp	To request the Board to take the steps necessary to amend the Bylaws so that a lower threshold is required for shareholders to call a special shareholder meeting	For	43.32%
Danaher Corp	To request the Board to produce a report to shareholders on the effectiveness of the Company’s diversity, equity, and inclusion efforts	For	14.76%
Eli Lilly & Company	To request the Board to prepare a report to shareholders on lobbying	For	26.73%

Company	Shareholder Proposal	Surrey Vote	% Dissent
Eli Lilly & Company	To request the Board to prepare a report on effectiveness of the company's diversity, equity, and inclusion efforts	For	24.22%
Eli Lilly & Company	To request the Board to prepare a report on a process by which the impact of extended patent exclusivities on product access would be considered in deciding whether to apply for secondary and tertiary patents	For	9.67%
Eli Lilly & company	To request the Board to adopt a comprehensive human rights policy	For	10.69%
Goldman Sachs Group Inc	To request that the Board establish a policy of the Chairman being an independent director	For	34.29%
Goldman Sachs Group Inc	To request the Board to prepare a report to shareholders on lobbying	For	39.86%
Goldman Sachs Group Inc	To request the Board to prepare a report for shareholders on efforts regarding protected classes of employees.	For	15.81%
Goldman Sachs Group Inc	To request the Board to prepare a report to shareholders on environmental justice impact assessment	For	10.79%
Goldman Sachs Group Inc	To request the Board to prepare a report to shareholders on clean energy supply financing ratio	For	29.58%
Goldman Sachs Group Inc	To request the Board to prepare a report to shareholders on GSAM Proxy Voting Review	For	9.32%
Goldman Sachs Group Inc	To request the Board to prepare a report to shareholders on financial statement assumptions regarding climate change	Against	1.58%
Goldman Sachs Group Inc	To request the Board to prepare a report to shareholders on pay equity	For	30.42%
Goldman Sachs Group Inc	To request the Board, adopt a director election resignation Bylaw	Abstain	30.42%
JPMorgan Chase & Co	To request that the Board establish a policy of the Chairman being an independent director	For	43.49%
JPMorgan Chase & Co	To request that the Board report on humanitarian risks due to climate change policies	Against	2.27%
JPMorgan Chase & Co	To request that the Board report on indigenous people's rights indicators	For	31.80%
JPMorgan Chase & Co	To request that the Board review proxy voting record and policies related to diversity and climate change	For	9.39%
JPMorgan Chase & Co	To request that the Board report on due diligence in conflict high risk areas	For	8.89%

Company	Shareholder Proposal	Surrey Vote	% Dissent
JPMorgan Chase & Co	To request that the Board adopt a policy giving opportunity to vote on excessive golden parachutes	For	41.02%
JPMorgan Chase & Co	To request that the Board report on respecting workforce civil liberties	Against	Withdrawn
Mastercard Inc	To request the Board to prepare a report to shareholders on lobbying	For	25.89%
Mastercard Inc	To request director election resignation bylaw	Against	14.20%
Mastercard Inc	To request a congruency report on privacy and human rights	Against	1.69%
Mastercard Inc	To request a human rights congruency report	Against	1.59%
Mastercard Inc	To request a report on gender-based compensation and benefit gaps	Against	1.75%
Nestlé SA	To request the Articles of Association be amended regarding sales of healthier and less health foods	For	12.12%
NVIDIA Corp	To request the Board to amend the governing documents to remove the supermajority voting provisions	For	-*
Progressive Corp	To request that the Board Report to Shareholders on Risks Created by the Company's Diversity, Equity, and Inclusion Effort	Against	1.78%
Roper Technologies Inc	To request the Board to amend the governing documents to remove the supermajority voting provision	For	-*
Zoetis Inc	To request that the Board to improve the director resignation policy	For	4.19%

**Management provided no recommendation to shareholders on how to vote on the proposals seeking the removal of supermajority voting provisions at NVIDIA Corp and Roper Technologies Inc.*

2.3.2 REMUNERATION

Votes against remuneration resolutions in 2024 Q2 reflected the principles advocated in Surrey's voting policy. Four distinct concerns informed Surrey's remuneration voting during the Quarter:

- **Alignment**: There was an insufficient link between the performance measures used in the incentive pay elements and a company's reported key performance indicators. This was a concern in 30 of remuneration resolutions opposed by the fund.
- **Severance Provisions**: The contract provisions for executives provided for potentially excessive severance payments on early termination. This was a factor in 29 of remuneration resolutions opposed by the fund.
- **Disclosure**: There was incomplete forward-looking disclosure on the performance conditions applicable to long-term incentive awards to be granted in in the coming year. This was a factor in 27 of the remuneration resolutions opposed by the fund.
- **Clawback**: A company's disclosures did provide any evidence of clawback and/or malus/forfeiture measures in place in respect of long-term incentives. This was a factor in 20 of remuneration resolutions opposed by the fund.

All remaining concerns featured in less than 20 resolutions opposed during the Quarter. These concerns included the potential for accelerated vesting of equity awards on termination, a lack of disclosure on the quantitative targets used in the annual bonus plan, the provision for partial vesting of awards for below median performance, the performance period and/or vesting period for long-term incentives was considered too short, and a lack of disclosure on incentive pay limits.

Table 8: Remuneration Votes Against Management

Resolution Category	Total Resolutions	Voted Against Management	% Against Management
Remuneration - Report	35	29	82.86%
Remuneration - Policy (Overall)	23	12	52.17%
Remuneration – Amount (Total, Individual)	16	11	68.75%
Remuneration – Amount (Total, Collective)	7	0	0.00%
Remuneration-Non-Executives	6	2	33.33%
Remuneration - Policy (Long-term Incentives)	5	3	60.00%
Remuneration Other	2	2	100.00%
Total	**94**	**59**	**62.77%**

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BORDER TO COAST GLOBAL EQUITY ALPHA FUND

ESG & CARBON REPORT

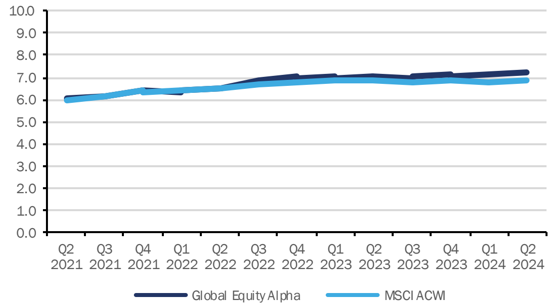
Q2 2024

MSCI ESG RATING

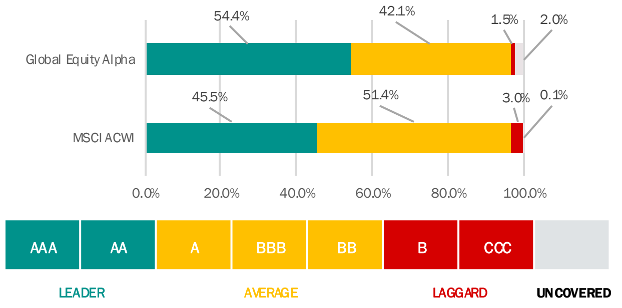
A

	End of Quarter Position [1]			Key	
	MSCI ESG Rating	Weighted ESG Score	vs. Benchmark		Fund has an equal or better *Weighted ESG Score* than the benchmark.
Global Equity Alpha	A [1]	7.2 [1]			Fund has a *Weighted ESG Score* within 0.5 of the benchmark.
MSCI ACWI	A [1]	6.9 [1]			Fund has a *Weighted ESG Score* more than 0.5 below the benchmark.

MSCI Weighted Score Trend[1]



MSCI ESG Weightings Distribution[1]



Highest ESG Rated Issuers [1]	% Portfolio Weight	% Relative Weight	MSCI Rating	Lowest ESG Rated Issuers [1]	% Portfolio Weight	% Relative Weight	MSCI Rating
ASML	2.8%	+2.2%	AAA [1]	Jiangsu Hengli Hydraulic	0.1%	+0.1%	CCC [1]
Intuit	1.8%	+1.5%	AAA [1]	Hyundai Motor Company	<0.1%	-<0.1%	CCC [1]
Taiwan Semiconductor	1.6%	+0.6%	AAA [1]	Amber Enterprises	<0.1%	+<0.1%	CCC [1]
Nvidia	1.4%	-2.9%	AAA [1]	Meta Platforms	0.7%	-0.8%	B [1]
Relx	1.0%	+0.8%	AAA [1]	Joint Stock Company Kaspi	0.5%	+0.5%	B [1]

Quarterly ESG Commentary

- The Fund continues to hold a much larger proportion of ESG leaders relative to benchmark resulting in the Fund's higher relative ESG rating.
- Over the quarter, the number of CCC companies held by the Fund portfolio has been consistent at three. Joint Stock Company Kaspi replaced PetroChina as the fifth lowest ESG rated issuer held by the Fund and is the feature stock for the quarter.

Feature Stock: Joint Stock Company Kaspi ("Kaspi")

Kaspi is a dominant financial, e-commerce, and payments business in Kazakhstan. The company operates an app that is used by nearly the entire adult population in the country. The app is used to pay bills, send money, obtain short-term financing, and increasingly shop for a range of products from electronics and household goods to groceries, travel, and vehicles.

Kaspi's proprietary payment network has effectively displaced Visa and Mastercard. The number of active merchants and general payment volumes continue to grow rapidly as the digital economy is increasingly embraced. The combination of this structural trend and Kaspi's ubiquity allow Kaspi to launch new products at zero marginal cost which underpins a 20%+ net income growth rate for years to come. Kaspi's shares are currently trading at 11x earnings and the company recently paid a reasonable dividend.

The inherent governance risks of investing in Kazakhstan are mitigated by the strength of Kaspi's management. Kaspi's founding management team have consistently shown real aptitude in long-term strategic planning and capital allocation which has benefitted both the shareholder base as well as the Kazakh population in general. Kaspi integrated services address an array of consumer needs allowing the Kazakh population to bank, transact and shop through one application.

[1]Source: MSCI ESG Research 30/06/2024

BORDER TO COAST GLOBAL EQUITY ALPHA FUND

12

ESG & CARBON REPORT

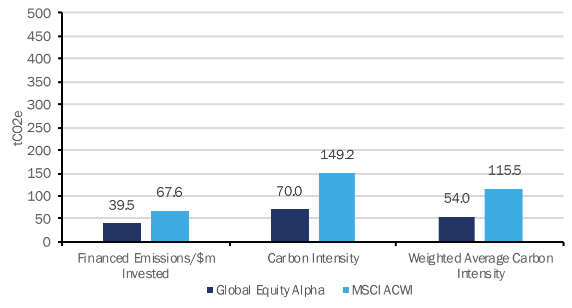
Q2 2024

MSCI ESG RATING

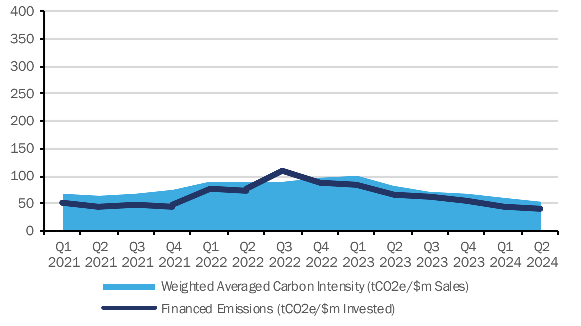
A

BORDER TO COAST PENSIONS PARTNERSHIP

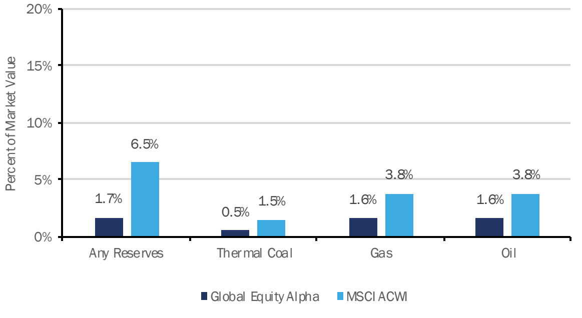
Carbon Emissions and Intensity[1]



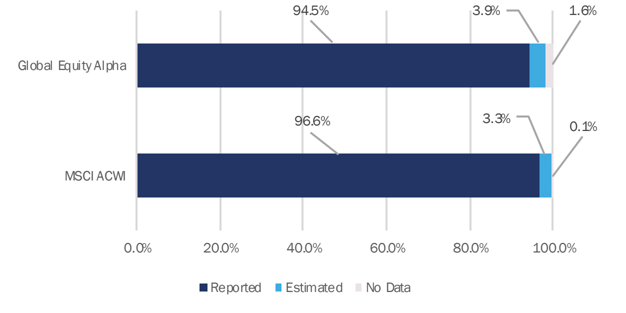
Carbon Trends[1]



Weight of Holdings Owning Fossil Fuel Reserves[1]



Availability of Carbon Emissions Data (% of Market Value)[1]



Largest Contributors to Financed Emissions[1]

	% Portfolio Weight	% Relative Weight	Contribution	CA100+	TPI Level
Heidelberg Materials	0.3%	+0.1%	32.9% [1]	Yes	4
Jet2 plc	0.4%	+0.4%	7.5% [1]	No	N/A
Phillips 66	0.4%	-0.4%	4.9% [1]	Yes	3
Linde	1.0%	+0.7%	4.6% [1]	No	4
Holcim	0.1%	+0.5%	4.5% [1]	Yes	4

Quarterly Carbon Commentary

- The Fund continues to be materially below the benchmark across all emissions metrics.
- Financed emission dropped by 10% in the quarter, largely driven by the Fund's reduced holding in Heidelberg Materials, which accounts for ~33% of the Fund's financed emissions.

Feature Stock: Holcim

Holcim is a global leader in innovative and sustainable building materials, manufacturing and selling cement, aggregates, ready-mix concrete, and asphalt products. Cement manufacturing remains one of the world's top polluting industries and accounts for around a twelfth of global emissions. However, Holcim has innovated and promoted low-carbon products (last year the company acquired 20 companies) and is selling off some of its more polluting core cement assets, particularly in emerging markets such as Brazil, India and Indonesia.

Holcim's decarbonisation plan has been approved by the Science Based Targets initiative (SBTi). The Company has been at the forefront in developing lower carbon cement products such as ECOPact (a ready-mix green cement), which uses limestone substitutes. Clay is an alternative to limestone and is a less carbon-intensive cement ingredient. Holcim has launched Europe's first production line of Calcined Clay for use in cement. Metakaolin (calcined clay) is produced by heating sources of kaolin (clay, paper sludge etc.) to between 650°C and 750°C to produce a material that can be added to cement in place of a clinker, which is where most of the cement's carbon footprint comes from.

Hitting Net Zero emissions by 2050 will also rely on reabsorbing some of the carbon released in the manufacturing of cement, for which Holcim is building carbon capture and utilisation plants supported by EU funding. At the same time the company is investing globally in less-polluting building materials, including heat-reflective roofing materials.

[1]Source: MSCI ESG Research 30/06/2024

Issuers Not Covered [1]		
Reason	ESG (%)[1]	Carbon (%)[1]
Company not covered	1.3%	0.9%
Investment Trust/ Funds	0.7%	0.7%

Important Information

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* In accordance with the licence agreement between Border to Coast and MSCI

[1]Source: MSCI ESG Research 30/06/2024

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BORDER TO COAST UK LISTED EQUITY ALPHA FUND

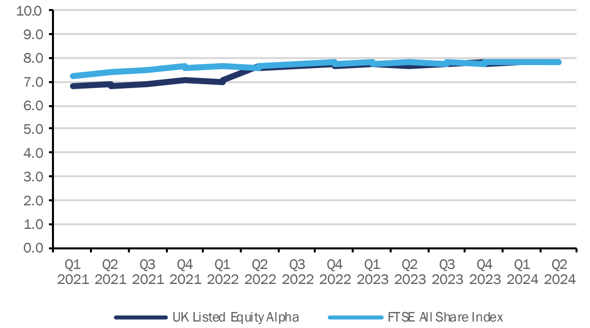
ESG & CARBON REPORT

Q2 2024

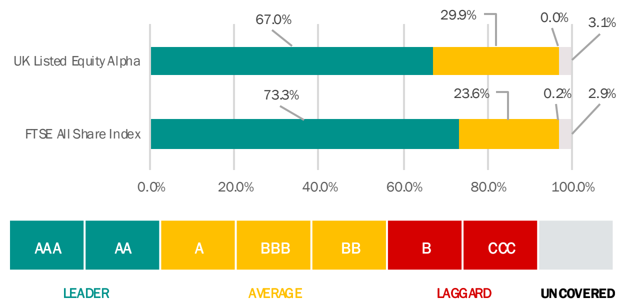
MSCI ESG RATING
AA

	End of Quarter Position[1]			Key	
	MSCI ESG Rating	Weighted ESG Score	vs. Benchmark		
UK Listed Equity Alpha	AA [1]	7.8 [1]		Green	Fund has an equal or better *Weighted ESG Score* than the benchmark.
FTSE All Share Index	AA [1]	7.8 [1]		Amber	Fund has a *Weighted ESG Score* within 0.5 of the benchmark.
				Red	Fund has a *Weighted ESG Score* more than 0.5 below the benchmark.

MSCI Weighted Score Trend[1]



MSCI ESG Weightings Distribution[1]



Highest ESG Rated Issuers[1]	% Portfolio Weight	% Relative Weight	MSCI Rating	Lowest ESG Rated Issuers[1]	% Portfolio Weight	% Relative Weight	MSCI Rating
Diageo	3.4%	+1.0%	AAA [1]	Young & Cos Brewery	0.1%	+0.1%	B [1]
Relx	2.8%	-0.1%	AAA [1]	FeverTree Drinks	2.5%	+2.5%	BB [1]
The Sage Group	2.6%	+2.1%	AAA [1]	Learning Technologies Group	0.2%	+0.2%	BB [1]
Unilever	2.5%	-2.0%	AAA [1]	Alpha Financial Markets Consulting	0.1%	+0.1%	BB [1]
Schroders plc	1.5%	+1.4%	AAA [1]	CLS Holdings	0.1%	+<0.1%	BB [1]

Quarterly ESG Commentary

- The Fund's ESG score is consistent with last quarter and remains in-line with the benchmark.
- There has been no change in the five highest and lowest rated ESG issuers held. The Fund saw three holdings upgraded to an ESG 'leader' classification and two entities downgraded from an ESG 'leader' classification during the quarter.

Feature Stock: Alpha Financial Markets Consulting plc

Alpha Financial Markets ("Alpha") is a global consultancy business based in the UK. The company focuses on the fund management industry and is split into three geographical operating divisions: UK, North America and Europe, and APAC. Since its IPO, the company has had an excellent record of growth in both revenue and earnings driven by organic growth and acquisition of additional regional and functional capabilities. The company has set out targets for this growth to continue with ambition to double the business over the next 5 years. The company is currently subject to an agreed bid from Bridgepoint, a private equity firm.

The company appears to lack external certification and periodic audits of its information security management systems which increases exposure to data security related risks. These are of particular importance given that the company operates in countries where privacy and data laws are notably strict. Being a financial consultancy business Alpha's carbon emissions are inherently low. Additionally, Alpha has implemented measures that improve management oversight and is therefore seen as a global leader amongst peers from a corporate governance perspective.

Recent engagement with the company has focused on executive remuneration. Particularly, following best practice by rebalancing remuneration towards cash annual variable pay and away from share incentives, therefore bringing share dilution from employee share awards more into line with conventional UK quoted company dilution limit guidelines.

[1]Source: MSCI ESG Research 30/06/2024

BORDER TO COAST UK LISTED EQUITY ALPHA FUND

ESG & CARBON REPORT

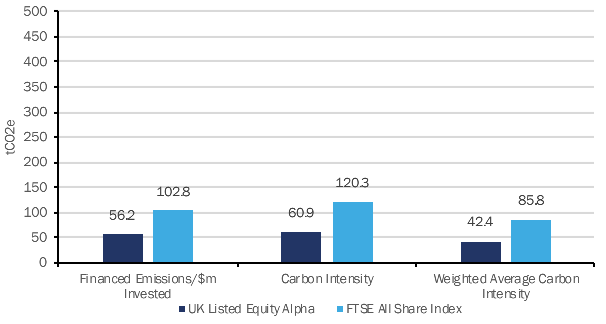
Q2 2024

MSCI ESG RATING

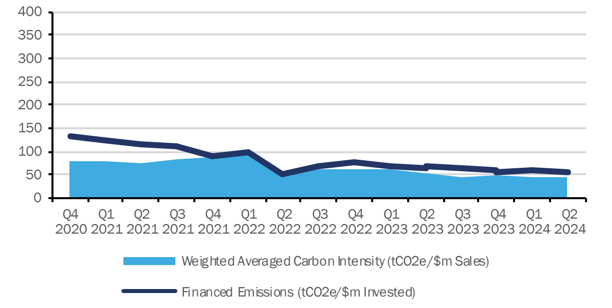
AA

PENSIONS PARTNERSHIP

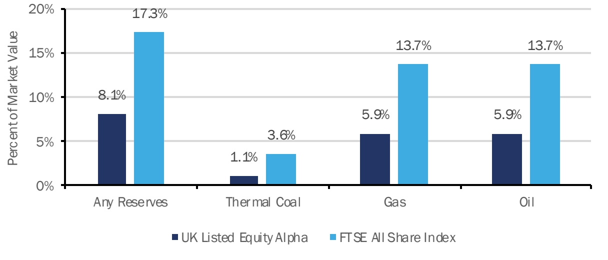
Carbon Emissions and Intensity[1]



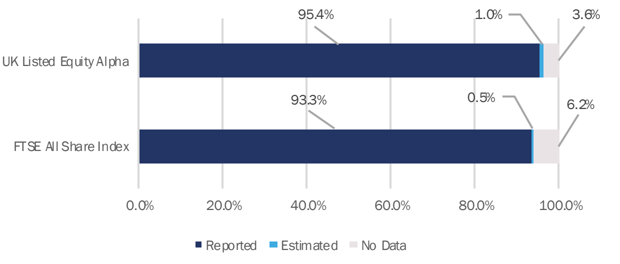
Carbon Trends[1]



Weight of Holdings Owning Fossil Fuel Reserves[1]



Availability of Carbon Emissions Data (% of Market Value)[1]



Largest Contributors to Financed Emissions[1]

	% Portfolio Weight	% Relative Weight	Contribution	CA100+	TPI Level
easyJet	0.6%	+0.5%	16.2% [1]	No	3
Shell	2.1%	-5.4%	15.6% [1]	Yes	4
BP	1.9%	-1.5%	12.3% [1]	Yes	4*
Wizz Air	0.3%	+0.2%	9.4% [1]	No	3
Anglo American	1.1%	- 0.2%	6.5% [1]	Yes	4

Quarterly Carbon Commentary

- Over the quarter the Fund saw immaterial reductions in emissions metrics. The Fund remains underweight the energy sector and therefore remains significantly below the benchmark across all metrics.
- The Fund's top emitters remain consistent with last quarter, accounting for 60% of the Fund's financed emissions. EasyJet remains the Fund's largest emitter. The company is this quarter's feature stock.

Feature Stock: EasyJet plc

EasyJet is a UK based low-cost airline that operates primarily in Europe. The company consists of two business segments, the first operates the flight route network and the second sells package holidays. EasyJet has seen a strong post-COVID recovery. The company had a £1.1bn rights issue in 2021 restoring its balance sheet to health and is now S&P BBB rated with a positive outlook and has also reinstated its dividend. The company's shares are perceived to offer good value. The company currently has a target to deliver £1bn of pre-tax profit in the medium-term. If successful, the company would be valued at less than 5 times earnings. EasyJet's Q3 2024 profits are 16% higher than the previous year, in comparison, Ryanair's profits are down by 46%, highlighting the strength of EasyJet compared to its peers.

