



Surrey Local Pension Board 18 July 2019

Governance Review

Summary

As part of the governance and oversight of the Pension Fund, a regular review and update to the governance framework, policies and procedures is essential to ensure that the Fund is compliant with latest legislation, regulations and good practice.

At its meeting of 14 September 2018, the Pension Fund Committee agreed to commission a review of the fund governance. This was carried out by Hymans Robertson.

This report provides details of this review, which includes the definition of a mission statement for the Fund and key strategic objectives in investments, funding, governance and delivery.

Recommendations

It is recommended that the Local Pension Board:

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

Reason for Recommendations

The purpose of this governance review is to provide the Administering Authority with an assessment of where it stands in relation to its legal requirements, as well as the expectations of the Pension's Regulator as set out in Code of Practice 14 – Governance and administration of public service pension schemes.

Key to the success of the Surrey Pension Fund is having an agreed and clear set of objectives in place, covering all the elements of management and administration of the Fund. This provides the necessary clarity in terms of the Fund's direction, which in turn brings a greater focus to the business of the Fund. It is the building block that also ensures risks are managed appropriately, that there is better decision making and that time and

resource is managed more effectively. From these objectives flow all activities of the fund through its business plan.

These objectives are a reflection of the Fund's mission statement. This is a valuable tool in helping to focus and define the core philosophy of the Fund and to express succinctly what it stands for.

Details:

Background

1. The scope of the governance review had three sections: Overview, Background and Review.
2. The review concentrated on five areas:
 - Clarity of objectives
 - Business Planning
 - Delivery
 - Risk Management
 - Decision Making
3. Research for the review consisted of the following:
 - Interviews with key members of the Pension Fund Committee, Local Pension Board and officers from the pension administration and Pension Fund teams
 - Observation of Pension Fund Committee and Local Pension Board meetings
 - Participation in an Objectives Setting Workshop attended by members of the Pension Fund Committee, Local Pension Board, the investment consultant, the independent advisor, the Fund actuary and officers on 9 April 2019
 - Completion of an effectiveness questionnaire issued to all Pension Committee and Pension Board members
 - A comparison of the governance arrangements with LGPS comparators and best practice in the private sector
 - A desk top review of key documents, reports, policies and statements
4. In addition to this there was a further objectives setting meeting held on 26 April 2019 between the Pension Fund Committee Chairman, Vice-Chairman, Independent Advisor and officers.
5. The governance review (included as Annex 1) considers the following areas:
 - *Clarity of objectives* – Key to the success of the Administering Authority, covering all the elements of management and administration of the Fund, providing clarity in terms of the Fund's direction, ensuring a greater focus to the business of the Fund and managing risks appropriately.
 - *Business Planning* – Setting out all the planned activities for the short and medium term, forming the focus for Committee and Board meetings and supporting the delivery of the Fund's objectives, which is all part of a cycle of good governance.

- *Delivery* – Ensuring the Fund has appropriate staffing resource to achieve its objectives, be that in relation to investment, funding, administration or governance, meeting the steady increase in the number of overriding legislative requirements on pension administration teams and other officers charged with managing the Fund.
 - *Risk Management* – Having a proper risk management framework in place, allowing those responsible for the management of the Fund to understand the types of issues that might adversely impact it and assist in preventing issues arising or helping to reduce their impact where they do arise.
 - *Decision Making* – Having clear objectives in place ensuring each decision being taken is linked to a stated objective and helping keep the Administering Authority on track in achieving its strategic aims.
6. The conclusions of the review are that overall the governance of the Fund is considered to be **good**, meeting the legal requirements set for it in the majority of areas. There is clearly good engagement by all stakeholders, with healthy debate and discussion at both the Pension Committee and Pension Board.
7. The review provided the following nine recommendations:
- I. The Fund should adopt the objectives and mission statement as set out in the review.
 - II. The Fund's business plan should be reviewed in light of newly adopted objectives and mission statement.
 - III. Officers should work with the administration team to consider what changes are required to the analysis and reporting of performance against service standards, better reflecting the full range of reporting requirements available, and supporting the Pension Board in effectively delivering on its responsibilities.
 - IV. The Fund should receive reassurance from the administration function that all member records are set up on the pension administration system and that all relevant documents are scanned and assigned to the appropriate record.
 - V. The Fund should create a risk management policy.
 - VI. The Fund should revisit the existing risk register to ensure it reflects the expectations of TPR.
 - VII. Consideration should be given to putting in place a formal Training Policy, setting out the Administering Authorities approach to training for members of the Pension Committee, Pension Board and Officers involved in the management and administration of the Fund.
 - VIII. Introduce a governance matrix for the Fund.
 - IX. Consideration to be given to completing a full review and updating of policies held by the Fund. Furthermore, the Fund should consider creation of those policies recommended by TPR but not currently produced and held by the Fund.

