

SURREY COUNTY COUNCIL

SURREY PENSION FUND COMMITTEE

DATE: 13 SEPTEMBER 2019

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

SUBJECT: LOCAL PENSION BOARD REPORT



SUMMARY OF ISSUE:

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

RECOMMENDATIONS:

It is recommended that the Pension Fund Committee:

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

REASONS FOR RECOMMENDATIONS:

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

This meets the Fund's strategic governance objectives.

DETAILS:

Internal audit and pension administration report

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

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

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

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

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

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

3. The service improvement plan as referred to by the Chairman of the Local Board is attached as Annex 1.
4. The Section 151 Officer responded on 2 August 2019 as follows:

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

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

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

A successful end of year exercise and the delivery of Valuation data to the actuary on 26 July.

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

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

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

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

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

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

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

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

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

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7. It is recommended that the Pension Fund Committee delegates authorisation of the Business Case to officers in consultation with the Chairman of the Pension Fund Committee and the Chairman of the Local Pension Board

Risk register

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

AVC review

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

Breach of law report

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

Action tracker

16. The Chairman has set out the actions required to comply with the Pension Regulator's code of practice No 14 and recommended the actions required in order to comply.
17. The Pension Account Advisor is to investigate further toolkit training for members of the Board.
18. Officers are to keep the Surrey Pension website up-to-date and a new member of staff has been recruited to lead on this. The Board is to be updated on progress at October's meeting.

Pension administration report

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

CONSULTATION:

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

RISK MANAGEMENT AND IMPLICATIONS:

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

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

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

DIRECTOR OF CORPORATE FINANCE COMMENTARY

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

LEGAL IMPLICATIONS – MONITORING OFFICER

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

EQUALITIES AND DIVERSITY

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

OTHER IMPLICATIONS

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

WHAT HAPPENS NEXT

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

Contact Officer:

John Smith, Senior Advisor

Consulted:

Pension Fund Committee Chairman

Annexes:

Annex 1 – Service Improvement Plan

Sources/background papers:

Local Pension Board minutes

Barnett Waddingham's Interim Report on Equitable Life

Barnett Waddingham's Interim Report on the Prudential Pension Fund risk registers