As with all airlines, EasyJet are exposed to the risk of stricter regulations in response to the climate transition. EasyJet have a science-based validated target to reduce carbon intensity by 35% by 2035 (vs a 2019 baseline). Their climate transition plan is focused on updating its fleet, increased use of Sustainable Aviation Fuel, airspace modernisation and operation efficiencies. Beyond 2035, the route to Net Zero is less clear as EasyJet will be heavily dependent on third parties to deliver zero carbon aircraft and developing green flight innovations. Engagement with EasyJet in 2024 is focused on clarifying the company's climate transition plan

Border to Coast is co-leading engagement with EasyJet. Following assessment of EasyJet's transition plans a meeting was held in November 2023 to discuss the company's decarbonisation strategy. The company's response was satisfactory, with a well-below 2 degrees aligned Science Based Targets initiative (SBTi) target and comprehensive transition plan. Further disclosure has been requested on the feedstock and sustainability of Sustainable Aviation Fuels, and on the contribution of transition measures to meeting company targets.

[1]Source: MSCI ESG Research 30/06/2024

Issuers Not Covered [1]		
Reason	ESG (%)[1]	Carbon (%)[1]
Company not covered	2.5%	1.9%
Investment Trust/ Funds	0.6%	1.7%

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[1]Source: MSCI ESG Research 30/06/2024

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BORDER TO COAST EMERGING MARKETS EQUITY ALPHA FUND

ESG & CARBON REPORT

Q2 2024

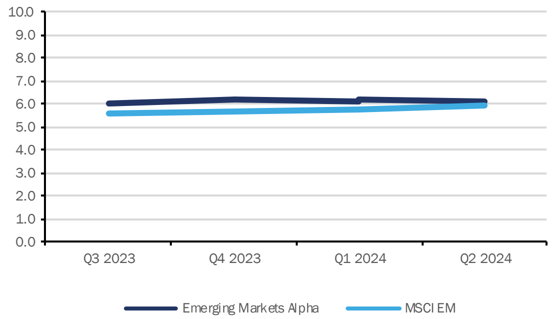
MSCI ESG RATING

A

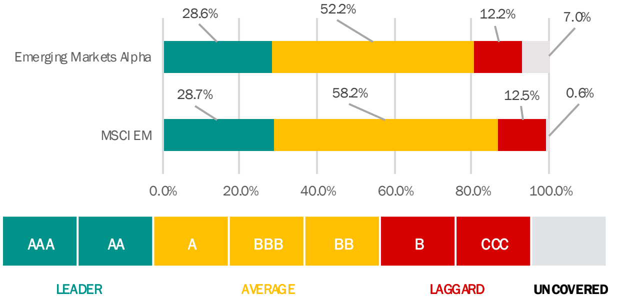
BORDER TO COAST PENSIONS PARTNERSHIP

	End of Quarter Position [1]			Key	
	MSCI ESG Rating	**Weighted ESG Score**	**vs. Benchmark**		Fund has an equal or better *Weighted ESG Score* than the benchmark.
Emerging Markets Equity Alpha	A [1]	6.1 [1]			Fund has a *Weighted ESG Score* within 0.5 of the benchmark.
MSCI Emerging Index	A [1]	5.9 [1]			Fund has a *Weighted ESG Score* more than 0.5 below the benchmark.

MSCI Weighted Score Trend[1]



MSCI ESG Weightings Distribution[1]



Highest ESG Rated Issuers [1]	% Portfolio Weight	% Relative Weight	MSCI Rating	Lowest ESG Rated Issuers [1]	% Portfolio Weight	% Relative Weight	MSCI Rating
Taiwan Semiconductor	11.6%	+1.9%	AAA [1]	Hyundai Motor Company	1.2%	+0.7%	CCC [1]
Allegro	0.5%	+0.5%	AAA [1]	Jiangsu Hengli Hydraulic	0.4%	+0.4%	CCC [1]
KB Financial Group	0.4%	+0.1%	AAA [1]	Amber Enterprises	0.2%	+0.2%	CCC [1]
Samsung Electronics	5.9%	+1.6%	AA [1]	Saudi Tadawul Group	0.2%	+0.2%	CCC [1]
Zomato	1.0%	+0.8%	AA [1]	Kweichow Moutai	1.9%	+1.7%	B [1]

Quarterly ESG Commentary

- The quarter saw a significant increase in the Fund's ESG data coverage. The proportion of holdings where ESG ratings were unavailable decreased to 7% in quarter two, down from 19% in quarter one. The Fund's weighted ESG score was not materially impacted by the increase in available ESG ratings data. The Fund continues to score more favourably than the benchmark.
- This quarter the Fund acquired a new position in 'CCC' rated Amber Enterprises, increasing the number of 'CCC' rated companies in the Fund increased from three to four. Amber Enterprises is this quarter's feature stock.

Feature Stock: Amber Enterprises

Amber Enterprises is India's largest air conditioning energy management system manufacturer which provides manufacturing services to almost all air conditioning brands in India. The company is also incrementally moving into commercial applications of air conditioning.

Amber Enterprises is in a good position to capitalise on opportunities presented by climate change and by India's import structure. As air conditioning becomes more of a necessity rather than a luxury due to climate change, the demand for Amber Enterprises' products is expected to grow. India's restrictions on imports of fully built air conditioning units and the introduction of an import duty structure also favours Amber as a major domestic manufacturer in India. Amber Enterprises is also managing the concentration risk of its business by focusing on non-air conditioning products, such as washing machines.

Amber Enterprises has manufacturing and assembly operations which are labour intensive and rely on in-house manufacturing. The seasonal nature of its business means that workers are more contractual in nature, therefore the company is exposed to potential labour management challenges. The incorporation of these labour management risks resulted in the downgrade by MSCI to 'CCC'. Amber Enterprises' sustainability disclosures are improving but work should be performed to align emissions disclosures to TCFD recommendations. Amber Enterprises is making progress in improving e-waste management and renewable energy application in its operations.

[1]Source: MSCI ESG Research 30/06/2024

BORDER TO COAST EMERGING MARKETS EQUITY ALPHA FUND

12

ESG & CARBON REPORT

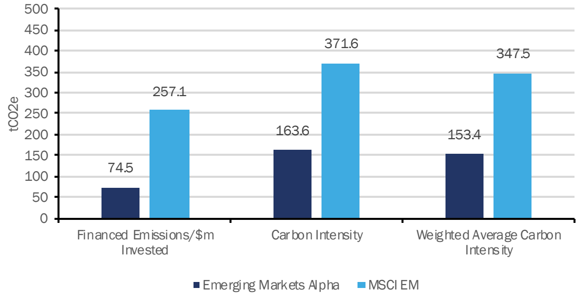
Q2 2024

MSCI ESG RATING

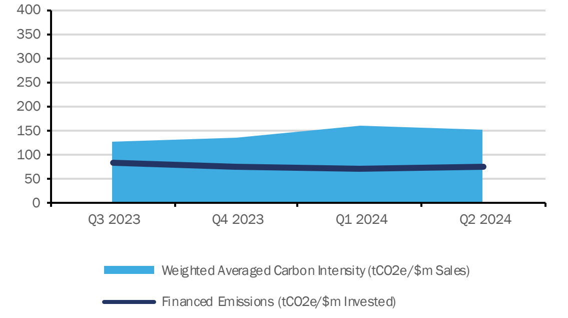
A

BORDER TO COAST PENSIONS PARTNERSHIP

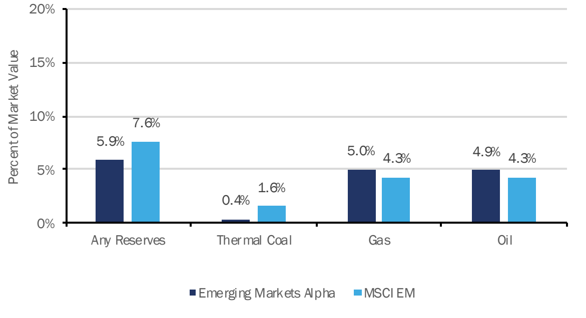
Carbon Emissions and Intensity[1]



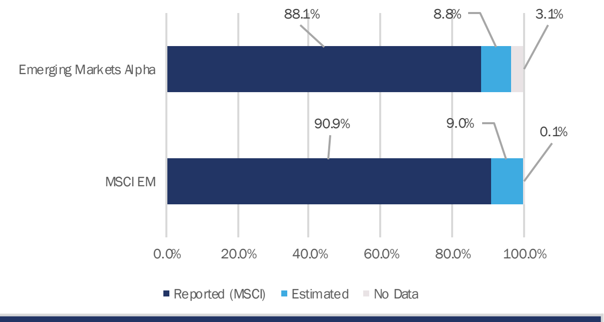
Carbon Trends[1]



Weight of Holdings Owning Fossil Fuel Reserves[1]



Availability of Carbon Emissions Data (% of Market Value)[1]



Largest Contributors to Financed Emissions[1]

	% Portfolio Weight	% Relative Weight	Contribution	CA100+	TPI Level
Hindalco Industries	0.5%	+0.3%	11.0% [1]	N/A	3
Cemex	0.2%	+0.1%	9.8% [1]	Yes	4
UltraTech Cement	0.4%	+0.1%	7.7% [1]	Yes	3
Petroleo Brasileiro	1.3%	+0.5%	7.4% [1]	Yes	4
PetroChina	0.8%	+0.5%	7.0% [1]	Yes	3

Quarterly Carbon Commentary

- The Fund's emissions have been broadly consistent quarter-on-quarter, seeing a 1% increase in financed emissions and 4% decrease in Weighted Average Carbon Intensity ("WACI"). The Fund remains materially below the benchmark across all emissions metrics.
- Hindalco Industries, a new position in the Fund, is now the largest contributor to financed emissions, accounting for 11% of financed emissions. The company is this quarter's feature stock. The top 5 contributors to financed emissions account for 43% of the Fund's financed emission footprint.

Feature Stock: Hindalco

Hindalco is an Indian-based, leading global manufacturer of aluminium and copper. Hindalco's subsidiary, Novelis, is also a global leader in aluminium recycling. Electric vehicles use significantly more aluminium than typical internal combustion vehicles, the demand outlook for electric vehicles supports Hindalco's long-term growth. The company's increased focus on value-add products in addition to core aluminium and copper products reduces exposure to metal price volatility, increasing Hindalco's relative attractiveness.

Metal manufacturing is carbon intensive, however, through the company's use of renewable energy, Hindalco manages emissions from aluminium manufacturing better than other metal manufacturing peers. As of March 2024, Hindalco have installed renewable energy capacity of 152 MW and plans to take this to 300 MW by FY25. Novelis' work in developing new recycling technologies with improved closed loop recycling gives Hindalco an advantage in addressing supply chain risks.

External manager engagement with the company has focused on the company's climate transition plan and goals for aluminium production to achieve Net Zero. Hindalco has multiple 2025 targets but has not set mid- to long-term targets and commitments. Future engagement will aim to encourage Hindalco to establish a probable but ambitious climate transition pathway.

[1]Source: MSCI ESG Research 30/06/2024

Issuers Not Covered		
Reason	ESG (%)[1]	Carbon (%)[1]
Company not covered	6.9%	2.8%
Investment Trust/ Funds	0.1%	0.3%

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[1]Source: MSCI ESG Research 30/06/2024

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BORDER TO COAST
LISTED ALTERNATIVES FUND

ESG & CARBON REPORT

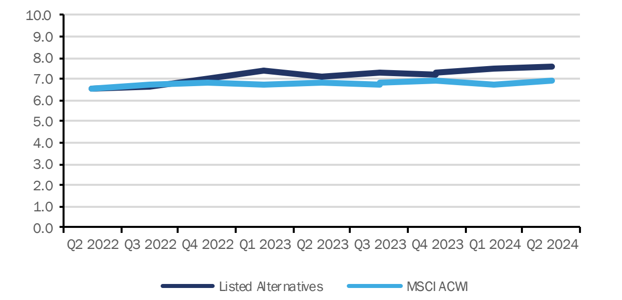
Q2 2024

MSCI ESG RATING

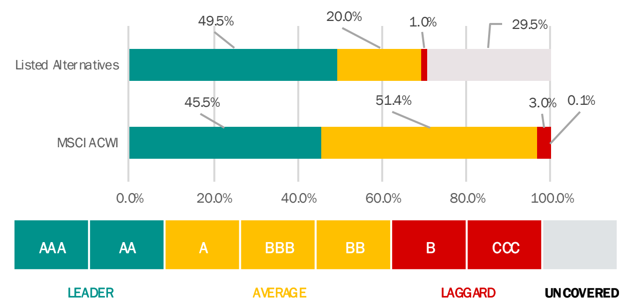
AA

	End of Quarter Position [1]			Key	
	MSCI ESG Rating	**Weighted ESG Score**	**vs. Benchmark**	(green)	Fund has an equal or better *Weighted ESG Score* than the benchmark.
Listed Alternatives	AA [1]	7.6 [1]	(green)	(amber)	Fund has a *Weighted ESG Score* within 0.5 of the benchmark.
MSCI ACWI	A [1]	6.9 [1]		(red)	Fund has a *Weighted ESG Score* more than 0.5 below the benchmark.

MSCI Weighted Score Trend[1]



MSCI ESG Weightings Distribution[1]



Highest ESG Rated Issuers [1]				Lowest ESG Rated Issuers [1]			
	% Portfolio Weight	**% Relative Weight**	**MSCI Rating**		**% Portfolio Weight**	**% Relative Weight**	**MSCI Rating**
Iberdrola	3.1%	+3.0%	AAA [1]	Blue Owl Capital	0.4%	+0.4%	CCC [1]
3i Group	1.6%	+1.6%	AAA [1]	Hercules Capital	0.6%	+0.6%	B [1]
National Grid	1.5%	+1.4%	AAA [1]	Blackstone Inc	0.9%	+0.8%	BB [1]
Orsted A/S	1.2%	+1.1%	AAA [1]	KKR	3.9%	+3.8%	BBB [1]
Transurban	1.2%	+1.1%	AAA [1]	Alexandria Real Estate Equities	3.1%	+3.1%	BBB [1]

Quarterly ESG Commentary

- On an ESG weighted score basis the Fund continues to materially outperform the benchmark. There has been an improvement in data coverage with 70.5% of holdings now covered, an increase from 61.5% last quarter. Despite the increase in data availability, the ESG weighted score has not materially changed.
- Rated as 'CCC', Blue Owl Capital became the lowest ESG rated position held by the Fund. Blue Owl Capital is this quarters feature stock.

Feature Stock: Blue Owl Capital

Blue Owl is a leading alternative investment management company with speciality in direct lending, GP staking and Real Estate Investing. The firm is considered one of the best-in-class and one of the fastest growing operators in Private Credit and GP Staking market. Their GP staking business has allowed them to take minority stakes in some of the most promising PE firms and provide them with a unique opportunity for further growth and bolt-on acquisitions. The company offers both long-term attractive returns, diversification and low liquidity risk.

The company has recently demonstrated a strong commitment to integrating ESG factors into its investment processes. As a signatory to the Principles for Responsible Investing (PRI), the firm has established a comprehensive ESG policy that guides its operations and investment decisions.

Blue Owl has initiated its journey towards comprehensive ESG disclosure by reporting Scope 1, Scope 2, and select Scope 3 emissions in its 2022 Corporate Sustainability Report. This step signifies the firm's commitment to transparency and accountability in addressing its carbon footprint. While the disclosure is still in its early stages, it provides a foundation for future reporting and analysis. As the firm matures its ESG reporting practices, it is expected to expand its Scope 3 emissions coverage and delve deeper into other environmental metrics.

A low ESG score from MSCI for Blue Owl can be attributed to several factors. A primary contributing factor is the relatively nascent stage of the firm's public reporting on ESG compared to more established peers in the asset management industry. The company is also scored down by MSCI for having a combined Chair/CEO role. However, our proxy voting analysis shows MSCI's analysis may be out of date and currently the roles of Chair and CEO are separated.

[1]Source: MSCI ESG Research 30/06/2024

BORDER TO COAST LISTED ALTERNATIVES FUND

ESG & CARBON REPORT

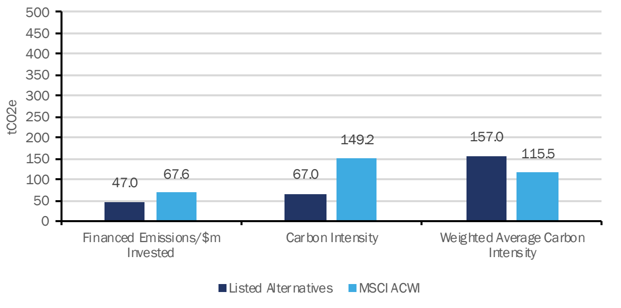
Q2 2024

MSCI ESG RATING

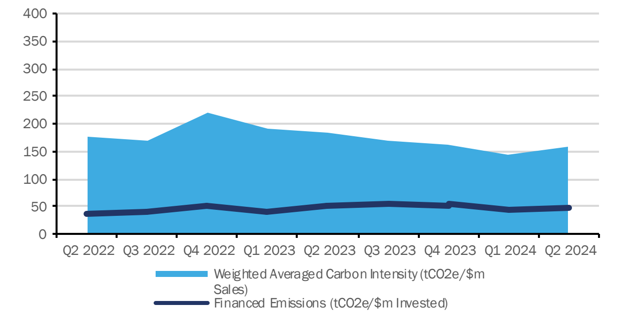
AA

PENSIONS PARTNERSHIP

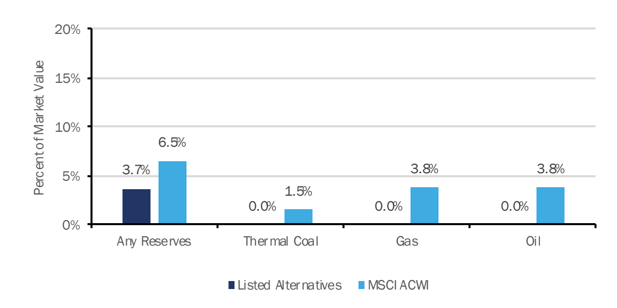
Carbon Emissions and Intensity[1]



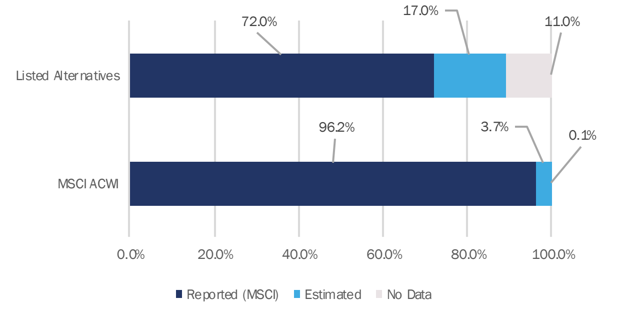
Carbon Trends[1]



Weight of Holdings Owning Fossil Fuel Reserves[1]



Availability of Carbon Emissions Data (% of Market Value)[1]



Largest Contributors to Financed Emissions[1]

	% Portfolio Weight	% Relative Weight	Contribution	CA100+	TPI Level
Cheniere Energy	3.8%	+3.8%	24.8% [1]	No	4
NextEra Energy	3.4%	+3.2%	23.3% [1]	Yes	4
Enbridge	3.0%	+2.9%	12.7% [1]	No	3
Iberdrola	3.0%	+2.9%	12.2% [1]	Yes	4
Eurazeo SE	1.6%	+1.6%	5.6% [1]	No	N/A

Quarterly Carbon Commentary

- Despite a 13% reduction in the benchmark's financed emissions, the Fund remains significantly below the benchmark for carbon emissions and carbon intensity.
- The Fund's WACI remains above benchmark mainly due to the sectoral overweight to Utilities compared with the benchmark.
- The top five emitters remain consistent with the last quarter, increases in the weighting of top emitters Cheniere, NextEra, Enbridge and Iberdrola have driven a 7% increase in financed emissions and 8% increase in its weighted average carbon intensity.

Feature Stock: Iberdrola

Iberdrola is a Spanish multinational utility firm which owns hydroelectric, fossil-fuel (gas), nuclear, and renewable power generation facilities. Iberdrola is one of the world's leading renewable energy developers, generators and distributors. It is strongly aligned to the secular growth theme of energy market decarbonisation and its long history in the renewables sector gives it strong competitive advantages versus smaller or less dynamic peers. The company has the opportunity to build a substantial, valuable and high-quality asset base with attractive return potential and manageable project risk. There is substantial earnings upside that is relatively low risk versus comparable names and its portfolio will be difficult to replicate in the future.

The company's pioneering commitment to renewable energy sources has enabled it to anticipate the current energy landscape and take a proactive stance on climate action. With ambitious targets of achieving zero emissions in its generation plants and own consumption by 2030 and across all its activities by 2040, Iberdrola demonstrates a clear vision for a sustainable future.

Furthermore, Iberdrola extends its ESG commitment to its extensive supply chain, encompassing over 20,000 suppliers worldwide. As the first company to obtain the Sustainable Procurement Strategy certificate from AENOR, Iberdrola underscores its dedication to responsible business practices throughout its operations. Iberdrola's ESG strategy is a fundamental driver of its business success and translated into tangible results, including record investments in renewable energy and job creation.

[1]Source: MSCI ESG Research 31/06/2024

Issuers Not Covered [1]		
Reason	ESG (%)[1]	Carbon (%)[1]
Company not covered	15.5%	6.6%
Investment Trust/ Funds	23.0%	4.4%

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[1]Source: MSCI ESG Research 30/06/2024

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SURREY PENSION FUND COMMITTEE REPORT

SURREY COUNTY COUNCIL

SURREY PENSION FUND COMMITTEE

DATE: 13 SEPTEMBER 2024

LEAD OFFICER: ANNA D'ALESSANDRO, EXECUTIVE DIRECTOR, FINANCE AND CORPORATE SERVICES

SUBJECT: RESPONSIBLE INVESTMENT UPDATE

SUMMARY OF ISSUE:

The Fund continues to implement the agreed priorities of the Pension Fund Committee (Committee) in relation to Responsible Investment (RI). It was agreed that the Fund attempt to become a signatory to the UK Stewardship Code and continue to publish a Task Force on Climate-related Financial Disclosures (TCFD) report on an annual basis.

RECOMMENDATIONS:

It is recommended that the Pension Fund Committee:

1. Note the success of the Fund's submission to become a signatory to the UK Stewardship Code.
2. Approve the Fund's TCFD report for the year 2023/24.

REASON FOR RECOMMENDATIONS:

To enable the Committee to fulfil previously agreed actions.

DETAILS:

Background

1. When the Committee approved the Fund's RI policy at the meeting of June 2023, it was agreed that the Fund should attempt to become a signatory to the UK Stewardship Code.
2. The Fund has previously voluntarily committed to producing a TCFD report on an annual basis.

UK Stewardship Code

3. The Fund was notified of its successful application in July 2024. Details on the Stewardship Code and the Fund's full submission can be found via the Fund's website here Investment | Surrey Pension Fund

TCFD

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4. The draft TCFD report for the year 2023/24 can be found in Annexe 1.

5. The Weighted Average Carbon Intensity (WACI) of the Fund's listed equity assets fell c. 44% over the last year and is also c.44% below the benchmark level represented by the MSCI ACWI Index. It has fallen c. 77% since June 2018.