Mission Statement and Strategic Objectives:

8. An Objectives Setting Workshop, attended by members of the Pension Fund Committee, Local Pension Board, the investment consultant, the independent advisor, the Fund actuary and officers was held on 9 April 2019. In addition to this there was a further objectives setting meeting held on 26 April 2019 between the

Pension Fund Committee Chairman, Vice-Chairman, Independent Advisor and officers.

9. From these two meetings it was determined that all activities of the Fund were derived by reference to the following stakeholders:

- Members
- Employers
- Trustees

10. Leading from these the stakeholders the following Mission Statement was identified:

“The Surrey Pension Fund strives to deliver a first-class service by creating strong partnerships with scheme members, employers, the Border to Coast Pool and the wider LGPS community. ESG factors are fundamental to our approach which is underpinned by the highest standards of corporate governance, informed decision making, the use of technology and risk management.”

11. From the Mission Statement flow the following strategic objectives were agreed for investment, funding, governance and delivery:

Investment objectives

- To have a clearly articulated strategy for achieving the return required to meet pension payments
- To have a strategic asset allocation that delivers long-term investment returns, while taking the appropriate level of risk required
- To have sufficient liquid resources available to meet the Fund's ongoing obligations
- To ensure material ESG factors are fundamental to all investment decisions
- To appoint managers and advisors to deliver the investment strategy and monitor their effectiveness

Funding objectives

- To ensure the long-term solvency of the Fund, using a prudent long term view. This will ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment
- To ensure that employer contribution rates are affordable and stable
- To reflect the different characteristics of scheme employers in determining contribution rates
- To ensure administration costs attributable to scheme employers are charged proportionately to how they are accrued
- To take reasonable measures to reduce the risk to all employers of any employer defaulting on its pension obligations

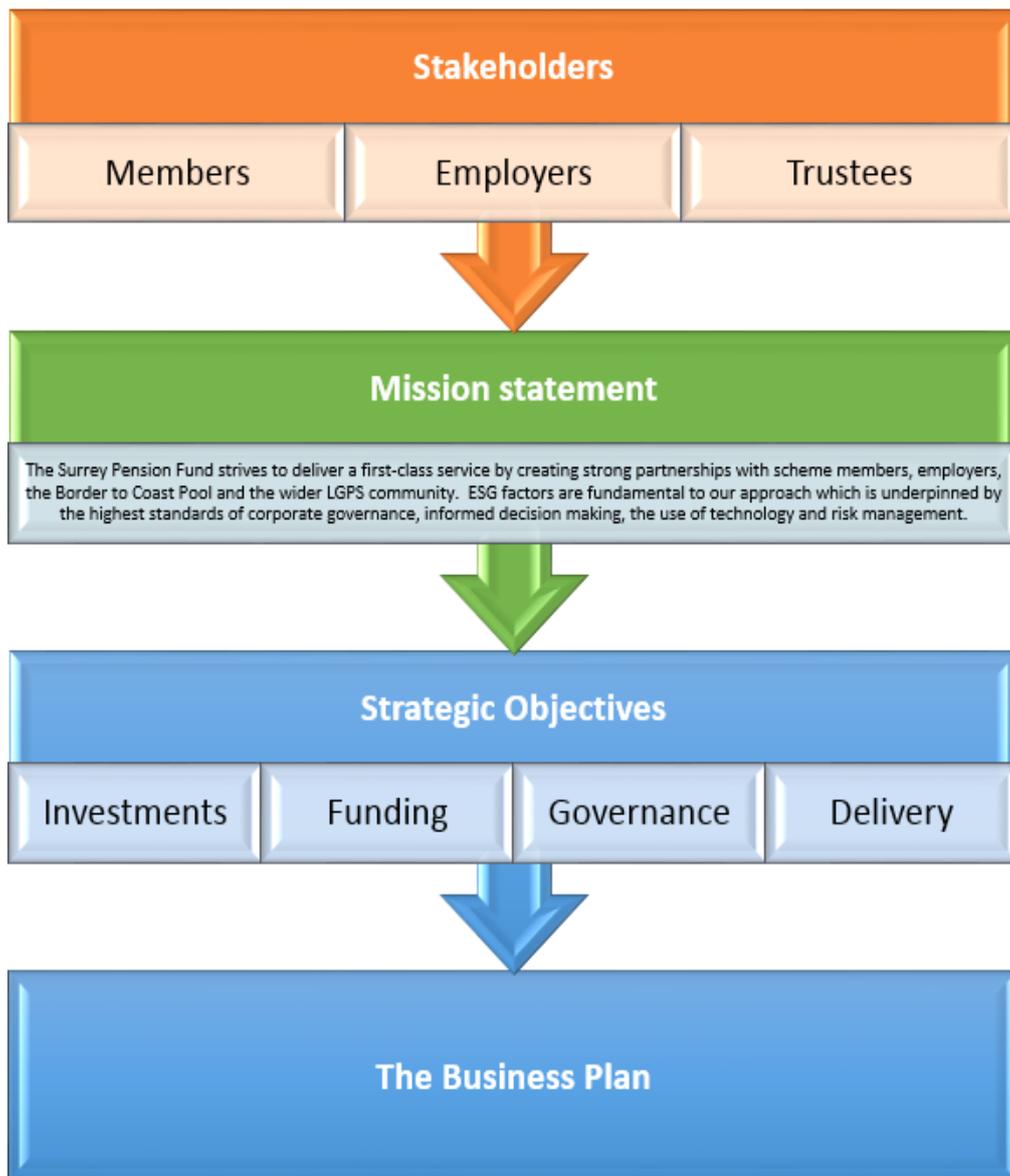
Governance objectives

- To deliver all LGPS administering authority functions to a high level of quality while recognising the need to deliver value for money
- To ensure that policies support the strategic aims and objectives of the Fund
- To ensure the effectiveness of the Pension Fund Committee, Local Pension Board and officers to which delegated function has been passed, including areas such as decision making processes, knowledge and competencies
- To ensure that decision making authority and areas of responsibility are clearly defined and reflected in the Council's Scheme of delegation, terms of reference and procedures
- To recognise that communication is a two-way process and to communicate in a straightforward, effective and friendly way with all our stakeholders. We will listen and take on board all feedback
- To ensure the Pension Fund Committee and officers procure professional advice and appropriate information and interpret, scrutinise and challenge that advice in their supervision and monitoring of the Scheme in all areas
- To enable the management of risks and internal controls to underpin the activities of the Fund
- To comply with relevant legislation, the Pensions Regulator's requirements and acknowledged best practice
- To periodically seek external assurance as to the effectiveness of the governance framework. To report on this effectiveness.
- To act with integrity and transparency in a way that upholds public confidence in the management of Fund

Delivery objectives

- To ensure the correct benefits are paid to, and the correct income collected from, the correct people at the right time
- To set out the administration standards expected of the Fund and scheme employers and the methods by which performance will be monitored and reported. To support employers in achieving those standards.
- To promote good working relationships and maximise efficiency between the SPF and scheme employers
- To ensure scheme employers are aware of and understand their roles and responsibilities under the LGPS regulations
- To ensure that the Fund maintains accurate pension records and that all data is stored, handled, reviewed and disposed of securely and in accordance with its legal obligations
- To ensure that the administration costs attributable to scheme employers are charged proportionately to how they are accrued
- To ensure that Scheme members, employers and others who have dealings with the Fund receive a strong customer focused service
- To ensure members are communicated effectively so that they understand and appreciate the value of their benefits

12. The 2019/20 Business Plan (shown as Annex 2) is derived from the strategic objectives to complete the following governance process for the Fund.



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Annexes:

- Annex 1 – Hymans Robertson governance review of the Surrey Pension Fund
- Annex 2 – 2019/20 Business Plan