6. The carbon footprint fell c.39% over the last year and is now c.52% below the benchmark.

7. These falls in carbon exposure have been driven by a number of areas, for example general market dynamics, asset allocation, investment manager action and underlying investee company improvements.

8. General market dynamics, including inflation and rising equity markets, can impact the various equations that are used to calculate carbon metrics. It should be recognised that the opposite effect could occur in different environments.

9. Asset allocation changes have also made a difference to the carbon exposure of the Fund. The most significant impact was the switch from passive to active management of Emerging Markets (EM). There were also redemptions of Listed Alternatives to cover capital calls, as well as a decrease in UK exposure in favour of a higher allocation to LGIM's Future World, which lowered the Fund's carbon footprint.

10. The decision to move the EM equities from passive to active allowed the Fund to have an opportunity to outperform the asset class and maintain exposure to the region, whilst also reducing its carbon exposure. Despite a broadly similar allocation percentage, the EM contribution to the WACI decreased from nearly 32% to just under 20%.

11. Investment manager actions can also be driving the Fund's exposure lower, depending on their company and sector investment decisions. Meanwhile the individual investee companies are generally focused on reducing carbon impact.

CONSULTATION:

12. The Chair of the Pension Fund Committee has been consulted on this report.

RISK MANAGEMENT AND IMPLICATIONS:

13. Any relevant risk related implications have been considered and are contained within the report.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS:

14. Any relevant financial and value for money implications have been considered and are contained within the report.

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EXECUTIVE DIRECTOR OF FINANCE & CORPORATE COMMENTARY:

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

LEGAL IMPLICATIONS – MONITORING OFFICER:

16. There are no legal implications or legislative requirements.

EQUALITIES AND DIVERSITY:

17. There are no equality or diversity issues.

OTHER IMPLICATIONS:

18. There are no other implications.

NEXT STEPS:

19. The following steps are planned:
    a) Publish the TCFD report for the year 2023/24.
    b) Review the feedback from the Financial Reporting Council regarding the Fund's Stewardship Code submission.
    c) Consider the Fund's submissions for the Stewardship Code and TCFD for 2024/25.

Contact Officer:

Lloyd Whitworth, Head of Investment & Stewardship

Annexes:

1. Annexe 1 – TCFD report 2023/24

Sources/Background papers:

None

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Annexe 1

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Surrey Pension Fund

Task Force on Climate-Related Financial Disclosure Report

2023/24

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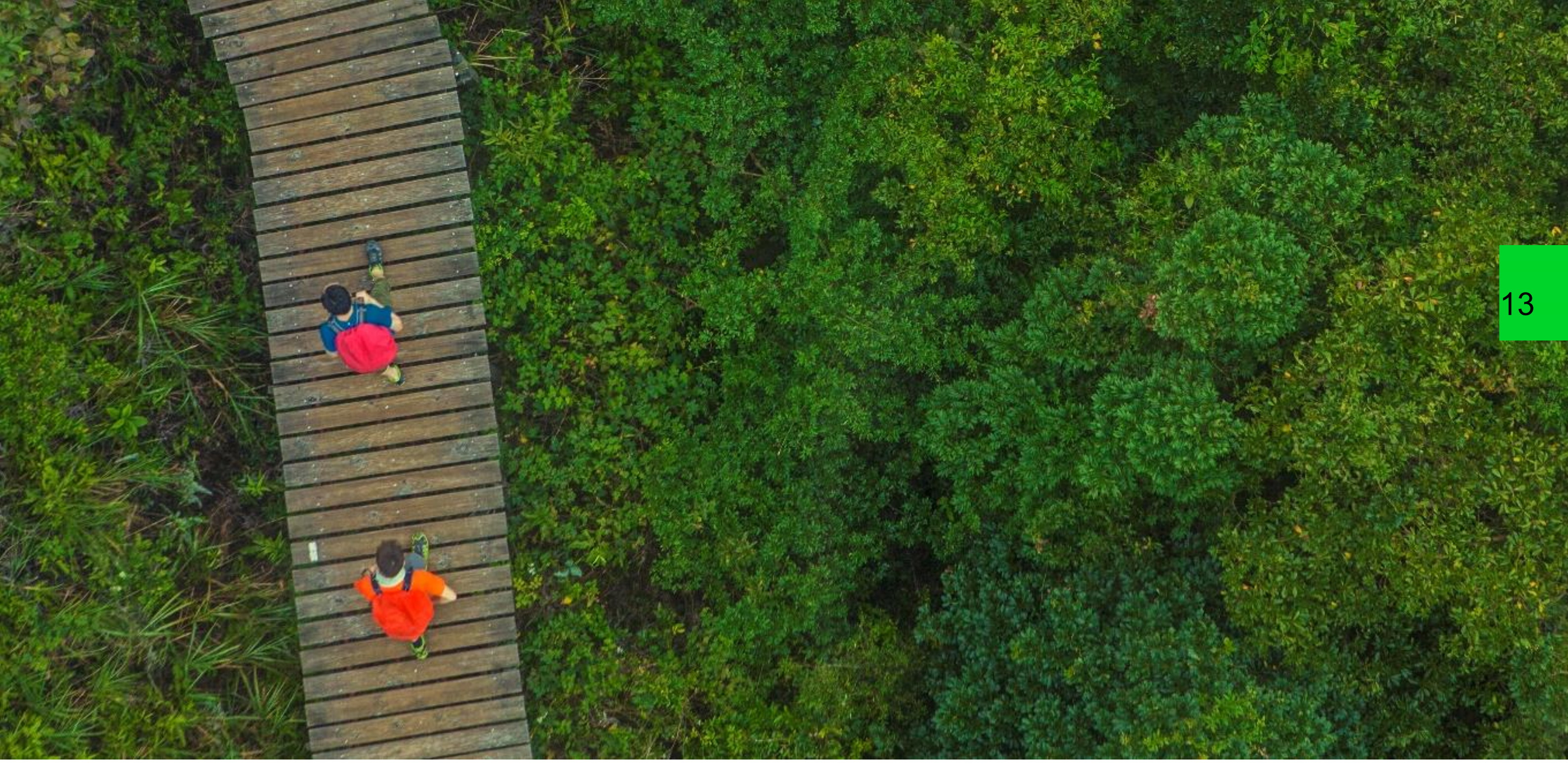

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INTRODUCTION

The Pension Fund Committee ("the Committee") of the Surrey Pension Fund ("the Fund") supports the Task Force on Climate-related Financial Disclosures (TCFD) as a framework to help manage and report on the actions being taken to identify climate change related risks and opportunities in the Fund's investment strategy.

This report explains how the Committee has established and maintains oversight and processes to satisfy itself that the Fund's relevant climate-related risks and opportunities are considered appropriately by all stakeholders involved in the day-to-day management of the Fund.

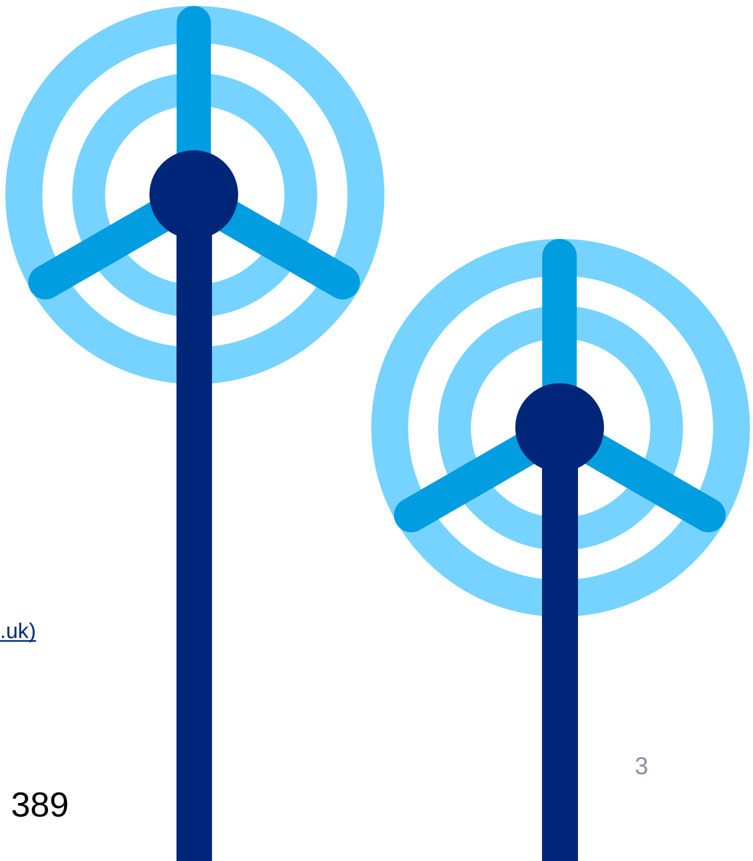
This report should be read in conjunction with the Fund's Responsible Investment (RI) policy and the Climate Change Report from Border to Coast Pensions Partnership Ltd (BCPP), (1).

The Committee looks to fully integrate climate change and wider Environmental, Social and Governance (ESG) issues into all decisions regarding the investment strategy of the Fund. This is done with the overriding objective of achieving the long-term investment returns required to help in the provision of paying pensions.

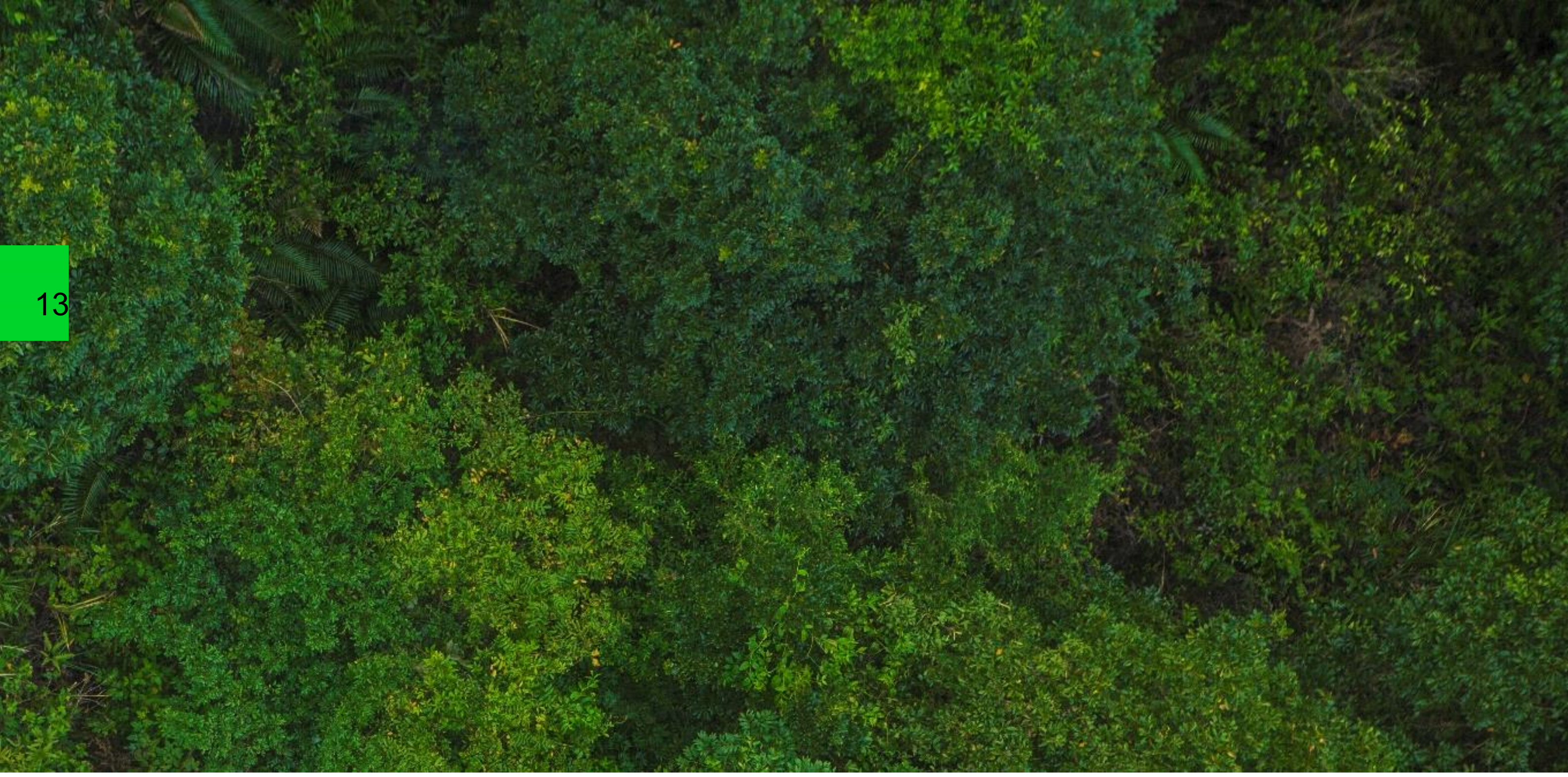
The Committee expects the Fund's approach to evolve over time, recognising a rapidly changing regulatory, societal, technological and macroeconomic backdrop.

The Committee recognises that climate issues can be more relevant and readily implementable for some parts of the portfolio than others. This statement outlines where governance of climate risk and opportunities has been applied. For example, the carbon footprinting analysis currently covers the Listed Equity holdings of the Fund, which represented c.60% of the Fund's total asset exposure as at 31 March 2024.

The Committee will seek to expand the remit of this reporting to cover the entirety of its portfolio as and when the ability to monitor these risks becomes more achievable via improved availability of data and on a cost-effective basis.



1 Border-to-Coast-Climate-Change-Report-23-24.pdf (bordertocoast.org.uk)



Summary

The Committee is pleased to note the following key highlights from this report:

- The Fund's triennial actuarial valuation was conducted as at 31 March 2022. For the first time, the actuary considered climate related risks with the actuarial valuation process.

- The Committee reviewed the Fund's responsible investment policies, which are holistic, covering wide ranging aspects of ESG considerations.

- The Committee, at the June 2023 meeting, agreed to target a Net Zero date for the Fund's investments by 2050 or sooner. This followed rigorous analysis that looked to balance setting a Net Zero target date with achieving the required investment returns in an appropriately diversified way, consistent with the Committee's fiduciary duty. The target date will be kept under regular review.

- The Committee reviewed the Fund's investment strategy over the year to 31 March 2024. A key part of this review considers appropriate ways of addressing the risks and opportunities from climate change. This helped to confirm the Fund's commitment to investing in climate solution opportunities.

- The Fund has in excess of 24% (as a percentage of total fund assets) invested in strategies directly dedicated to addressing the risks associated with climate change and wider ESG issues. This is achieved primarily by investing in LGIM's Future World index strategy, BCPP's Climate Opportunities Fund and Glennmont's Clean Energy Fund III.

- The above illustrates the Fund's overarching approach to climate related risks; firstly, aiming to reduce the carbon footprint of its investments over time thus managing risks associated with climate change and, secondly, to invest in the opportunity that decarbonising the global economy provides. This two-pronged approach of risk management and investing the opportunities is key for the Fund.

- During the year, the Fund transitioned its passive Emerging Market Equity investments into BCPP's active Emerging Market fund. These assets will now fall under BCPP 2050 Net Zero or sooner target.

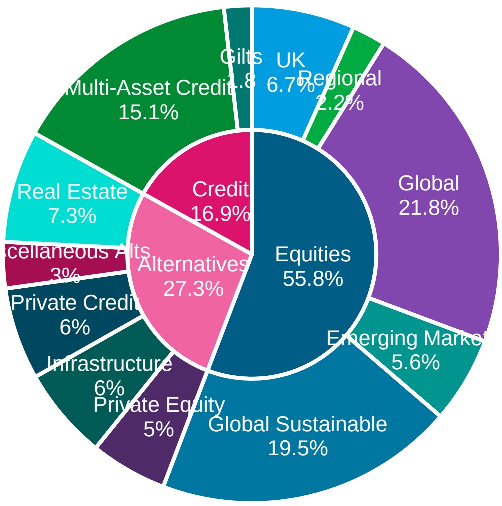


Figure 1: Strategic Asset Allocation. Source: Investment Strategy Statement 15 April 2024

- The Fund first undertook carbon reporting of its listed equity holdings in June 2018. The analysis included Weighted Average Carbon Intensity (WACI) which measures the carbon equivalent emissions in Metric tons, divided by revenue per $ million ($m) of sales, weighted by exposure in the portfolio. At that point, the WACI of the listed equities was c.285.0 tCO_2e per $m revenue, which was more than 10% below the benchmark.

- The WACI of the listed equities (60.3% of Fund assets) fell to c. 66.3 tCO_2e as at 31 March 2024. General market dynamics, asset allocation shifts, most notably the switch from passive to active management for Emerging Market equity exposure, and underlying investment decisions have driven this fall.

- Since 2018, the WACI of the listed equity portfolio has fallen by over 75%. This rate of decarbonisation is higher than the benchmark over the period.

- The Fund continues to exert pressure on improved reporting and gaining reductions in carbon intensity.

THE TCFD FRAMEWORK

The Financial Stability Board, an international body established by the G20 that monitors and makes recommendations about the global financial system, created the Task Force on Climate-related Financial Disclosures (TCFD) in 2017. TCFD was created to improve and increase reporting of climate-related financial information that can promote more climate-informed investments. This TCFD statement is prompted by that drive for transparency. The aim is that members and stakeholders can better understand the climate-related risks and opportunities from ownership of companies and other investments.

Figure 2: TCFD Framework

TCFD recommendations are categorised under four pillars: Governance, Strategy, Risk Management, Metrics and Targets:

Governance
The organisation's governance around climate-related risks and opportunities.

Strategy
The actual and potential impacts of climate-related risks and opportunities on the organisation's business strategy, and financial planning.

Risk Management
The processes used by the organisation to identify, assess, and manage climate-related risks.

Metrics and Targets
The metrics and targets used to assess and manage relevant climate-related risks and opportunities.

Asset owners, like the Fund, sit at the top of the investment chain and therefore have an important role to play in influencing the organisations through which they invest and companies in which they ultimately invest to provide better climate-related financial disclosures. Disclosure of climate-related risks and opportunities by asset owners allows beneficiaries and other audiences to assess the asset owner's investment considerations and approach to climate change.

For the Fund this means an assessment of our integration. Integration is the way we incorporate all material and relevant climate-related financial and non-financial information into our investment activities and decision making. How we think about climate change when we set our investment strategy, when we make new investment decisions, and when we manage our existing portfolio are all examples of integration. We hope and believe that our climate-related financial disclosures encourage better disclosures across the investment chain — from asset owners to asset managers to underlying companies.

CLIMATE-RELATED RISKS

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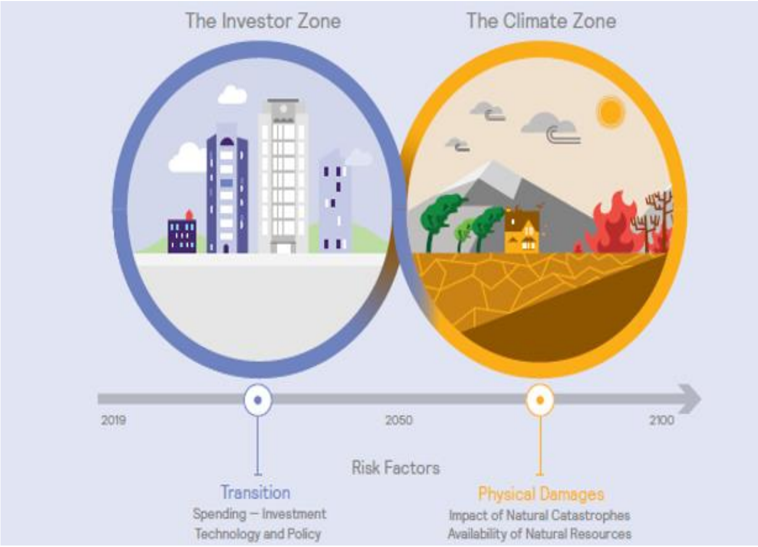
We are already experiencing climate change and its associated physical impacts today. 2023 was the warmest year on record at 1.45°C above pre-industrial levels. Most of this warming has occurred in the past 40 years, with the past nine years, 2015-2023, the warmest years on record. The overwhelming scientific consensus is that the observed climatic changes are primarily the result of human activities including electricity and heat production, agriculture and land use change, industry, and transport.

Figure 3.



Physical risks are expected to be felt more as the century progresses although the extent of the risks is highly dependent on whether global Net Zero greenhouse gas emissions targets are achieved by 2050. There are investment opportunities, for example, in newly constructed infrastructure and real estate that are designed to be resilient to the physical impacts of climate change, as well as being constructed and operated in a way that has low or no net carbon emissions. There are also opportunities for investment in those companies or industries that focus on energy conservation and resource efficiency.

Source: Mercer

In order to mitigate the worst economic impacts of climate change, there must be a large, swift, and globally co-ordinated policy response. Despite this, the majority of climate scientists anticipate that given the current level of climate action, by 2100 the world is estimated to be between 2°C and 4°C warmer, with significant regional variations. This is substantially higher than the Paris Climate Change Agreement, which reflects a collective goal to hold the increase in the climate's mean global surface temperature to well below 2°C above pre-industrial levels and to pursue efforts to limit the temperature increase to 1.5°C.

Given its contribution to global Green House Gas (GHG) emissions, the energy sector is expected to play a significant role in the long-term decarbonisation of the economy. It is important to recognise however that not only is the supply of energy expected to be a factor in global decarbonisation, but the demand for energy plays a crucial role too. In addition, the behaviour of private and state-owned energy companies is as important as their publicly traded counterparts. The issue faced by diversified investors (such as pension funds) is not limited to the oil and gas and power generation sectors, but also to downstream sectors. Investors focusing exclusively on primary energy suppliers could fail to identify material climate risks in other sectors.

Research suggests that the oil and gas sector is not homogeneous with regards to climate risk: were climate policies to affect the oil price, those companies with assets lower down the cost curve are less likely to be financially compromised than those companies with higher cost assets. Investors that assume each fossil fuel company bears an equal magnitude of climate-related risk could be led towards sub-optimal decision-making. The Fund recognises that climate-related risks can be financially material and that the due consideration of climate risk falls within the scope of the Fund's fiduciary duty.

Given the Fund's long-dated liabilities and the timeframe in which climate risks could materialise, a holistic approach to risk management covering all sectors and all relevant asset classes is warranted.

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GOVERNANCE

Describe the Committee's oversight of climate change-related risks and opportunities

The Fund is administered by Surrey County Council, ("the Administering Authority"). The Administering Authority has delegated all its functions as administering authority to the Pension Fund Committee ("the Committee").

The Committee maintains an Investment Strategy Statement, which outlines how the Committee will invest the Fund's assets. The Committee is also responsible for approving and monitoring the Fund's approach to responsible investment and climate change, input into BCPP's Responsible Investment and Stewardship Report[1] and BCPP's Climate Change Report[2].

The Committee meets at least four times a year and more frequently, as deemed required. The Committee takes independent investment advice to help assess climate risks and opportunities and looks to ensure that any decisions are integrated into a coherent investment strategy that supports the Fund's ability to provide pensions over the long-term in an affordable way.

The Committee undertakes training on a regular basis, including training and information sessions on ESG matters.

A focused sub-Committee was established to specifically consider the Fund's RI Policy. The Responsible Investment Sub-Committee (RISC) also reviewed the Fund's Net Zero target, which was ultimately agreed by the Committee in June 2023. On an annual basis, the Committee reviews the RI policy for best practice and the investable universe as it relates to various potential Net Zero dates.

1 Border-to-Coast-Responsible-Investment-and-Stewardship-Report-2023-2024
2 Border-to-Coast-2023-24-Climate-Change_Report

Describe management's role in assessing and managing climate change-related risks and opportunities

The implementation of the management of climate change-related risks with respect to specific securities is delegated to the Fund's appointed investment managers (this includes BCPP and other managers) . The Committee monitors the Fund's investment managers on an ongoing basis, including with respect to stewardship activities. Each manager's approach to climate change risks and opportunities and how these are integrated into their investment process is assessed as part of the manager selection and monitoring process.

The Committee reviews how its managers assess, manage and integrate climate risks into their portfolio construction and security selection decisions. The Committee will engage with managers where they are perceived to be lagging their peers in terms of ESG integration and climate risk management or active ownership.

BCPP is an FCA-authorised investment fund manager. It operates investment funds for its eleven shareholders which are Local Government Pension Scheme (LGPS) funds, known as Partner Funds. BCPP takes a long-term approach to investing and 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.

The commitment to responsible investment is communicated in the BCPP UK Stewardship Code compliance statement. BCPP takes a holistic approach to sustainability and as such it is at the core of its corporate and investment thinking. Sustainability, which includes responsible investment, 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. BCPP has a dedicated staff resource for managing responsible investment within the organisational structure.

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STRATEGY

Describe the climate-related risks and opportunities the Fund has identified over the short, medium and long term

The Fund became a supporter of TCFD in June 2019, as it recognises the importance of understanding climate risks and opportunities relative to its role as an institutional investor.

The Fund aims to deliver a first-class service through strong partnerships with members, employers, BCPP and the wider LGPS community. ESG factors are fundamental to this approach which is underpinned by risk management, informed decision making and the highest standards of corporate governance.

The integrated nature of climate change and its ability to impact most industries, means that the Fund chooses not to take a sector wide exclusion approach to its investments. Undoubtedly in every sector there will be best in class and worst in class companies, representing both investment risks and opportunities. It chooses therefore to engage with its fund managers, companies and where possible, policy makers, to influence them directly to move towards a sustainable financial strategy that ultimately provides long term value for its shareholders. Engagement not only covers the Fund's investments but engagement is equally vital with governments, regulators and policy makers to enable those companies to transition to a carbon neutral economy. Similar to the Fund's investment approach, engagement is also a long-term approach with the goal for companies and economies globally to be carbon neutral by 2050 to limit global warming to within the 2 Degree Scenario.

In terms of the impact of climate-related risks and opportunities on the Fund's strategy, the approach chosen can vary considerably between different asset classes. Within the Fund's current assets, it applies mainly to its listed and unlisted equity investments. From a listed equity perspective, the Fund currently holds a c.22% allocation to a sustainable equity fund, including a tilt to companies less reliant on carbon in their business operations. From a Private Market perspective, the Fund also seeks environmentally sustainable investments, which is where the majority of climate-related investment opportunities currently exist. In this regard, the Fund has invested in Renewable Energy Infrastructure strategies and a Climate Opportunities fund.

From the perspective of BCPP, climate risk is factored into the selection and appointment of external managers and ongoing monitoring of these mandates. This will therefore inform future engagement initiatives, and collaboration opportunities.

The Committee has chosen to use the United Nations Sustainable Development Goals (SDGs) as a reference to help guide its approach to responsible investment.

The Committee is working with its Officers, consultants and advisor, together with BCPP to understand what future opportunities might be available and how these would fit with the overall Responsible Investment Policy and investment strategy.

As a long-term investor, the Committee recognises that the risks and opportunities arising from climate change are diverse and continuously evolving. The Committee believes that climate change presents risks over the short, medium and long-term that the Fund should better understand and mitigate where possible. The Committee has considered the following short, medium and long term drivers of risk:

Over the short term (0 to 10 years), risks may present themselves through rapid market repricing relating to climate transition as:

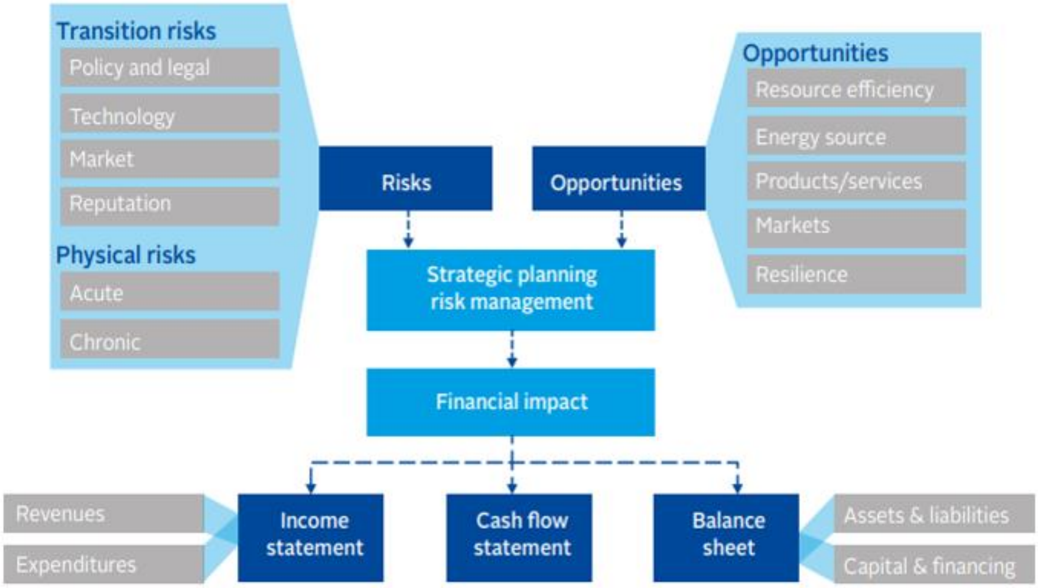
- Scenario pathways become clearer. For example, a change in the likelihood of a below 2°C scenario occurring driving transition risk.
- Market awareness grows. For example, the implications of the physical impacts of climate change become clearer to markets and impact asset valuations.
- Increases in the energy/heat efficiency of buildings and infrastructure the Fund holds.
- Perceived or real increased pricing of greenhouse gas emissions/carbon.
- Substitution of existing products and services with lower emission alternatives may impact part of the portfolio.
- Litigation risk relating to dangerous warming becoming more prevalent.

The Fund's ability to understand these short-term changes can position it favourably, for example taking advantage of the climate transition by avoiding and reducing investment in high-emitting carbon sensitive sectors, etc.

Over the medium term (10 to 30 years), risks associated with the transition to a low carbon economy are still likely to dominate. This includes the development of technology and low carbon solutions. Policy, legislation and regulation are likely to also play a key role at the international, national and subnational level. Technology and policy changes are likely to produce winners and losers both between and within sectors. Advancement of transition is likely to have started to crystallise stranded asset risks over the medium term. The Fund's ability to understand these changes may positon it favourably, for example by allocating investments into new technologies or by avoiding and reducing portfolio reliance on high-emitting carbon sensitive sectors, etc.

Over the long term (30 to 80 years), physical risks are expected to come to the fore. This includes the impact of natural catastrophes leading to physical damages through extreme weather events. Availability of resources is expected to become more important if changes in weather patterns such as temperature or precipitation affect the availability of natural resources such as water. The Fund's ability to understand these changes may position it favourably, for example by allocating investments to infrastructure projects that display high levels of climate resilience, etc. A changing climate may directly impact the viability of some assets or business models (for example, flood risk for real estate, or drought / fire risk for timberland assets).

Figure 4: Climate-related risk and opportunities.



Source: TCFD annexe report

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Describe the impact of climate change related risks and opportunities on the Fund's business, strategy and planning

The Committee considers exposure to carbon risk in the context of its role in setting investment strategy. The Committee has been on a journey to lower the Fund's carbon footprint since 2018 by regularly monitoring the Fund's decarbonisation progress and analysing how the Fund is performing in terms of its carbon footprint. This analysis has led to the implementation of more carbon-aware strategies.

In 2021, the Fund made changes to invest in the LGIM Future World Global Fund. The Committee believes that this fund is well positioned from an ESG perspective and is expected to help reduce exposure to companies with poor ESG practices. The Committee views this as both an attractive return opportunity and an important way of positively contributing to the transition to a lower carbon world.

In June 2023 the Committee formally agreed a Net Zero target of 2050 or sooner. This target will be kept under regular review.

Over the summer of 2023 the fund transitioned its passive Emerging Markets (EM) equity investments into BCPP's active EM fund. These assets will now fall under BCPP 2050 Net Zero or sooner target, where previously no such targets for the passive fund had been set. This has led to an initial fall in WACI of 50% for this asset class.

Describe the resilience of the Fund's strategy, taking into consideration different climate-related scenarios, including a 2˚C or lower scenario

As part of the work undertaken by the RISC considering an appropriate Net Zero target for the Fund, scenario analysis on a range of strategic portfolios was undertaken. The analysis – a combination of bottom up/top down and quantitative/qualitative – considered portfolios with Net Zero target dates as at 2030, 2035, 2040, 2045 and 2050. The analysis considered inclusion of asset classes with low/no/net negative GHG emissions, including an allocation to forestry.

Whilst modelled outcomes are relatively similar for all portfolios under a traditional financial analysis a wider assessment highlights the pros and cons of the different target dates. Based on this analysis and taking into account the Fund's wider investment objectives, the Committee agreed to a Net Zero 2050 or sooner target, as it was assessed that this achieved a sweet spot between balancing portfolio decarbonisation and meeting fiduciary duty for the Committee at this time. The Fund is cognisant that this may change in the future, for example, should more companies adopt earlier Net Zero targets with credible implementation plans, so the Committee have agreed to review its position again in future.

The analysis suggests that from a long-term strategic investment perspective, the Fund is relatively well positioned in scenarios of lower levels of global warming for the periods to 2030 and 2050. As the time periods increase, it is expected that the overall returns will be negatively impacted by climate change, underlying the need for further review and action. The Committee notes that the modelling may understate the true level of risk and uncertainty is likely to be greater for higher warming scenarios, in particular due to the difficulty in being able to accurately predict the future.

The analysis helps the Committee to understand that asset prices may not fully reflect the financial impact of future physical risks or the transition costs associated with policy action required to limit global warming to 2˚C or less, nor that asset prices fully reflect the technology risk inherent in the transition.

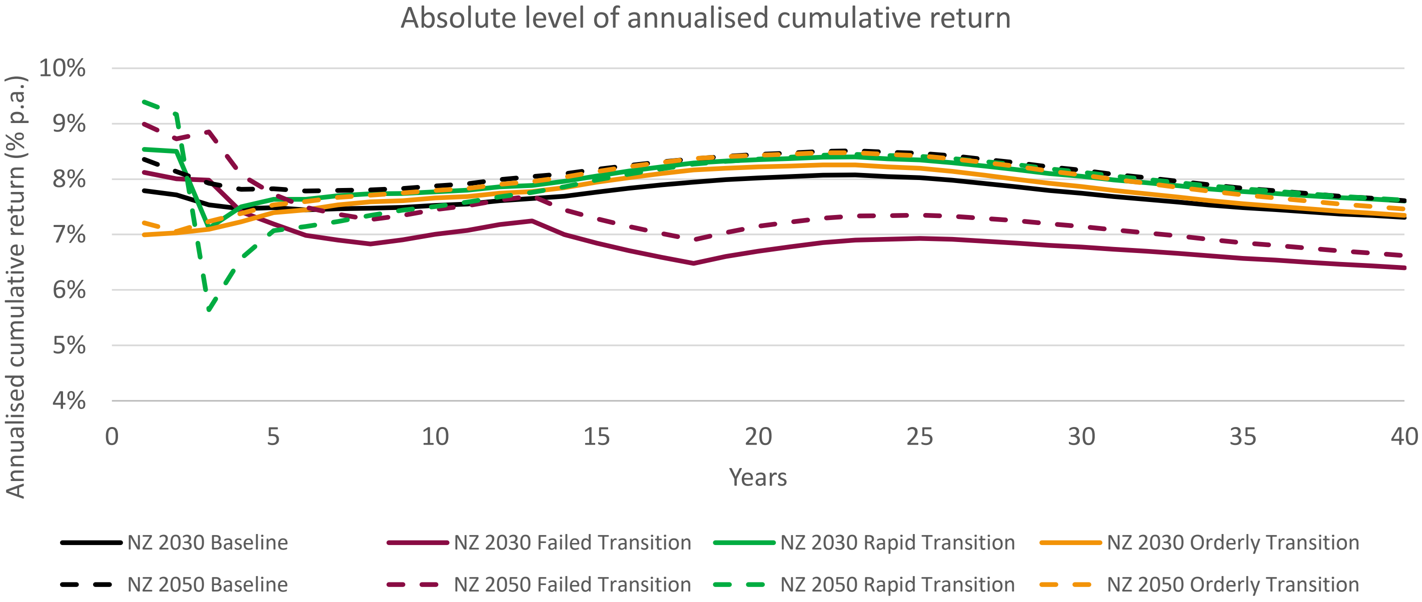
The Fund's long term strategic asset allocation is well positioned to contribute and benefit from limiting global warming by the end of the decade.

The analysis supports the view that long term investors collectively trying to bring about an effective transition is aligned to their fiduciary duty to seek the best returns within risk, liquidity and complexity constraints.

Figure 5: Net Zero Portfolio Considerations

Consideration	Net zero by 2030	Net zero by 2035	Net zero by 2040	Net zero by 2045	Net zero by 2050	Headline comment
Traditional financial metrics						Under traditional portfolio analysis, the modelled outcomes are relatively similar
Portfolio diversification						The earlier the Net Zero date, the smaller the investment universe, with implications for sectoral/regional/company diversification
Rapid transition						The earlier the Net Zero date, the better the portfolio performs under a Rapid Transition scenario over the short- to medium-term
Failed transition (short term)						The earlier the Net Zero date, the worse the portfolio performs under a Failed Transition scenario over the short-term
Financing the Transition						Opportunity for real-world impact through financing the transition increases as the Net Zero target date is extended
Implementation implications						Feasibility to implement the portfolio increases as the Net Zero target date is extended

Figure 6: Climate Scenario Analysis



Analysis as at 31 Dec 2022.

The above chart shows the expected annualised performance over the next 40 years under the various scenarios. Each scenario tests key elements of climate resilience:

Is the Fund's portfolio resilient to the financial effects of the rapid decarbonisation of the economy to meet Paris Agreement goals (Rapid Transition)?

Is the Fund's portfolio resilient to the risks of plausible, severe climate change impacts (Failed Transition) and is our investment strategy consistent with the need to avoid this scenario?

Can the decarbonisation transition happen without material damage to financial returns under an Orderly Transition?

13

Assessment on the sensitivity and risk analysis of climate change by the Fund's Actuary

For the first time as part of the Funds triennial actuarial valuation the Fund's actuary, Hymans Robertson, assessed potential Funding impacts of climate change.

Climate change is a major source of uncertainty which could affect future investment returns, inflation and life expectancies. Therefore, the Fund has explicitly explored the resilience of its funding and investment strategy to future potential climate change outcomes.

It is impossible to confidently quantify the effect of climate risk given the significant uncertainty over the impact of different possible climate outcomes. Instead, three different climate change scenarios have been considered as a stress-test (instead of trying to predict how climate change affects the funding level in the future).

All the scenarios assume that there will be a period of disruption linked either to the response to climate risk (transition risks) or the effect of it (physical risks). This disruption will lead to high volatility in financial markets, and the later the disruption, the more pronounced it will be.

Further detail on the scenarios is shown in Hymans Robertson's guide Hymans Robertson's LGPS 2022 valuation toolkit.

Outcome of analysis

The Fund has set its funding and investment strategy using asset-liability modelling and considering two main risk metrics:

- Likelihood of success – the chance of being fully funded in 20 years' time
- Downside risk – the average worst 5% of funding levels in 20 years' time

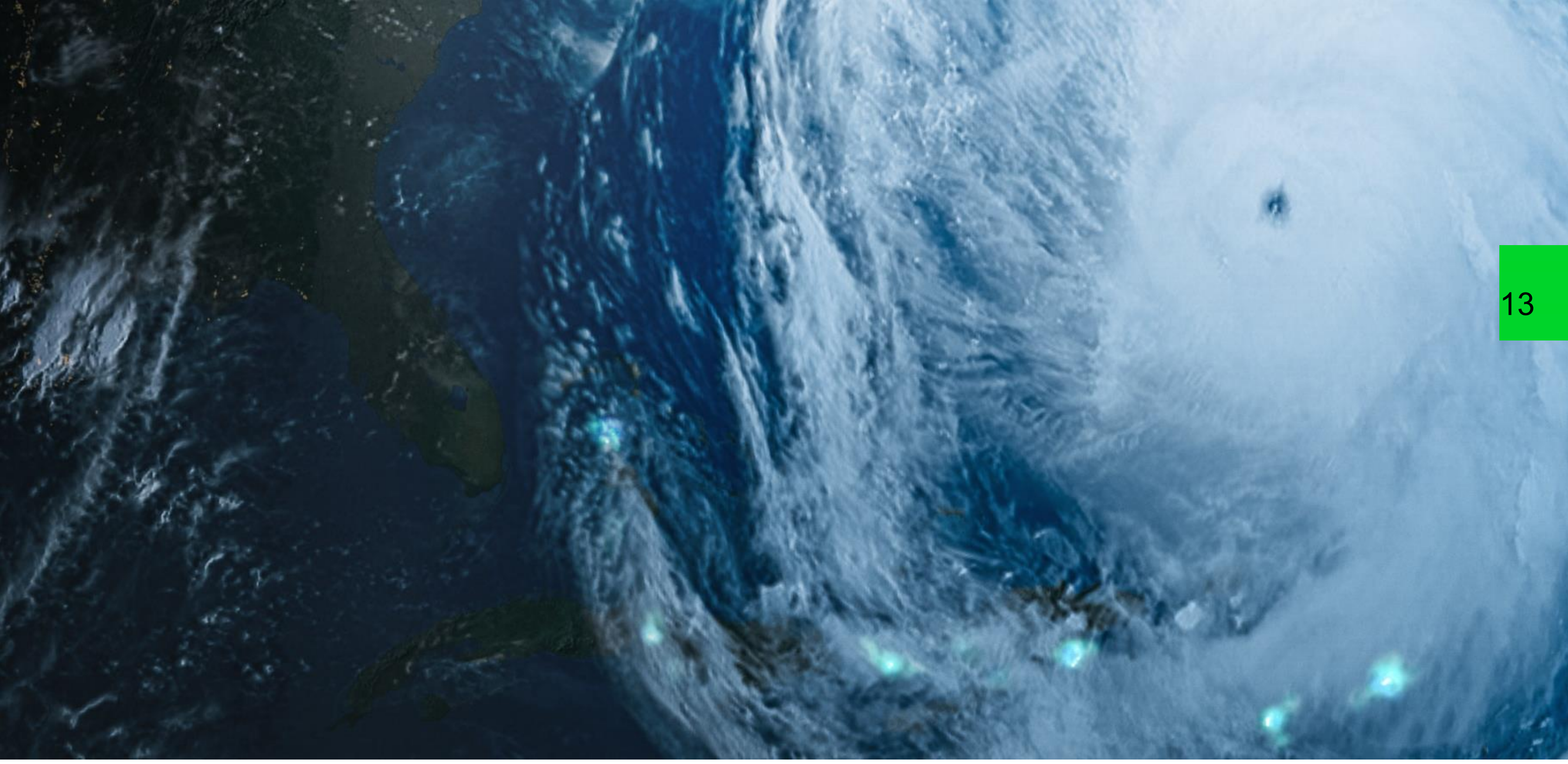
When exploring the potential impact of climate change, the Fund has compared how these risk metrics change under each climate change scenario (against the 'Core' model used when setting the funding and investment strategy). The stress test results for the Fund are shown in the table below.

Figure 7: Sensitivity of funding position to climate change

Scenario	Likelihood of success	Downside risk
Core	**74%**	**47%**
Green Revolution	75%	48%
Delayed Transition	73%	43%
Head in the Sand	68%	39%

Risk metrics are more favourable under the 'Green Revolution' scenario. This is due to a realisation of investments made in the early years of the projection. Risk metrics are weaker in the 'Delayed Transition' and 'Head in the Sand' scenarios, but not materially so and not enough to suggest that the funding and investment strategy is unduly exposed to climate change risk. The Fund will continue to monitor this risk as more information emerges and climate change modelling techniques evolve.

The Fund's full formal actuarial valuation results can be found here:
https://www.lgpsboard.org/images/Valuations2022/SurreyValuation2022.pdf



RISK MANAGEMENT

Describe the Fund's process for identifying and assessing climate change-related risks

The Committee takes an active role in ensuring it invests with due attention to ESG issues. The Fund's focus remains on maintaining appropriate investments having every regard to climate change implications. The Committee has an annual ESG monitoring framework by covering carbon footprinting analysis and TCFD monitoring indicators. The Committee will engage with its investment managers, including BCPP, on the key findings as necessary by inviting managers to outline their activities as required that enable the Committee to monitor and manage climate risk. The Committee outlines in the following Metrics and Targets section the key findings of the carbon footprinting analysis. On a regular basis, investment managers and BCPP are invited to present to the Committee to explain their approach to climate change risk management, amongst other topics.

The Committee receives regular updates from its investment managers on how they integrate ESG considerations, including climate change, into their investment processes and active ownership activities. If a manager is considered to be "lagging the market", the Committee will engage with the relevant manager(s) to strongly encourage that it improves in policies and practises in this areas.

The Committee uses stewardship monitoring to identify how the managers it chooses vote and engage on climate issues in order to manage climate risks in the portfolio.

The Committee has identified long-term investment strategy risks and included such risks into its risk register. The register is monitored in the course of its overall risk management approach and is reviewed regularly. It is used to effectively identify, prioritise, manage and monitor risks associated with the Fund and the escalations of risk are managed by internal controls in place:

1. The asset allocation is formally reviewed as part of quarterly reports to the Committee and necessary action is taken to correct the balance.
2. The Committee receives formal quarterly reports on both the overall performance of the Fund and individual investment managers.
3. A full investment strategy review is undertaken by the Fund's investment consultant after every triennial valuation with ad-hoc strategy reviews undertaken in intervening years to ensure the strategy is still appropriate to achieve long-term funding objectives.
4. The Fund has set a long-term goal of being Net Zero carbon by 2050 or sooner, the Fund will work towards establishing interim targets to help achieve this target.
5. BCPP has set a long-term goal of being Net Zero carbon by 2050 or sooner, and are working to establish interim targets to help achieve this, which will be regularly monitored.
6. The Fund has in place a Responsible Investment policy.

Describe the Fund's process for managing climate change related risks

All of the Fund's investment managers have been asked to provide carbon footprinting metrics, where available, in order to take a "total portfolio" approach and be consistent with TFCD recommendations. This analysis helps identify key sources of carbon risks in manager portfolios and helps the Committee to engage with the manager(s) on such risks.

The Committee manages risk by prioritising those it believes may be most financially materially linked to the Committee's beliefs.

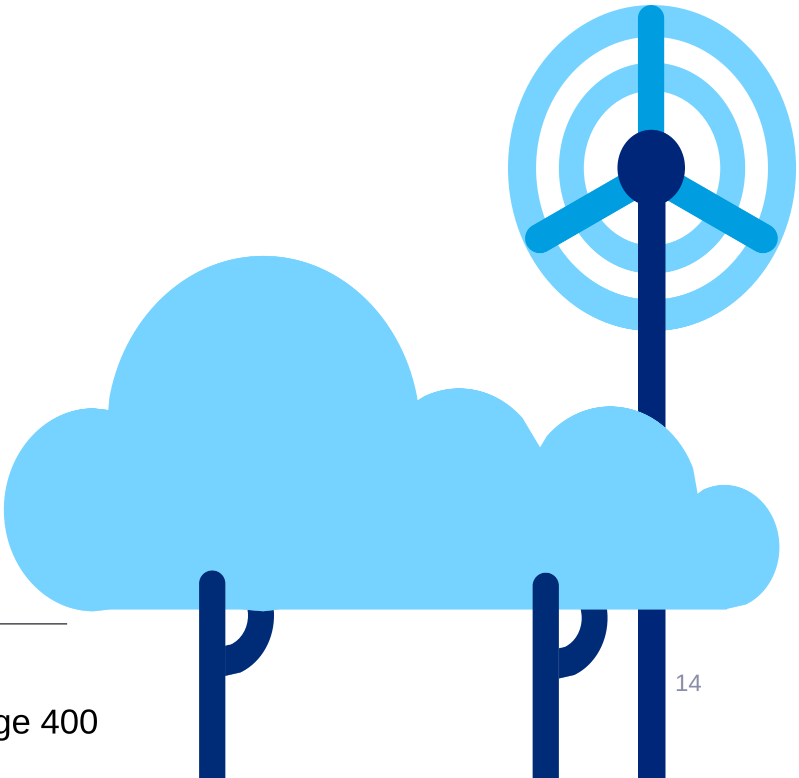
The Committee recognises the challenges with various metrics, tools and modelling techniques used to assess climate change risks. The Committee aims to work with its consultants and advisor, and investment managers on a regular basis with the aim of improving its approach to assessing and managing risks over time.

The Fund sees engagement as a fundamental tool in managing climate risk within its portfolio companies. The Fund is a member of the Local Authority Pension Fund Forum (LAPFF), which collectively engages with multinational companies on behalf of most Local Authority Pension Funds in the UK. Collaboration with other institutional investors enhances the Fund's own influence in engagement with companies, regulators and policy makers, all playing significant roles in the low carbon transition. The Fund will support climate-related shareholder resolutions provided it is in line with the voting policy.

Describe how processes for identifying, assessing and managing climate change-related risks are integrated into the Fund's overall risk management

Both climate change-related risks and wider investment risks are considered by the Committee. Where possible, climate change and wider investment risks such as demographic trends are treated in a holistic manner by recognising they are often interrelated. Climate change and ESG risks are included alongside other material risks in the Investment Strategy Statement and the risk register.

The climate change scenario analysis is strategic in nature and has therefore been incorporated into wider investment strategy discussions and considerations.



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METRICS AND TARGETS

Disclose the metrics and targets used to assess climate change-related risks and opportunities in line with strategy and risk management process.

This section presents carbon data analysis of the Listed Equities holdings of the Fund which represents c.60% of the Fund's investment mandates as at 31 March 2024. Due to practical data availability, the fund-level figures quoted in the report assume that companies not covered by the analysis are represented within the range of companies that have been covered in the analysis – the 'pro-rata approach' (i.e. it is not assumed that companies not covered have emissions of 0) in line with statutory guidance. All figures have been sourced directly from the investment managers.

The remaining assets consist of Fixed Interest Gilts, Property, Multi Asset Credit, Private Equity and Credit and Infrastructure mandates, for which the ability to monitor these risks is currently less achievable. The Committee recognises that the availability of accurate data for some asset classes is an industry wide issue and encourages the Fund's investment managers and the companies in which they hold these assets to improve their carbon reporting as quickly as possible.

The Committee has focused on Weighted Average Carbon Intensity analysis as a key metric for assessing risks and has compared this against a relevant benchmark or other comparator.

The Committee will undertake carbon footprint analysis on a regular basis.

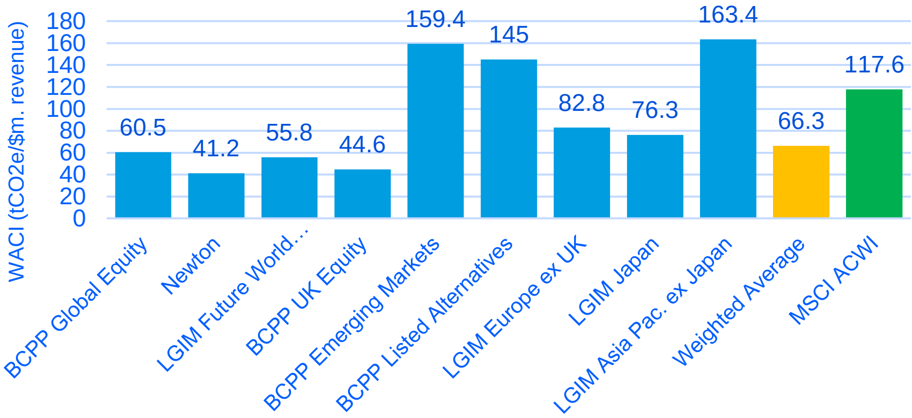
The carbon footprinting metrics measured aid the Committee in assessing the potential climate change related risks to which the Fund is exposed, and identifying areas for further risk management, including company engagement and investment manager monitoring:

- **Weighted Average Carbon Intensity ("WACI")** – measures the carbon emissions (in Metric tons) divided by revenue (per $m of sales), weighted by exposure in the portfolio. This means, for example, a company with a very high carbon intensity but a low fund weighting might contribute to the WACI measure to a lesser extent than a company with a lower carbon intensity but a higher weighting in the fund.
- **Absolute Emissions** – represents a company's reported or estimated greenhouse gas emissions, where available. It includes various scopes of emissions: – Scope 1 -direct emissions: those from sources owned or controlled by the company (e.g. direct combustion of fuel from vehicles); and – Scope 2 - indirec" emissions: those caused by the generation of energy (e.g. electricity) purchased by the company.
- **Carbon Footprint** – The amount of carbon dioxide and equivalents (tCO2e) emitted per million dollars ($m) of the Fund's investments. Carbon Footprint is an intensity measure of emissions that takes the Fund's total greenhouse gas emissions figure and normalises it to take account of the size of the investment.
- Scope 3 emissions are currently not included in the carbon footprint metrics for two reasons:
    - The rate of scope 3 disclosure remains insufficient to use reliably in carbon foot printing analysis
    - The inclusion of scope 3 emissions may lead to double counting at the portfolio level.

Analysis summary

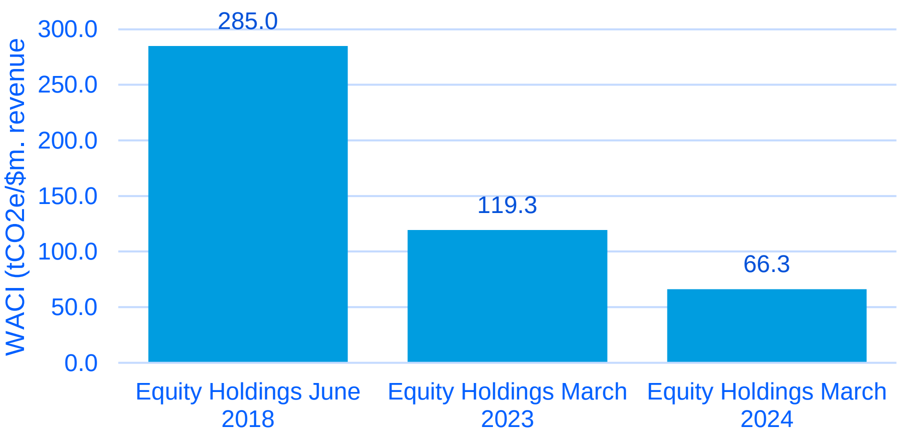
- For the purposes of this analysis, data have been taken directly from the managers.
- As at 31 March 2024, within the listed equity assets only (60.3% of Fund assets and weighted as per figure 12) the Fund had an estimated **WACI** of 66.3 tCO2e per $m revenue, a decrease of c. 44% over the year (see figure 8). Over the same period, the WACI of the MSCI AC World Index (ACWI) fell c. 20%. The Fund's WACI is also c.44% below that of the MSCI ACWI WACI. There are several drivers to the Fund's fall in WACI, for example, market dynamics, asset allocation and manager action. Metrics have generally improved as inflation has grown revenue but not output. The most significant asset allocation shift impacting the Fund's carbon metrics was the sale of the passively managed EM exposure and reinvestment in an actively managed mandate. This reduced the EM WACI, relative to the benchmark, by c.50%. Reducing the exposure to BCPP Listed Alternatives also helped, whilst manager action within the global mandates reduced intensity ahead of the market reduction rate.
- Since June 2018, the WACI of the listed equity assets has fallen c.77% (see figure 9).

Figure 8: Equity Assets - Weighted Average Carbon Intensity



Note: Underlying data as at 31 March 2024. The weighted average figure is based on the actual allocation as at 31 March 2024.
Data was sourced directly from the managers. LGIM and Newton underlying data provided in GBP and as such has been translated to USD using the exchange rate as at 31 March 2024.
Managers sourced data as follows:
BCPP: MSCI ESG Research
Newton: ISS
LGIM: HSBC & ISS

Figure 9: Equity Assets - Weighted Average Carbon Intensity Progression



Note: Underlying data as at 31 March 2024. The weighted average figure is based on the actual allocation as at 31 March 2024.
Data was sourced directly from the managers. LGIM and Newton underlying data provided in GBP and as such has been translated to USD using the exchange rate as at 31 March 2024.
Managers sourced data as follows:
BCPP: MSCI ESG Research
Newton: ISS
LGIM: HSBC & ISS

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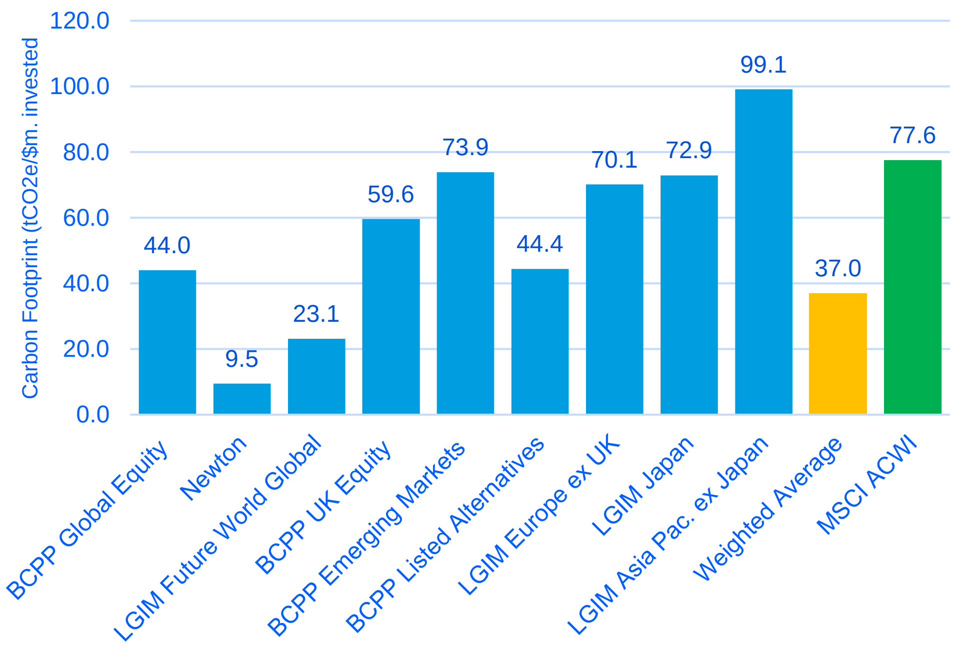
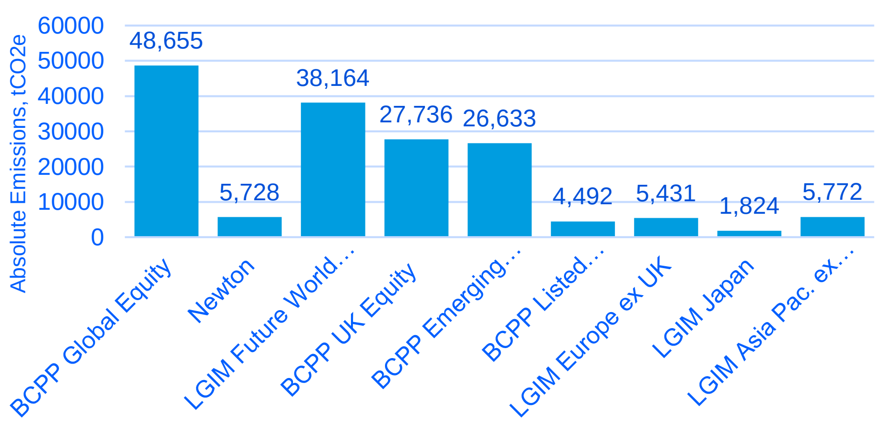
- As at 31 March 2024, the **carbon footprint** of the listed equity assets was 37.0.tCO2e per $m invested, a decline of c.39% over the year (see figure 10) . Over the same period, the carbon footprint of the MSCI ACWI fell c. 16%. The carbon footprint of the listed equity assets is c.52% below the market, represented by the MSCI ACWI benchmark. Rallying equity markets, the EM switch in exposure mentioned above and the movement of capital from the UK and into LGIM Future World Global all aided this fall. The Fund's largest mandates, LGIM Future World Global, BCPP Global Equity Alpha and Newton Global Equity are also the funds with the lowest carbon footprint.

Figure 10: Equity Assets - Carbon Footprint



Note: Underlying data as at 31 March 2024. The weighted average figure is based on the actual allocation as at 31 March 2024.
Data was sourced directly from the managers. LGIM and Newton underlying data provided in GBP and as such has been translated to USD using exchange rate as at 31 March 2024.
Managers sourced data as follows:
BCPP: MSCI ESG Research
Newton: ISS
LGIM: HSBC & ISS

Figure 11: Equity Assets - Absolute Emissions



Note: Underlying data as at 31 March 2024. Total Emissions data using 31 March 2024 Fund asset values.
Data was sourced directly from the managers.
Managers sourced data as follows:
BCPP: MSCI ESG Research
Newton: ISS
LGIM: HSBC & ISS

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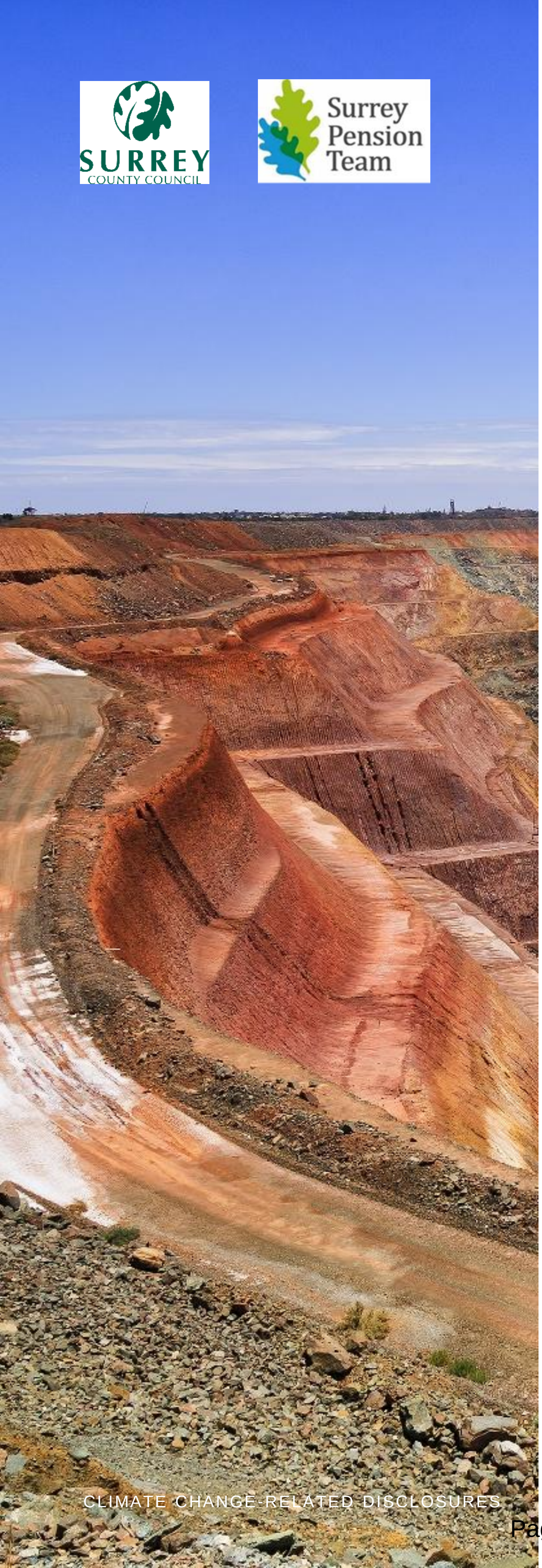
Figure 12: Mandate weightings

Manager	Asset Value $m	Weighting (%) of equity assets in analysis
BCPP UK Equity Alpha	465.4	10.5%
BCPP Global Equity Alpha	1105.8	24.9%
Newton Global Equity	604.4	13.6%
LGIM Future World Global	1651.0	37.1%
BCPP Emerging Markets Alpha	360.4	8.1%
LGIM Europe ex UK	77.4	1.7%
LGIM Asia Pacific ex Japan	58.2	1.3%
LGIM Japan	25.0	0.6%
BCPP Listed Alternatives	101.2	2.3%



GLOSSARY OF TERMS

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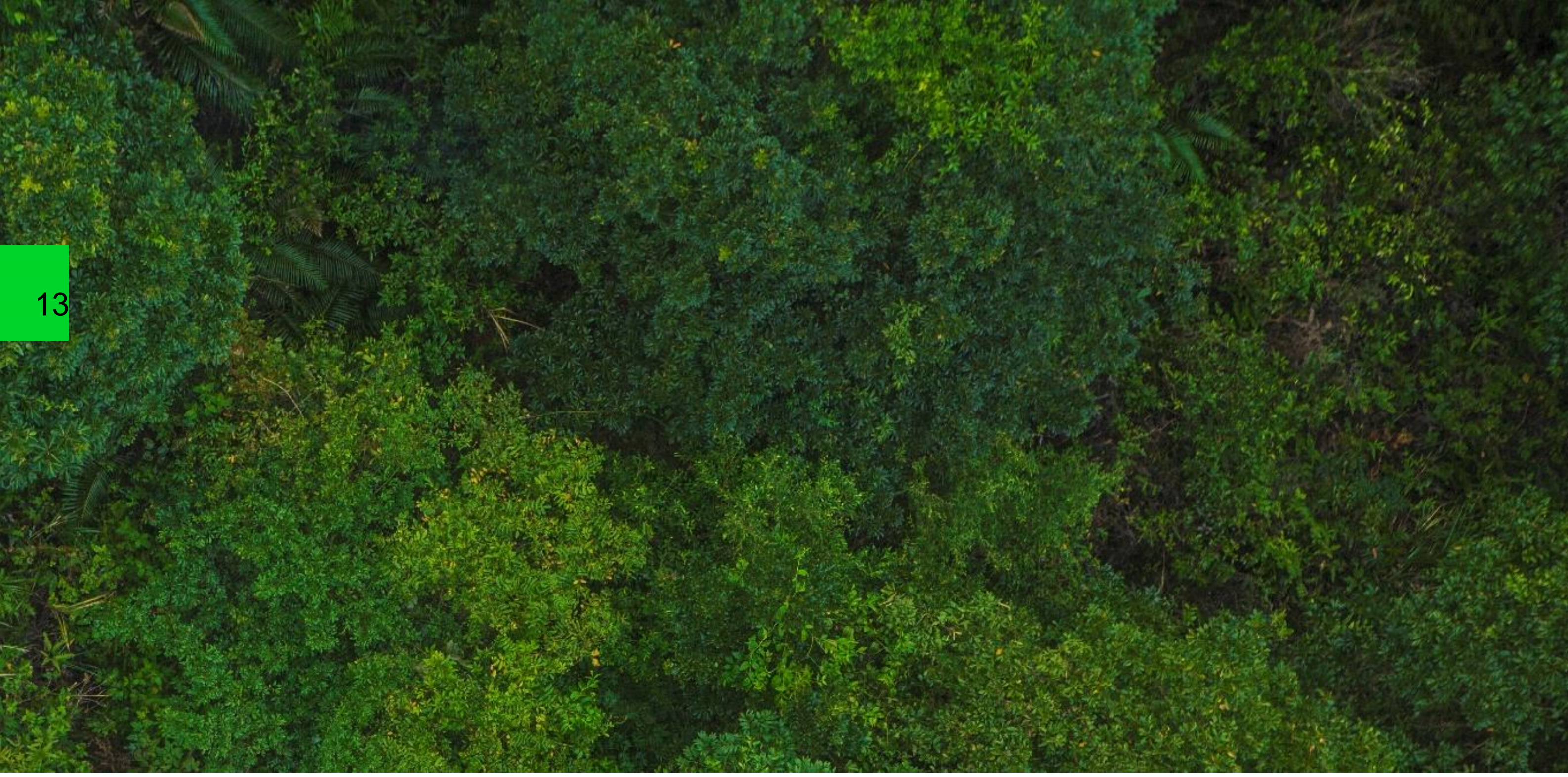
Acronym	Meaning
ESG	Environmental, Social & Governance
GHG	Greenhouse Gas
G20	Intergovernmental forum comprising 19 countries and the European Union
IPCC	UN's Intergovernmental Panel on Climate Change
MSCI ACWI	Morgan Stanley Capital International All Country World Index
Net Zero	Achieving a balance between the carbon emitted into the atmosphere, and the carbon removed from it.
Paris Aligned	Achieving Net Zero emissions by 2050 or sooner, in line with the Paris Agreement.
RI	Responsible Investment
SDG	Sustainable Development Goals
TCFD	Task Force on Climate-related Financial Disclosures
WACI	Weighted Average Carbon Intensity

All analysis in this document is subject to change and should not be relied upon.



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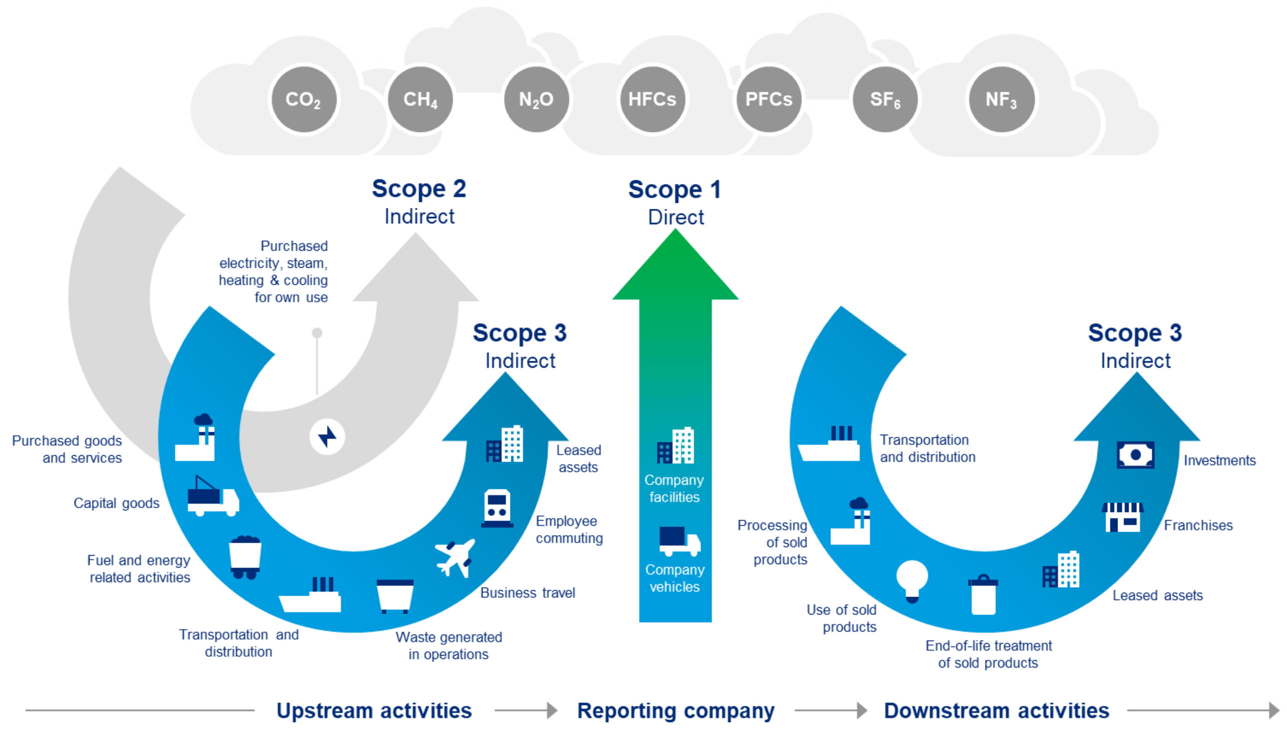

CO_2
CH_4
N_2O
HFCs
PFCs
SF_6
NF_3
Scope 2
Indirect
Scope 1
Direct
Scope 3
Indirect
Scope 3
Indirect
Purchased electricity, steam, heating & cooling for own use
Purchased goods and services
Capital goods
Fuel and energy related activities
Transportation and distribution
Waste generated in operations
Business travel
Employee commuting
Leased assets
Company facilities
Company vehicles
Transportation and distribution
Processing of sold products
Use of sold products
End-of-life treatment of sold products
Leased assets
Franchises
Investments
Upstream activities
Reporting company
Downstream activities

TECHNICAL APPENDIX

Climate scenario modelling approach.

	Rapid Transition	Orderly Transition	Failed Transition
Summary	Sudden divestments in 2025 to align portfolios to the Paris Agreement goals have disruptive effects on financial markets with sudden repricing followed by stranded assets and a sentiment shock.	Political and social organizations act quickly and predictably to implement the recommendations of the Paris Agreement to limit global warming to below 2°C above pre-industrial levels by 2100.	The world fails to meet the Paris Agreement goals and global warming reaches 4.3°C above pre-industrial levels by 2100. Physical climate impacts cause large reductions in economic productivity and increasing impacts from extreme weather events.
Cumulative emissions to 2100	416 GtCO2e	810 GtCO2e	5,127 GtCO2e
Key policy and technology assumptions	An ambitious policy regime is pursued to encourage greater decarbonisation of the electricity sector and to reduce emissions across all sectors of the economy. Higher carbon prices, larger investment in energy efficiency and faster phase out of coal-fired power generation under a 'Rapid' transition.		Existing policy regimes are continued with the same level of ambition.
Financial climate modelling	Pricing in of transition and physical risks of the coming 40 years occurs within one year in 2025. As a result of this aggressive market correction, a confidence shock to the financial system takes place in the same year.	Pricing in of transition and physical risks until 2050 takes place over the first 4 years.	Physical risks are priced in two different periods: 2026-2030 (risks of first 40 years) and 2036-2040 (risks of 40-80 years).
Physical risk impact on GDP	Physical risks are regionally differentiated, consider variation in expected temperature increase per region and increase dramatically with rising average global temperature. Physical risks are built up from: Gradual physical impacts associated with rising temperature (agricultural, labour, and industrial productivity losses) Economic impacts from climate-related extreme weather events Current modelling does not capture environmental tipping points or knock-on effects (e.g., migration and conflict).		
Physical risk impact on inflation	Gradual physical impact (supply shocks) on inflation included through damages to agriculture and change in food prices. Total impact on a Global CPI Index is +2% in 2100.	No explicit modelling of physical risk impact on inflation (supply-side shocks). Impact on inflation follows historical relationship between GDP and CPI.	Severe gradual physical impact (supply shocks) on inflation included through damages to agriculture and change in food prices. Total impact on a Global CPI Index is +15% in 2100.

Source: Mercer and Ortec. Climate scenarios as at December 2022

The return impacts of the climate scenarios represented in this report are relative to the 'baseline'. The baseline represents what we are assuming the market is currently pricing in. The baseline includes a 10% weight to a **Failed Transition**, 40% weight to an **Orderly Transition**, 10% to a **Rapid Transition** and 40% to a range of **low impact scenarios**.

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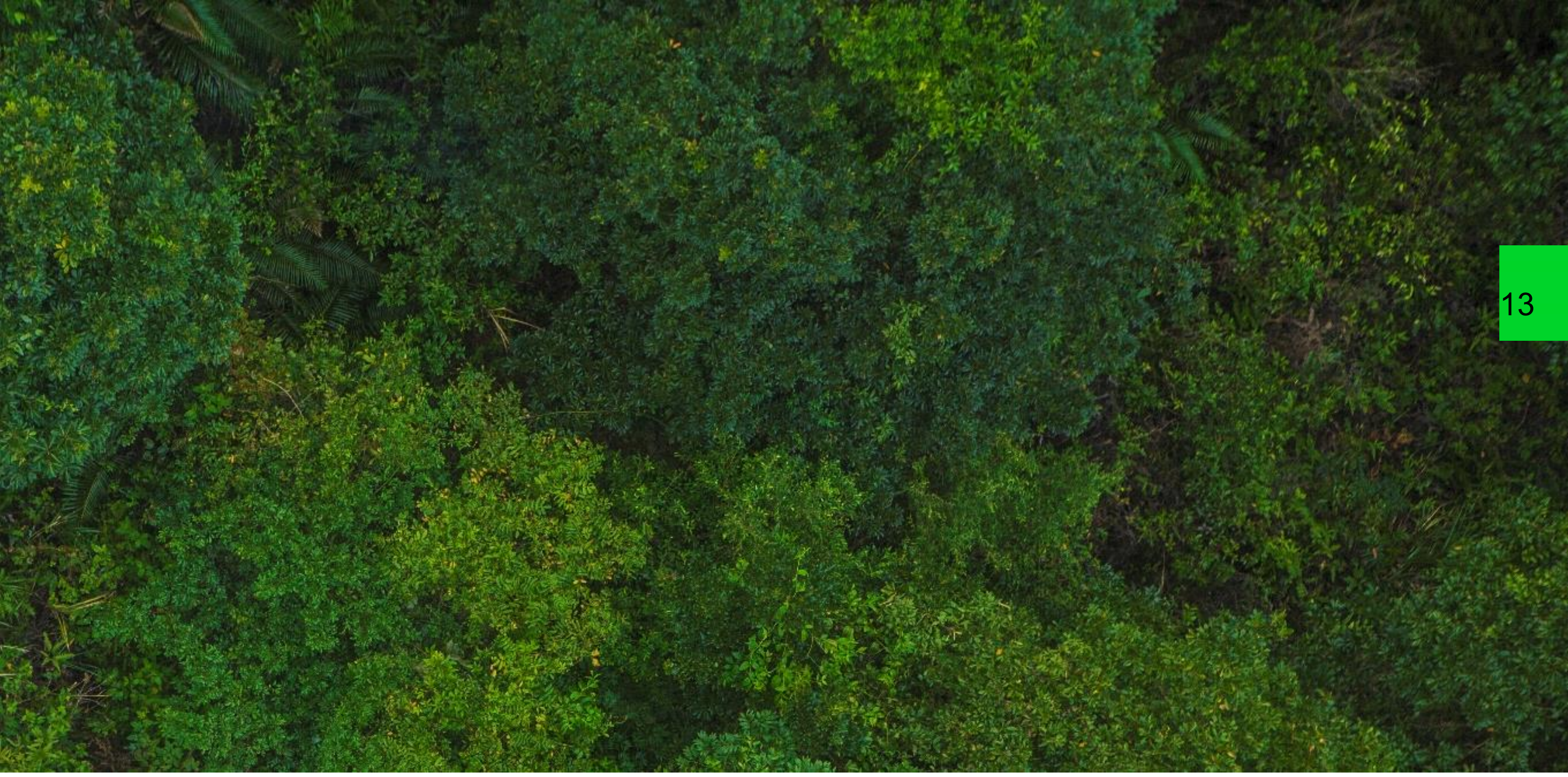
TECHNICAL APPENDIX

Limitations associated with climate modelling

Climate scenario modelling is a complex process. The Committee is aware of the modelling limitations. In particular:

1. The further into the future you go, the less reliable any quantitative modelling will be.
2. There is a reasonable likelihood that physical impacts are grossly underestimated. Feedback loops or 'tipping points', like permafrost melting, are challenging to model particularly around the timing of such an event and the speed at which it could accelerate.
3. Financial stability and insurance 'breakdown' is not modelled. A systemic failure may be caused by either an 'uninsurable' 4°C physical environment, or due to the scale of mitigation and adaption required to avoid material warming of the planet.
4. Most adaptation costs and social factors are not priced into the models. These include population health and climate-related migration.
5. New and emerging risks, such as the impact of climate change on biodiversity loss, and vice versa, is expected to be integrated into climate scenario modelling over time once the supporting science and impact on econometrics and finance is better understood.



Important notices from data providers

Mercer

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MSCI

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Ortec Finance

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SURREY PENSION FUND COMMITTEE REPORT

SURREY COUNTY COUNCIL

SURREY PENSION FUND COMMITTEE

DATE: 13 SEPTEMBER 2024

LEAD OFFICER: ANNA D'ALESSANDRO, EXECUTIVE DIRECTOR, FINANCE AND CORPORATE SERVICES

SUBJECT: ASSET CLASS FOCUS – REAL ESTATE

SUMMARY OF ISSUE:

As part of good governance, the Committee periodically reviews the performance of the Fund's investments. There is a further focused review of different asset classes. This paper concentrates on Real Estate.

RECOMMENDATIONS:

It is recommended that the Pension Fund Committee:

1. Note the Fund's Real Estate holdings, respective funds' investment performance and review from the Fund's independent investment adviser.

REASON FOR RECOMMENDATIONS:

A solid framework of review is required to benefit from this long-term asset category. This is consistent with Fund's strategic investment objectives.

DETAILS:

Background

1. The Fund's Real Estate exposure is predominantly derived through investment in a fund-of-funds with CBRE. As at 30 June 2024 the weighting to Real Estate in the Fund was 4.9%. The target weight within the current investment strategy asset allocation is 7.3%. This underweight position will be closed once BCPP delivers investment funds and allows the Fund to subscribe.

2. The mandate commenced April 2004 and is invested in UK and Global property funds. Currency exposure is unhedged and performance is measured in sterling.

3. As at 30 June 2023, the asset split between UK and Global property funds was 74.4% UK and Cash and 25.6% Global. This is approximate to the desired split of 75% UK and cash and 25% Global which was reconfirmed at the June 2023 Committee meeting.

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4. The performance objective at the mandate level is to outperform the MSCI/AREF UK QPFI All Balanced Property Fund Index by at least 0.5% p.a. gross of cash and fees over three-year rolling periods. For the UK Real Estate exposure the benchmark is also the MSCI/AREF UK QPFI All Balanced Property Fund Index, whilst the performance objective for the Global Alpha Fund is to deliver returns of 9-11%.
5. Using CBRE's business day 10 analysis for the year to 30 June 2024, the total mandate returned –2.1% in sterling, compared to the benchmark return of +0.1%. The 3-year return was +0.8% p.a. in sterling compared to +0.6% for the benchmark.
6. At the June 2023 meeting, the Committee agreed to commence the switch of the global real estate exposure from CBRE to Border to Coast Pensions Partnership (BCPP) Global Real Estate Core fund. To date there has been only one drawdown to this new fund, EUR 2.3m on 12 April 2024.
7. The BCPP UK Real Estate fund is expected to launch in October 2024. The Surrey Pension Fund will be able to subscribe from March 2025, if the initial seeding window open only to those partner funds transferring direct property closes.
8. The review by the Independent Advisor can be found in Annexe 1.

CONSULTATION:

9. The Chair of the Pension Fund Committee has been consulted on this report.

RISK MANAGEMENT AND IMPLICATIONS:

10. Any relevant risk related implications have been considered and are contained within the report.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS:

11. Any relevant financial and value for money implications have been considered and are contained within the report.

EXECUTIVE DIRECTOR OF FINANCE & CORPORATE COMMENTARY:

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

LEGAL IMPLICATIONS – MONITORING OFFICER:

13. There are no legal implications or legislative requirements.

EQUALITIES AND DIVERSITY:

14. There are no equality or diversity issues.

OTHER IMPLICATIONS:

15. There are no other implications.

NEXT STEPS:

16. The following steps are planned: 14

    a) Continued monitoring of Real Estate holdings with a performance review report to be brought to the Committee on an annual basis.
    b) Continue to make investment into the BCPP Global Real Estate Core fund when capital calls are made.
    c) Subscribe to the BCPP UK Real Estate fund when able.

Contact Officer:

Lloyd Whitworth, Head of Investment & Stewardship

Annexes:

1. Annexe 1 - Real Estate Report from the Independent Investment Advisor

Sources/Background papers:

None

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MJ HUDSON
Allenbridge

Surrey Pension Fund Committee

Manager Review Meeting Minutes

29th July 2024

Attendees

Councillor Nick Harrison, Chairman of the Pension Fund Committee
Neil Mason, Assistant Director – LGPS Senior Officer
Lloyd Whitworth - Head of Investment and Stewardship

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Anthony Fletcher, Independent Adviser

Background

The purpose of this meeting was to receive an update from CBRE on the performance, activity and outlook for the UK and Global property funds managed on behalf of the Surrey Pension Fund. And to receive a progress report from BCPP on the development of their investment solutions for global and UK property.

CBRE

Mandate Summary

CBRE manage a Property Fund-of-Funds with holdings valued at £285 million in 25 underlying funds and a further net £4 million in cash. On 30th June 2024, the portfolio's asset allocation was 74.4% in a range of UK funds and 25.6% in the CBRE Global Alpha Fund. The performance objective for the total mandate is to outperform the MSCI/AREF UK QPFI All Balanced Property Fund Index + 0.5% p.a. over a rolling 3 year period in GBP terms. Surrey appointed CBRE in April 2004. 14

Performance

The total return of the CBRE portfolio was -2.1% compared to +0.1% for the benchmark over 12 months. Over 3 years the total return was +0.8% p.a. compared to the benchmark return of +0.6% p.a., while ahead of the benchmark by +0.2% this outcome is -0.3% p.a. behind the performance objective. The total return is lower than the benchmark and objective over 5 years at +1.2% p.a. compared to the objective of +2.0% p.a. The total return since inception is +1.6% p.a. -1.5% p.a. behind the Surrey performance objective and -1.0% behind the benchmark.

Over the 12 months to June 2024 CBRE's attribution analysis estimates that the 5 best positive contributions to performance came from; Industrial Property Investment Fund, Unite Student Accommodation, currency, Octopus Healthcare Fund and M&G Secured Property Income Fund. The 5 funds with the largest negative contributions were CBRE Global Alpha, Ardstone UK Regional Office Fund, Standard Life, Long Lease, Airport Industrial Property Unit Trust and Schroders Capital UK Real Estate fund. CBRE cited the overall increase in yields, increased cost of debt and the pressure of redemptions for the fall in capital values and negative performance of the whole fund. The distribution yield of the portfolio has also fallen from 3.4% to 3.1%

In terms of absolute return 8 funds achieved a positive return, with a long tail of negative absolute returns from -1% to -56%. Within this only 7 funds delivered above benchmark returns, 1 in line with the benchmark and all the others below benchmark. Once again, one of the largest negative returns was achieved by Nuveen's UK shopping centre fund which delivered -31.8% compared to -57% in 2023 and -38.6% in 2022. The Millstone around this fund's neck is its largest development project, the St James Quarter in Edinburgh, which has been beset by numerous issues over the years.

Current Positioning

In January 2023 in anticipation of the launch of BCPP's Global and UK property fund solutions Surrey made changes to the UK segregated mandate instructing CBRE to make no new investments into closed ended property funds but provided guidance that investment into open ended funds and funds with at least an annual redemption window was allowed. Furthermore, they instructed that any income generated by the UK segregated portfolio should not be reinvested but instead returned to Surrey. Over the year under review the UK portfolio made new purchases of £14.2 million into open ended funds; £2.2 million of drawdowns to Fiera Logistic development fund and repaid £8.3 million of capital received from 4 different closed end funds. The CBRE Global Alpha investment is via a pooled fund vehicle so Surrey's instructions cannot be applied, hence the manager has continued to invest without these constraints.

The UK market remains in an adjustment phase caused by the overhang of corporate DB pension fund sellers, still seeking liquidity after the Gilt crisis in September and October 2022. CBRE claim this has been more of a problem for Schroders' and Blackrock's UK property businesses. Nonetheless until the secondary supply has cleared market performance will remain under pressure, although it may create opportunities for unleveraged equity investors to buy potentially undervalued assets.

In the UK portfolio CBRE remain committed to industrial/logistics especially in the Southeast where land is scarce and in both UK and Global portfolios, residential both affordable and private housing, student accommodation and new health care / nursing homes. Residential is an area where they believe there is structural under-supply of good quality assets. At the sector level CBRE remain underweight and continue to reduce exposure to office and retail, except where they can find opportunistic high quality, prime assets, with high ESG ratings and resilience to changing trends in user behaviour.

CBRE's Global Alpha fund has had none of the problems manifest in the UK. The fund has met all redemptions (US$345 million) on time and in full and has attracted US$425 million of new cash, has a queue of prospective investors with commitments of US$412 million. CBRE highlighted two deliberate policies, the first, to be defensive which means they tend to capture less of the "upside" but also hopefully less of the "downside" of the markets pricing cycle, the second is to monitor its investors by "type" to ensure that it doesn't become dominated by one type of investor, specifically to try and avoid the UK DB Pension Fund liquidation *problem.*

14 The dominant asset allocation is 46% industrial, 30% residential and 10% healthcare practices. It only has 4% in Office worldwide, with none in the US, 1 each Prime properties in London and Berlin plus a few higher quality properties in Paris. It only has 2% exposure to China all in logistics, the balance about 7% is in cash to manage cashflows, awaiting completion or seeking opportunities to invest.

Outlook

CBRE's UK macro-economic outlook in July 2024 foresees reasonable economic growth and continued moderating inflation from the middle of the year onwards. They expect a fall in interest rates and bond yields, which will help revalue the property sector. They see the current higher yields and pressure from liquidations driven by motivated sellers as an attractive entry point for UK property. They remain selective and quality driven in terms of the selection and retention of assets for the Surrey portfolio while at the same time seeking to achieve the best exits from the portfolio's problem assets.

Adviser View

As I mentioned last year, CBRE were too optimistic about the UK and global markets being at a turning point. This year they are much more cautious on the UK in particular and they cited the problems other managers are still having clearing their redemptions queues. Naturally they saw this as an opportunity for them, they are still expecting most of the returns to be income led but their total return forecast for the UK over the next few years has been increased to +7% to 8% p.a. The global team were much more bullish and expect to hit their US$ absolute return objective of 9% to 11% p.a.

CBRE, gave a very clear and impressive presentation, they were clearly on top of the subject, especially the global team, both teams expectations are well thought through and based on their views appeared reasonable. CBRE remain important to the Surrey Pension Fund as the CBRE Global Alpha Property Fund will be a significant proportion of the BCPP Global Property fund offering.

I remain confident that CBRE have the resources and the skill to manage Surrey's Property allocation.

BCPP

Alistair Smith - Head of Real Estate
Paul Campbell – Global Portfolio Manager
Sharmila Sikdar – Client Relationship Manager

Surrey's pooling partner BCPP is in the process of final design of their UK property offering having established the Global offering in the third quarter of 2023. The Global offering will use a core and satellite approach with CBRE's Global Alpha Fund the largest investment, other specialist or regional funds will be added over time. The UK approach will involve migrating away from funds to a property portfolio that will be predominately direct property investments with no more than 15% in specialist pooled vehicles. 14

Global Core Fund

The Global Real Estate Core Fund will target a return of 6% p.a. over 10 years, by investing in a range of funds targeting the Core and Core Plus property segments, the focus will be on high quality buildings with low vacancy rates, with returns dominated by rental income and low development risk. The design is sufficiently flexible to allow for both the transition of legacy assets in and if required full redemption out. The Core fund will, once portfolio constriction is complete, consist of 45% - 100% in core funds, with a limit of 55% in core plus funds. The geographic ranges are 30% - 70% North America; 20% - 60% Europe; 10% - 60% Asia Pacific; and 0% - 20% the rest of the world.

Advanced due diligence is progressing on the 3 legacy vehicles, the largest of which is CBRE's generalist core plus Global Alpha Fund (43%), Clarion Lion Industrial Trust a core plus US thematic fund (8%) and Prologis European, a core thematic fund (9%). Once these are complete BCPP's team will focus on adding 4 further core diversified vehicles, 2 in the US, and 1 each in Europe and Asia Pacific. The aim of the team is to achieve the best portfolio construction rather than to chase funds with discounts to NAV and then have to rebalance especially as care needs to be taken to avoid tax implications and round trip fees. The team are aiming to have a completed phase 1 portfolio by the first quarter of 2026 and will re-open for new subscriptions in April 2026.

Adviser View

Slow progress is being made to build the global property fund, but at least on day 1, it will consist largely of Surrey's existing investment in CBRE's Global Alpha Fund and over time enable Surrey to increase its global property exposure from cash.

UK Real Estate offering

BCPP outlined their progress in the establishment of the Main UK real estate fund. Establishment of the Gateway fund has been delayed until after the Main fund is up and running. The Main fund is expected to consist of only 66 physical property assets valued at about £1.1 billion after one of the partner funds that was considering passing its direct property portfolio to BCPP decided not to proceed at this stage. Phase 1 pre-launch due diligence and valuation of the 66 physical seeding assets is progressing and expected to be complete by the 30th September. This will enable the start of phase 2 – seeding window 1st October 2024 – 31st March 2025 consisting of the phase 1 66 direct holdings and a further £100 - £150 million of cash from Partner Funds. Phase 3 – Main fund launch 1st April 2025 onwards.

Surrey's interest

Surrey has no direct property holdings to seed the Main fund, but it does have approximately £100 million of mis-allocated capital to invest in order to increase its property allocation to neutral exposure within the Surrey's SAA. This £100 million will form part of the phase 2 seeding. In addition to this Surrey has 24 UK funds in its CBRE portfolio, only 3 of which are expected to be eligible for transfer to the indirect portion of the Main fund. These 3 funds worth approximately £40 million cannot be transferred until the start of phase 3. The remaining 21 funds worth approximately £180 million will be wound down or sold with the proceeds invested into the Main fund over time.

The three specialist funds that are expected to be eligible for transfer to the Main fund are; CBRE Affordable Housing, Octopus Healthcare and Unite Student Accommodation. Unfortunately, BCPP will not give a commitment that these 3 funds will be part of the portfolio until they have completed their due diligence, which will only begin after the physical asset DD is complete. Furthermore, BCPP reminded us that there is a 15% cap on the size of the indirect allocation in the Main fund, and that depending upon the size of other partner funds holdings in these 3 funds, there may not be capacity for all of Surrey's investment to be transferred in. They further muddied the water by suggesting that BCPP may wish to have a more diversified portfolio of in-direct holdings and that could further reduce capacity to take Surrey's indirect investments into the BCPP Main fund or lead to them being sold down in future.

14 ***Adviser View***

Despite the execution risk I still believe the real advantage that Surrey could gain by an investment in the UK Main fund is exposure to direct physical property investments. In my experience, bearing in mind that past experience will not always play out in the future, direct property investment delivers better risk and return outcomes at a much lower cost, with potentially much lower volatility and with only slightly less liquidity.

Unfortunately, BCPP are not helping decision making for Surrey with uncertainty and delay relating to the inclusion of the specialist in-direct property investments. This is making it difficult for Surrey to take advantage of the possibility of cheaper market entry opportunities and the ability to top up its invested allocation rather than its commitments to Property in-line with the Fund's strategic asset allocation.

Anthony Fletcher – Independent Adviser to the Surrey Pension Fund

SURREY PENSION FUND COMMITTEE REPORT

15

SURREY COUNTY COUNCIL

SURREY PENSION FUND COMMITTEE

DATE: 13 SEPTEMBER 2024

LEAD OFFICER: ANNA D'ALESSANDRO, EXECUTIVE DIRECTOR, FINANCE AND CORPORATE SERVICES

SUBJECT: INVESTMENT CONSULTANT UPDATE

SUMMARY OF ISSUE:

This report provides an update on investment consultancy services to the Fund.

RECOMMENDATIONS:

It is recommended that the Pension Fund Committee:

1. Approve the extension of the contract with Mercer for the provision of investment consultancy services to the Surrey Pension Fund.

REASON FOR RECOMMENDATIONS:

A contract extension will ensure the continued provision of investment consultancy services by Mercer. Mercer has a strong understanding of the assets and liabilities of the Fund and has passed the Fund's Competition & Markets Authority (CMA) review for objectives and tasks each year.

DETAILS:

Background

1. As part of a continuous review of the best value received by the Fund for investment consultancy, and in accordance with best practice, a contract for investment consultant was tendered by the Fund in 2021.

2. The procurement was run under the National LGPS Framework (the Framework). Mercer was identified as the highest scoring candidate and the Committee approved their appointment as the Pension Fund Investment Consultant on a 3-year contract with an option to extend for 2 years, in line with the Framework's document.

3. Since the initiation of this contract, Mercer have delivered on their objectives and performance criteria, as reported in the CMA review Committee papers each December.

4. It is recommended that the option to extend the contract with Mercer for another 2 years be taken up.

CONSULTATION:

5. The Chair of the Pension Fund Committee has been consulted on this report.

RISK MANAGEMENT AND IMPLICATIONS:

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6. Any relevant risk related implications have been considered and are contained within the report.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS:

7. Any relevant financial and value for money implications have been considered and are contained within the report.

EXECUTIVE DIRECTOR OF FINANCE & CORPORATE COMMENTARY:

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

LEGAL IMPLICATIONS – MONITORING OFFICER:

9. There are no legal implications or legislative requirements.

EQUALITIES AND DIVERSITY:

10. There are no equality or diversity issues.

OTHER IMPLICATIONS:

11. There are no other implications.

NEXT STEPS:

12. Further updates will be brought to the committee as required

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Contact Officer:

Lloyd Whitworth, Head of Investment & Stewardship

Annexes:

None

Sources/Background papers:

None

SURREY PENSION FUND COMMITTEE REPORT

SURREY COUNTY COUNCIL

SURREY PENSION FUND COMITTEE

DATE: 13 SEPTEMBER 2024

LEAD OFFICER: ANNA D'ALESSANDRO, EXECUTIVE DIRECTOR, FINANCE AND CORPORATE SERVICES

SUBJECT: RECENT DEVELOPMENTS IN LGPS (BACKGROUND PAPER)

SUMMARY OF ISSUE:

This report considers recent developments in the Local Government Pension Scheme (LGPS).

RECOMMENDATIONS:

It is recommended that the Pension Fund Committee:

1. Note the content of this report.

REASON FOR RECOMMENDATIONS:

The report provides background information for the Committee.

DETAILS:

Highlights

1. **Pensions Review**

   The Chancellor announces a landmark pensions review. More can be found in paragraph 6.

2. **McCloud limited consultation**

   A limited consultation held on McCloud and the inclusion of underpin figures in Annual Benefit Statements for affected members. More can be found in paragraphs 10,13 and 14.

3. **Good Governance recommendations**

   A consultation was expected following the Scheme Advisory Board recommendations but has been delayed. More can be found in paragraphs 22 and 23.

4. **Abolition of Lifetime Allowance**

   Further updates following the removal of the LTA and the introduction of the new regime. More can be found in paragraphs 7, 9 and 36.

LGPS Updates

5. Following the general election, the Department for Levelling Up, Housing and Communities (DLUHC) has reverted to its former name, the Ministry of Housing, Communities and Local Government (MHCLG).

6. The Government announced a pensions review on 20 July 2024 as part of its mission to 'boost growth an make every part of Britain better off'. The review will look at how to 'unlock the investment potential of the £360 billion LGPS' and 'tackle the £2 billion that is being spent on fees'. The review will also consider the benefits of further consolidation to cut down on 'fragmentation and waste' in the LGPS and the Government will consider legislating to mandate pooling if insufficient progress is made by March 2025.

7. Following the removal of the Lifetime Allowance (LTA) and the introduction of the new lump sum limits, a consultation was expected from MHCLG, on the long-term policy on allowing a Pension Commencement Excess Lump Sum (PCELS) to be paid from the LGPS and if so, what the limit should be. This has been delayed due to the general election and in the interim an email was forwarded from MHCLG, setting out what administering authorities should do in the meanwhile and the Local Government Association's (LGA) guide on the Abolition of the LTA has been updated to reflect this.

8. The Education and Skills Funding Agency have updated guidance on academies and LGPS liabilities to include a definition of a 'pass-through arrangements'.

9. The LGA have updated several member and employer guides to incorporate the latest on the McCloud position, removal of the Lifetime Allowance (LTA) and the new lump sum allowances introduced, along with other minor changes.

10. The LGA have updated the technical guide on annual benefit statements to reflect their understanding of what must be included as a result of the McCloud remedy and the introduction of pensions dashboards from 2025.

11. 2024 Fundamentals training is now open for booking and is a 3 day training course aimed at Councillors and others who attend pension committees and local pension boards. The course provides a scheme overview and covers current issues in relation to administration, investment, and governance in the LGPS. There is the option of attending in person in London or York, or online via Zoom. LGA bulletin 253 contains further information and links for booking (page 14).

12. The National LGPS Frameworks for Additional Voluntary Contributions (AVC) Services launched in July 2024.

McCloud

13. The MHCLG launched a limited technical consultation, which closed on 9 July 2024, on whether underpin information is included in Annual Benefit

Statements (ABS) for the scheme years 2023/24 and 2024/25. Currently the legislation requires the inclusion of this for active members from 2023/24 onwards, whilst for deferred members the rules are less specific. The draft regulations within the consultation would mean administering authorities would have discretion and would not need to include estimated underpin figures for the 2023/24 ABS, implementing the approach MHCLG set out in its response to the McCloud consultation (paragraph 118), with the amendment being backdated to 1 October 2023, covering the 2023/24 ABS' that may be sent before the regulations are made. If the regulations are not laid by 31 August 2024, the Pensions Regulator (TPR) expects all administering authorities to report not including McCloud information in their statements as a material breach of the law.

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14. In the above mentioned consultation, MHCLG also sought views in extending this further for certain members or classes of members, if the administering authority consider it reasonable to do so for the 2024/25 ABS. This would mean authorities using this discretion would need to decide before 31 July 2025 and inform affected members in the ABS for 2024/25, but to avoid this discretion being used too broadly and delaying the McCloud remedy, MHCLG are consulting on whether guidance should be issued about such circumstances where it may be appropriate to apply this discretion.

15. The MHCLG has issued the final statutory guidance on the McCloud implementation, providing the Government's views on the approach that should be taken in certain types of cases, together with how certain technical issues should be approached should they arise, thereby leading to a fairly consistent approach across the LGPS.

16. The MHCLG issued new actuarial guidance on trivial commutation, incoming and outgoing transfers, pension debits, CETVs on divorce, which all provide additional information about how the McCloud remedy affects the relevant calculations.

17. The Government Actuary's Department (GAD) have published new guidance on applying the McCloud remedy to retrospective cases, together with an interest calculator for retrospective McCloud calculations.

18. The LGA are regularly meeting with representatives from MHCLG, the Department for Education and Capita to discuss the operation of the McCloud remedy for teachers with excess service and the Teachers' Pension Scheme (TPS) website sets out a brief summary of the process.

Scheme Advisory Board (SAB)

19. A sub group have begun a detailed review of the Funding Strategy Statement (FSS) guidance, which was last updated in 2016, with aims of making the guidance shorter, sharper and more accessible for all stakeholders such as employers.

20. As part of their work on the gender pensions gap in the LGPS, the SAB are looking for employers interested in taking part in further research to help identify the underlying causes of the gap and ways to help close this gap.

21. The SAB sent a letter to the Chief Secretary to Treasury about the gender pensions gap, suggesting the Government take a consistent and active approach across all public sector schemes.

22. The MHCLG's consultation on the Good Governance recommendations has been delayed due to the general election. The consultation was expected to include changes to regulations 55 (governance compliance statements) and 59 (pension administration strategy) along with guidance to implement most of
16 the recommendations made. The SAB will ensure the implementation of the Good Governance recommendations is raised as a priority with the Minister when the new Government is formed.

23. Whilst the implementation of the Good Governance recommendations should help resolve some of the ambiguity in the General Code for the LGPS, it is recommended administering authorities should not delay reviewing their compliance while awaiting the consultation. There is no regulatory timescale to comply with the General Code and TPR strongly recommend having a clear action plan setting out how and when administering authorities plan to address the General Code compliance.

24. The SAB met with The Pensions Regulator (TPR) to discuss the review of the public sector toolkit and whilst TPR have said it is being revised they could not commit to it remaining a standalone product, but it may be incorporated into a series of thematic toolkits TPR is producing.

25. The SAB issued a short survey on 20 May 2024 to employers to assist their understanding in why some people choose to opt out of the LGPS. The 53 responses have been analysed and the SAB have set out a paper outlining the main findings and suggested next steps for action has been submitted to the Cost Management, Benefit Design and Administration Committee for its meeting on 1 July 2024.

26. The SAB has published its eleventh Scheme Annual Report which is aimed to provide a single source of information about the status of the LGPS for its members, employers and other stakeholders, combining information supplied in the England and Wales LGPS fund annual reports as of 31 March 2023 for the reporting year 2022/23.

27. The SAB and the Institute of Chartered Accountants in England and Wales (ICAEW) have published an informer document to explain the timeline and information flow for the triennial valuation and accounting/audit purposes with the primary audience being Scheme employers and their external auditors.

28. The SAB are researching the longer-term future of the data compliance system which supports the LGPS Code of Transparency and will be launching an early market engagement exercise shortly.

29. The Education and Skills Funding Agency (ESFA) is the ultimate guarantor of academy schools and the SAB have been asked to confirm its view that the ESFA is a body whose rights and/or liabilities under the Scheme may be the subject of decisions made by the administering authority. For example, in connection with decisions relating to the exit of an academy school and whether exit payments or credits are due, ESFA should be kept informed and is entitled to make representations as to its interests.

30. Following the general election, the King's Speech set out the Government's plans and priorities for the first parliamentary session and included in this is the Bill on Audit Reform and Corporate Governance, which could pave the way for separation of pension funds from host authority audit in England. The SAB previously called for this in a letter in 2022 and was assured its recommendation would be taken forward once a suitable legislative vehicle had been identified. 16

31. The GAD has now completed the scheme cost assessment as required under the LGPS regulations and the SAB cost management process final report was completed using methodology and assumptions determined by the Board. The scheme cost was assessed as being 1 percent above the target cost and so the Board could make a recommendation to amend benefits to bring scheme costs back towards the target cost and following discussion the Board agreed not to make any recommendations for change in its letter to the Secretary of State about the outcome.

Pensions Dashboard Programme (PDP)

32. The PDP have published an updated version of the data standards, which covers the data requirements for 'finding' and 'viewing' pensions information, together with a blog on the new version.

33. On May 2024 the Pensions Administration Standards Association (PASA) published an update from its dashboards working group, outlining ongoing development of guidance and resource relating to additional voluntary contributions, test case matrix, matching and data readiness.

34. The National LGPS Framework for Integrated Service (ISP) and Member Data Services is now live.

35. TPR will start their programme of nudge communications shortly and will be sending a series of five emails in the run up to the connection date. The emails will contain key messages about where TPR expects administering authorities to be in the dashboard implementation process. In November 2024 TPR will be sending their first dashboards readiness survey covering nine key areas including awareness of duties, preparation for connection, data preparation, compliance and engagement.

His Majesty's Revenue and Customs (HMRC)

36. HMRC has acknowledged technical inaccuracies in the legislation introduced to implement the new regime following the abolition of the LTA and plans to introduce new legislation to address the issues after the parliamentary recess.

HMRC is undertaking a short technical consultation on the draft legislation over the summer.

The Pensions Regulator (TPR)

37. TPR published its new Corporate Plan 2024 to 2027, setting out TPR's direction for the next three years, how it will protect savers money, help to enhance the pensions system and support innovation in the interests of savers.

38. The Chief Executive at TPR delivered a keynote speech at Professional Pensions Live on 22 May 2024 covering the corporate plan, driving value for money, securing the future for defined benefit schemes, raising standards across all scheme types, data quality and TPR's future approach to regulation. There is also an accompanying press release.

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The Pensions Ombudsman (TPO)

39. TPO published a blog on its operating model review, which aims to improve TPO's efficiency and reduce waiting times. The three areas of focus for improvement are resolution team changes, expedited determinations and thresholds for accepting complaints.

40. TPO held a forum for stakeholders from across the industry and more can be found in the event in a blog. TPO encourages stakeholders to join their future events and subscribe to the TPO mailing list to receive updates and event invitations directly.

Other News and Updates

41. Following the dismissal by the Court of Appeal on the case brought about by the British Medical Association (BMA) and the Fire Brigades Union (FBU) vs HMT, the FBU have announced in a press release that it is seeking permission to appeal to the Supreme Court.

42. The Pensions Scams Industry Group (PSIG), which is a voluntary body created by the pensions industry to combat pension scams, have consulted on its future strategy with the aim of understanding the value provided by PSIG, possible direction and how this could be achieved, including possible funding options.

43. The Government have launched a digital service, 'Check your State Pension Forecast', designed to make it easier for individuals to check for and fill any gaps in their National Insurance record to help increase their State Pension.

44. PASA has published new guidance, Data Presence v Accuracy, which sets out why data should not just be present but accurate and provides suggestions on how administrators can improve and maintain their data accuracy.

45. The Court of Appeal dismissed the appeal in the Virgin Media Ltd v NTL case on 25 July 2024. The High Court had previously ruled that:

a) amendment of pension scheme rules in respect of Section 9(2)B rights were void unless the scheme actuary certified that the scheme still met the contracting-out adequacy test

b) this applied to rights built up before and after the change in rules

c) all amendments are affected by the ruling, not just those that have a negative impact on section 9(2)B rights.

The appeal concerned (b) only and the Court of Appeal upheld the High Court's ruling and it is understood the ruling will apply to the LGPS and HM Treasury are currently assessing the implications for all public service pension schemes. The LGA expect to provide further information once there is more clarity on the position.

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CONSULTATION:

46. The Chair of the Pension Fund Committee has been consulted on this report.

RISK MANAGEMENT AND IMPLICATIONS:

47. Any relevant risk related implications have been considered and are contained within the report.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS:

48. Any relevant financial and value for money implications have been considered and are contained within the report.

EXECUTIVE DIRECTOR OF FINANCE & CORPORATE COMMENTARY:

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

LEGAL IMPLICATIONS – MONITORING OFFICER:

50. There are no legal implications or legislative requirements.

EQUALITIES AND DIVERSITY:

51. There are no equality or diversity issues.

OTHER IMPLICATIONS:

52. There are no other implications.

NEXT STEPS:

53. No next steps are planned.

Contact Officer:

Colette Hollands, Head of Accounting and Governance.

Annexes:

1. None.

Sources/Background papers:

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1. None.

SURREY PENSION FUND COMMITTEE REPORT

SURREY COUNTY COUNCIL

SURREY PENSION FUND COMMITTEE

DATE: 13 SEPTEMBER 2024

LEAD OFFICER: ANNA D'ALESSANDRO, EXECUTIVE DIRECTOR, FINANCE AND CORPORATE SERVICES

SUBJECT: INVESTMENT BENCHMARKING

SUMMARY OF ISSUE:

The Fund's investment returns and associated costs should be considered in relation to other pension funds, both private and Local Government Pension Schemes (LGPS).

RECOMMENDATIONS:

It is recommended that the Pension Fund Committee:

1. Note the content of the report by CEM Benchmarking.

REASON FOR RECOMMENDATIONS:

The Committee should review the Fund's returns and costs against other funds to establish value for money of the Fund for all stakeholders.

DETAILS:

Background

1. CEM Benchmarking has been appointed to carry out a benchmarking process of the Fund's investment returns and costs.

2. The Committee meeting slides are in Annexe 1 and the full report from CEM Benchmarking, Part 2, can be found in Annexe 2.

3. Costs down and in line with peer group.
    a) Investment cost fell from 78.4bp for 2021/2 to 75.1bp for 2022/3.

    b) Investment cost of 75.1bp compares to the peer group of 74.8bp.

    c) The peer group for comparison has expanded from 20 funds to 37 this year. Compared to the old peer group, the Fund's cost was 1bp less than the benchmark.

d) The Fund has a higher cost implementation style, offset by paying less than peers for similar assets.

4. Returns ahead of LGPS median.

a) 3-year net total return of 10.3% compared to the LGPS median of 9.7%.

b) Result reflects the positive asset allocation decisions.

5. Net value added positive but below the LGPS median.

a) 3-year net value added of 0.3%, below the LGPS median of 0.8%.

17 b) Result reflects the underperformance of some of the funds.

CONSULTATION:

6. The Chair of the Pension Fund Committee has been consulted on this report.

RISK MANAGEMENT AND IMPLICATIONS:

7. Any relevant risk related implications have been considered and are contained within the report.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS:

8. Any relevant financial and value for money implications have been considered and are contained within the report.

EXECUTIVE DIRECTOR OF FINANCE & CORPORATE COMMENTARY:

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

LEGAL IMPLICATIONS – MONITORING OFFICER:

10. There are no legal implications or legislative requirements.

EQUALITIES AND DIVERSITY:

11. There are no equality or diversity issues.

OTHER IMPLICATIONS:

12. There are no other implications.

NEXT STEPS:

13. The following steps are planned:

    a) CEM Benchmarking have been commissioned to carry out benchmarking analysis for the Fund's investment returns and costs for the year 2023/24.

Contact Officer:

Lloyd Whitworth, Head of Investment & Stewardship

Annexes:

1. Annexe 1 – CEM Benchmarking report slides
2. Annexe 2 – CEM Benchmarking report (Part 2)

Sources/Background papers:

None

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Annexe 1

Surrey Pension Fund

CEM Benchmarking

Investment Benchmarking Results Presentation – Year Ending 31 March 2023

13 September 2024

Introduction to CEM

We collect proprietary data on ~£11 trillion in AUM

CEM in numbers

30 Years serving institutional funds

20+ Countries served

500 Institutional funds benchmarked

150 Of the world's top 300 funds use CEM

$14T AUM investment database

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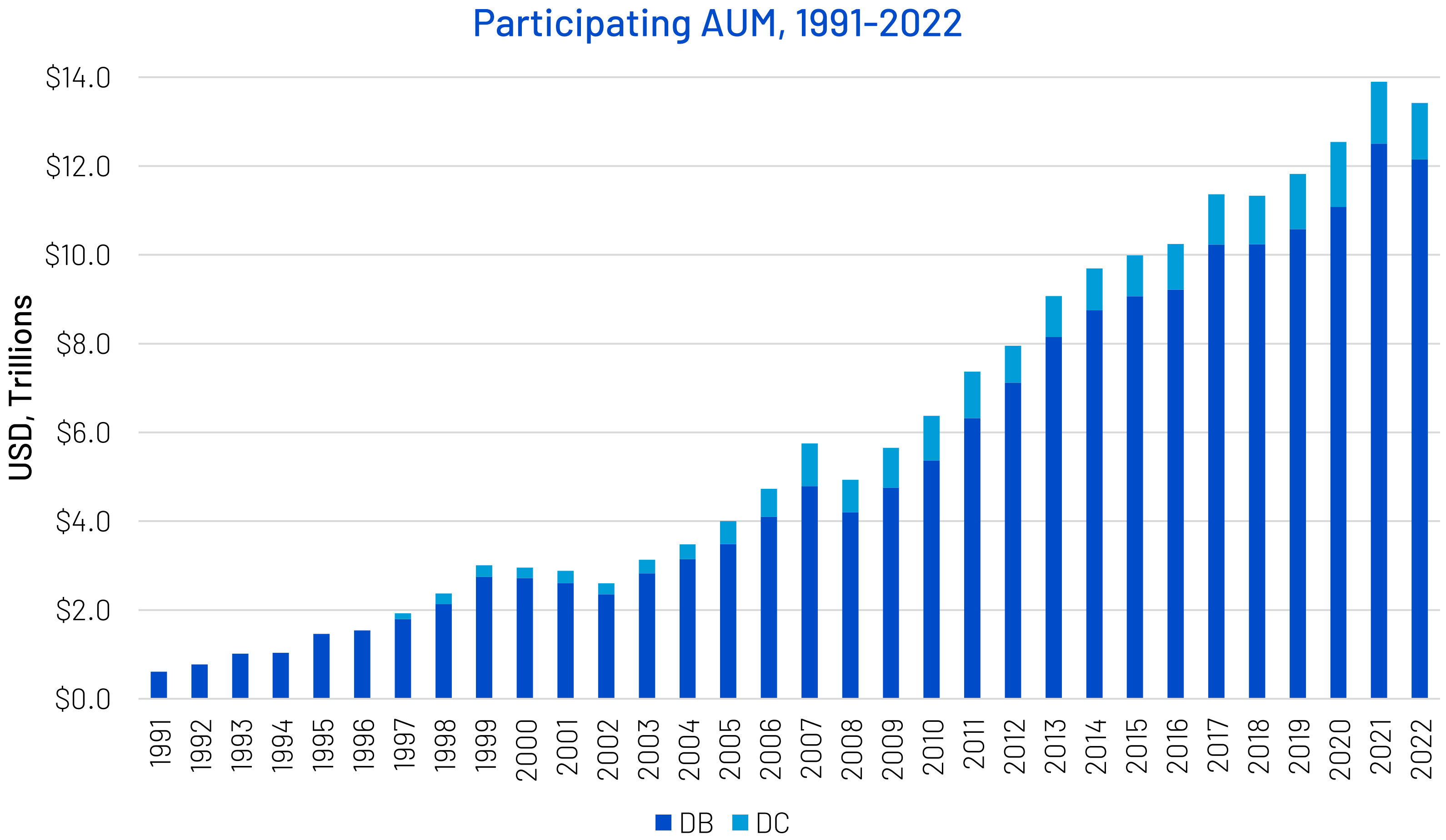
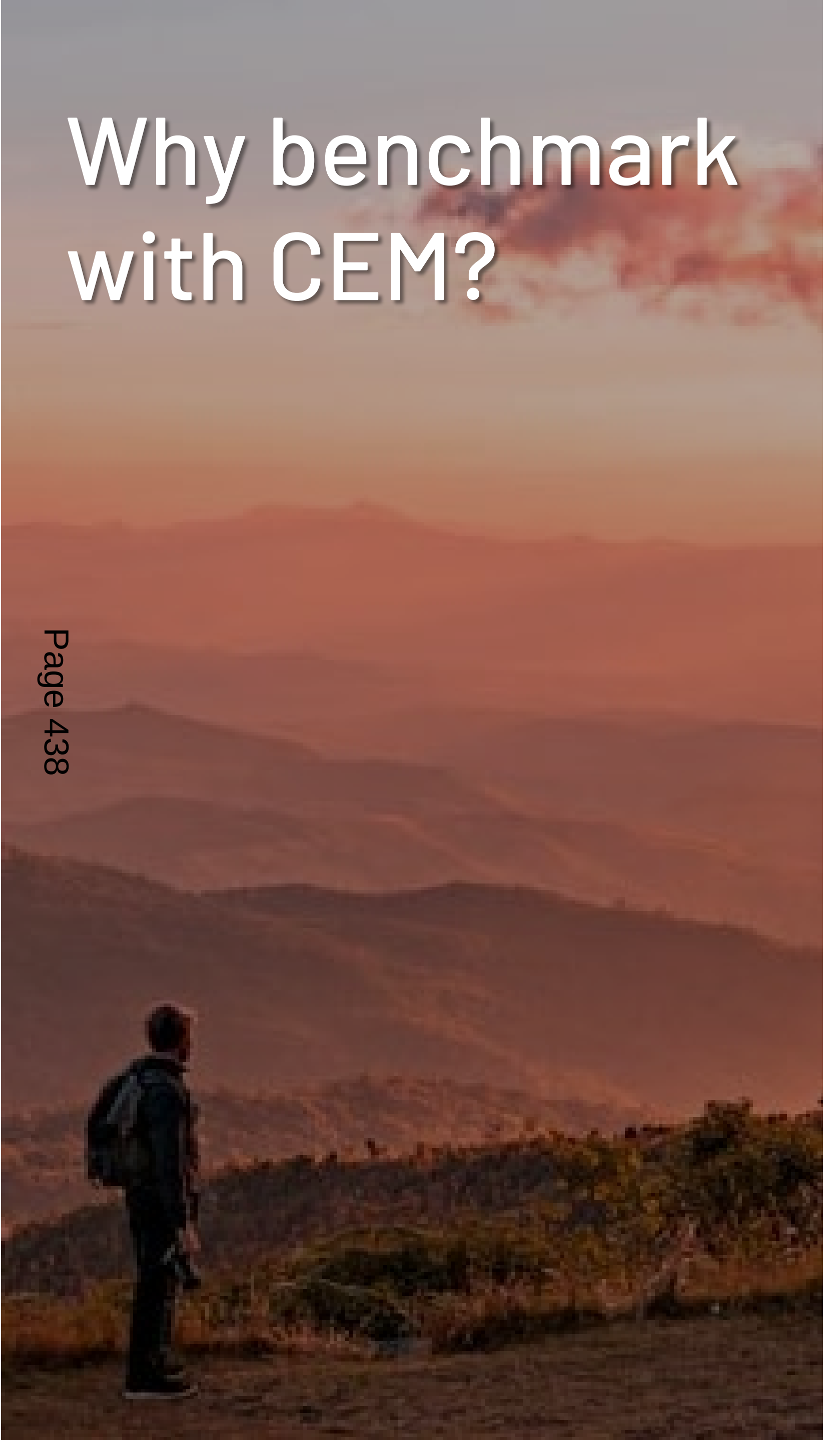


Data-driven • Objective • Expert • Trusted

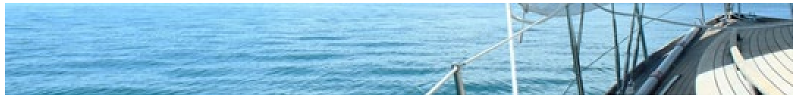
Why benchmark with CEM?



Funds use our analysis to:

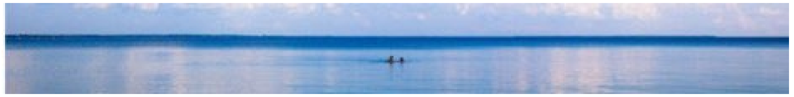
Demonstrate value-for-money

Demonstrate effectiveness, inside and outside LGPS, to Committees, members and other stakeholders.



Manage fees and costs

Revisiting areas of internal spending and negotiating commercial terms.



Identify opportunities to improve

Understand how others implement their strategies – and learn from them.

Deliver accountability

Hold suppliers, including the pool, accountable.

Investment Benchmarking Results 2022-2023

Investment Benchmarking Survey (IBS)

The CEM IBS service provides an independent assessment of value-for-money.

Your results can help you understand:

Cost – How do our costs compare and why? Where are we paying more/less than others?

Performance - How do our returns compare with others and why? How does our 'net value add' compare with others?

Risk - How does the risk in our portfolio compare with others?

Value-for-Money -If we are paying more, are we getting more?

We compare your costs with 37 global peer funds

- Peers are selected based on size – size impacts costs.
- To include both LGPS and non-LGPS funds globally.
- Because they hold similar assets to you.

Investment Costs are mostly driven by your asset mix.

- We collect your internal, external and oversight costs in a standard format.
- Asset mix is the biggest driver of cost differences between schemes.
- Differences in allocations to high-cost private market assets in particular drive big cost differences in cost at a total fund level.
- We are benchmarking total investment costs of £37.8 (75.1 bps) in 2023 vs 41.1m (78.4 bps) in 2022.
- Your private market costs account for >70% of your total investment costs, but account for only around 19% of your total assets.

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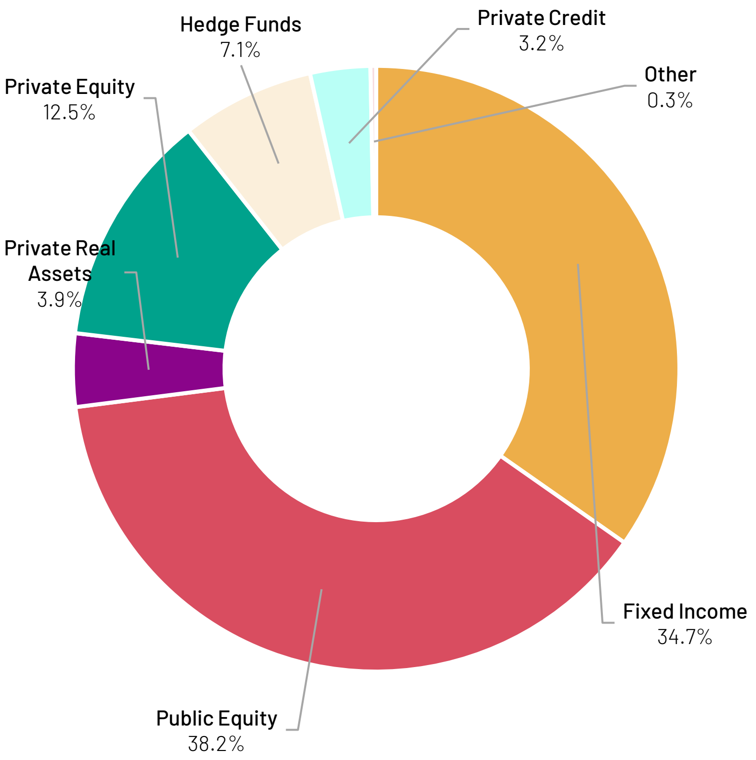
We are benchmarking investment costs of £37.8m or 75.1 bps in 2023.

Assets	Internal costs and pool mgt fees[1]	External			Total		Trans. costs[3]
		Passive fees	Active base fees[2]	Active perf. fees[2]			
	£000s	£000s	£000s	£000s	£000s	bps	£000s
Pooled assets							
Equities	999		3,523		4,522	29.3	7,710
Bonds			1,470		1,470	26.7	1,431
Real assets	212		5,132	1,284	6,628	487.8	
Private equity	73		3,068	424	3,566	530.8	
Private credit	107		2,532	652	3,292	446.6	
Total pooled assets	**1,392**		**15,725**	**2,360**	**19,477**	**82.1**	**9,142**
Non-pooled assets							
Equities		740	884	208	1,832	10.2	2,002
Bonds			111		111	5.3	(24)
Real assets			5,095	3,205	8,300	157.1	1,036
Private equity			2,389	2,703	5,092	344.1	
Derivatives/Overlays		275			275	--	18
Total non-pooled assets		**1,015**	**8,479**	**6,116**	**15,611**	**58.7**	**3,033**
Oversight, custodial and other costs					1,204	2.4	
LGPS pool fees					1,521	3.0	
Total oversight, custodial, pool and other costs[5]					**2,725**	**5.4**	
Total benchmarked costs[6]					**37,813**	**75.1**	

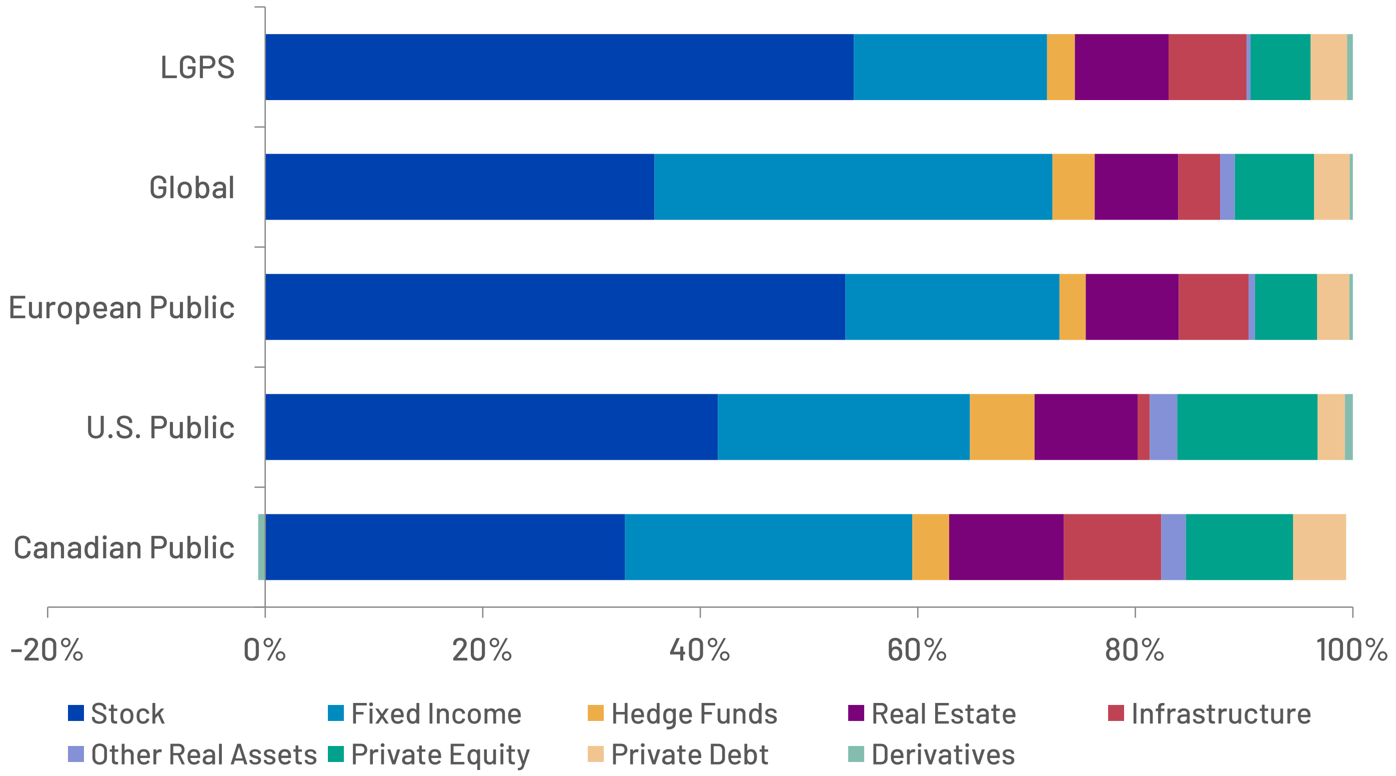
Please see appendix 2 for the full breakdown of all your mandates. See appendix 3 for the defaults that CEM applied for missing fees.
--Total bps for the new funds are not meaningful as the NAVs are low.

Lower costs are primarily owed to asset mix differences

CEM IBS Database Average Asset Mix (2022/23)

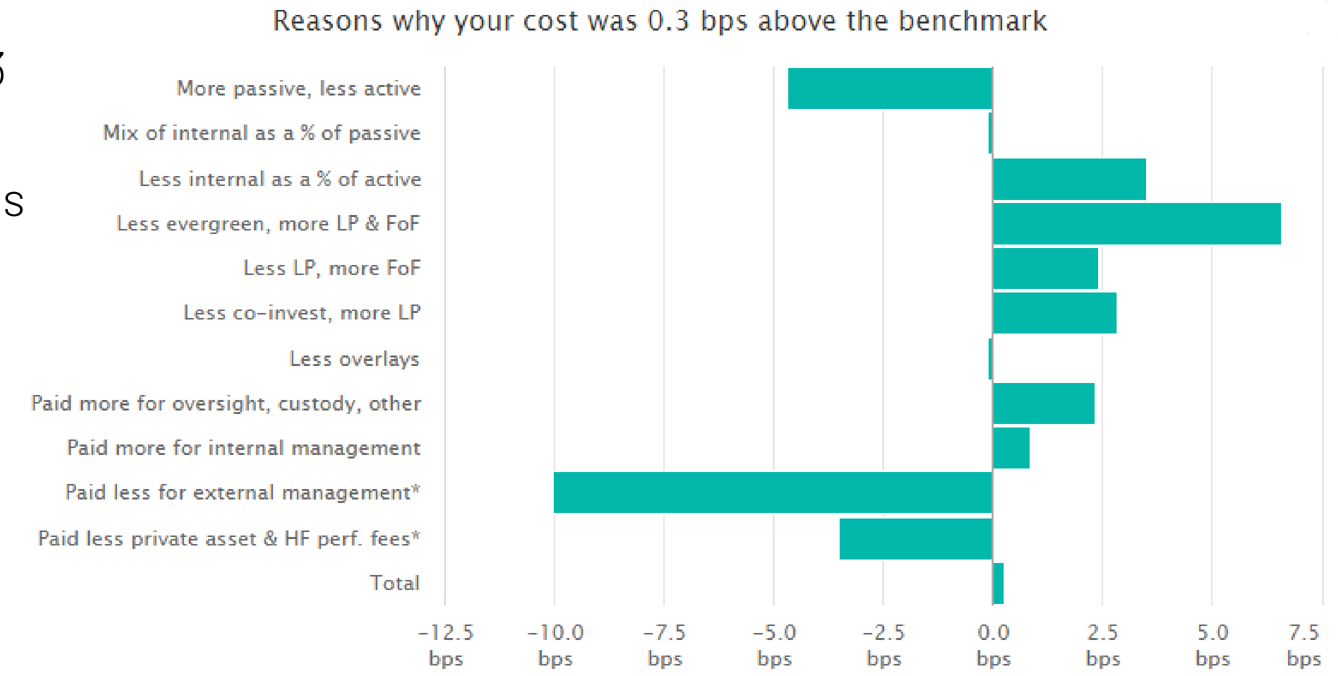


CEM IBS LGPS Average Asset Mix (2022/23)



Surrey's costs are broadly in line with peers

- Your investment costs of 75.1 bps comparable with a peer benchmark of 74.8 bps
- You were 0.3bps above peer benchmark costs (vs 1.3 above in 2022)
- Higher use of passive management saved you 4.7 bps
- Pooled assets saved you 1.8 bps where there was a cost drag of 4.4 bps from the non-pooled assets.
  - Note: there was a combined cost drag of 2.3 bps allowing to oversight, custody and pool fees.
- More passive investment than peers, which is offset by higher use of Fund of Funds ("FoF") for implementation of your private assets programme
- Your total fund cost including private assets performance fees have decreased over time.



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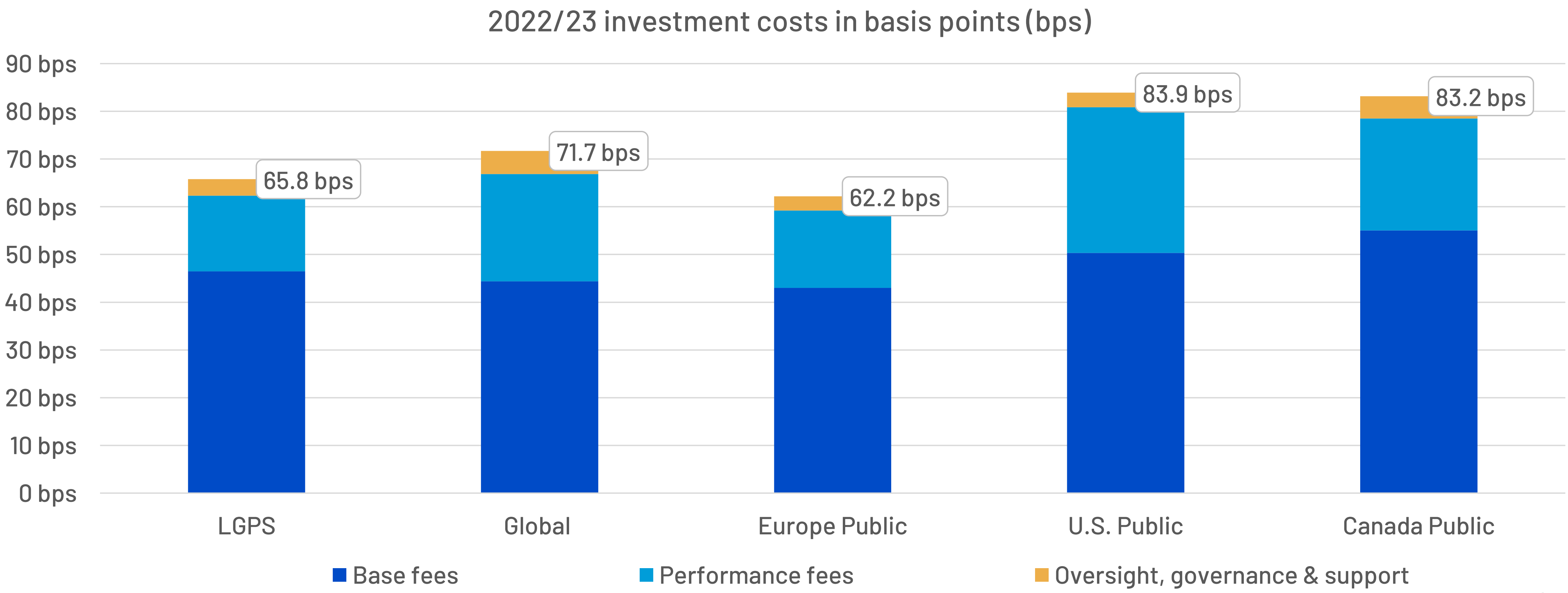
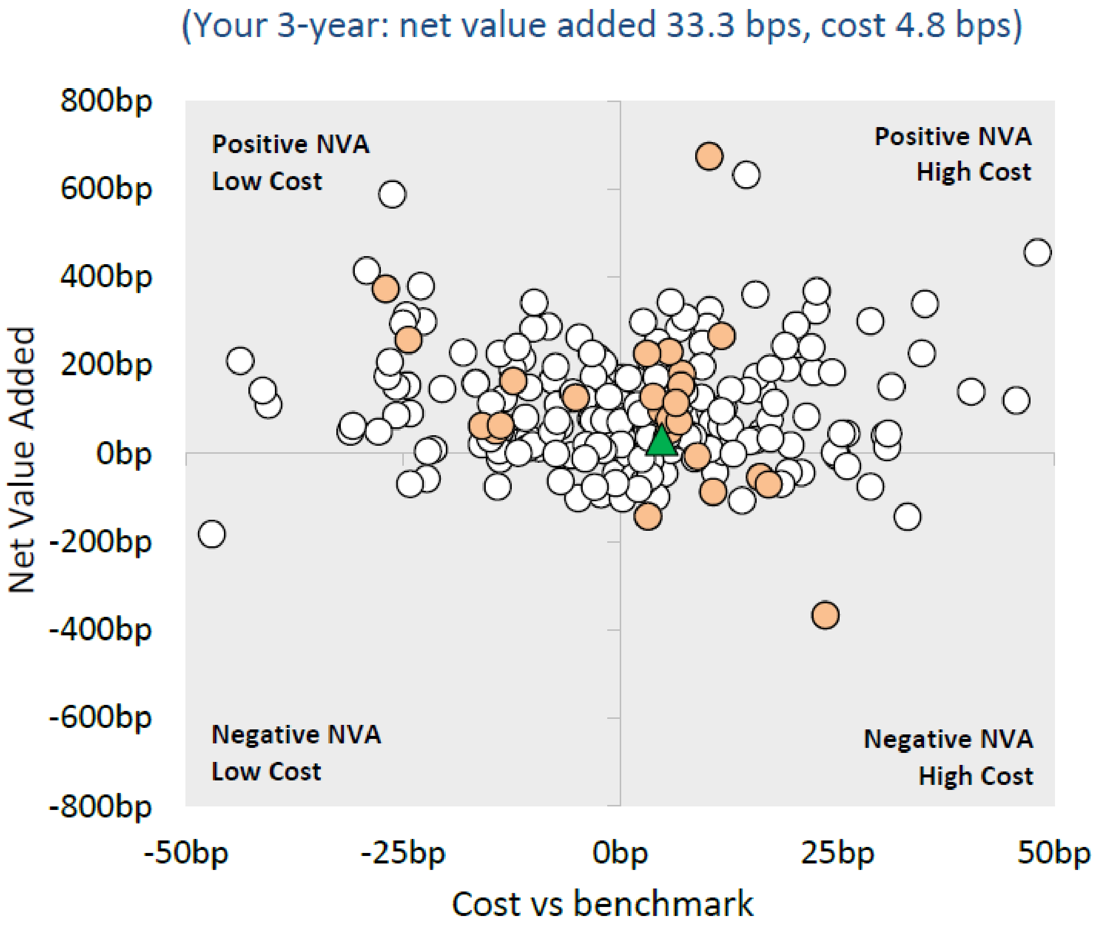
How does this compare with the wider CEM data base?

LGPS are lower cost compared to the global average on an absolute basis.



Measures of success and position relative to peers

- Net Value Added equals total net return minus the return that would have been achieved if investments had been made passively in line with strategic asset mix.
- Your Net Value Added over the 3-years to 31 March 2023 was 0.3%.
- This was below the median of 0.8% for the LGPS universe.
- Your cumulative 3-year positive net value added has added approximately £53 million to the funding of your plan.




CEM Benchmarking

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