

**SURREY COUNTY COUNCIL**

**PENSION FUND COMMITTEE**



**DATE:** 10 DECEMBER 2021

**LEAD OFFICER:** ANNA D'ALESSANDRO, DIRECTOR CORPORATE FINANCIAL & COMMERCIAL COMMENTARY

**SUBJECT:** LOCAL PENSION BOARD REPORT

**SUMMARY OF ISSUE:**

Strategic objectives	
Governance	Delivery

This report provides a summary of administration and governance issues reviewed by the Local Pension Board at its last meeting for noting or action by the Pension Fund Committee.

**RECOMMENDATIONS**

This report recommended that the Pension Fund Committee:

1. Notes the minutes of the Local Pension Board meeting of 5 August 2021 (shown as Annexe 1).
2. Approves the following changes to the administration risk register (Shown as Annexe 2):
  - a) Notes the minutes of the Local Pension Board meeting of 5 August 2021 (shown as Annexe 1).
  - b) Approves the following changes to the administration risk register (Shown as Annexe 2):
    - i- Risk A2 Lack of process ownership leads to ineffective processes and errors,
    - ii- A3 Failure to follow up on outstanding issues results in inefficiency and damaged reputation.
    - iii- A4 Lack of capability of the admin system leads to inefficiency and disruption,
    - iv- A7 Unstructured training leads to underdeveloped workforce resulting in inefficiency,
    - v- A10 Gaps in skills and knowledge due to key person/single point of failure and different skill requirements leads to inefficiency and poor performance,
    - vi- A11 Failure to get on top of the backlog leads to resource issues and management distractions,
    - vii- A12 Failure to identify GMP liability leads to ongoing costs for the pension fund,
    - viii- A14 Lack of productivity leads to impaired performance,
    - ix- A19 The Pensions Payroll process had migrated onto the Altair system from SAP in Nov 17. The risk of errors in the current processes are increased by the core Altair payroll

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- x- system not being integrated with the BACS generator application meaning items have to be recorded twice.
  - A20 Head of Pension Administration leaving the Council may dilute the organisation's collective knowledge and impact on decision making,
  - xi- A23 Management control of backlog leads to inaccurate Key Performance Indicators (KPI's) leading to a loss of confidence in levels of assurance from the Pensions Administration team and new risk and
  - xii- A24, Management control of backlog leads to inaccurate Key Performance Indicators (KPI's) leading to a loss of confidence in levels of assurance from the Pensions Administration team.

### **REASONS FOR RECOMMENDATIONS:**

The Public Sector Pensions Act 2013 requires 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 into 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 and delivery objectives.

### **DETAILS:**

#### **Forward plan and action tracker**

1. The Board was asked to review the forward plan and action tracker and the Chair noted that it was an incorrect version.
2. The Board discussed training requirements.  
Actions
  - a) Corrected action tracker version to be provided.
  - b) Public Sector Toolkit link to be resent and the completion monitored more closely.
  - c) The material on SharePoint and its archive are to be shared.

#### **Turnaround Programme Update**

3. After a review of the Orbis partnership between ESCC and SCC, it was decided that management of pension administration should revert to the sovereign control of both councils.
4. SCC retained legacy responsibility for managing the administration of Surrey fire fighters pension scheme and the 4 London Boroughs' LGPS funds (Kensington & Chelsea; Westminster; Hammersmith & Fulham and Hillingdon).
5. After initially failing to agree on a revised pricing model, these bodies are all now in the process of exiting Surrey's management from April 2021 to February 2022.

6. The Pension Turnaround Programme was established with Phase 1 overseeing the dissolution of the Orbis pension partnership, along with reversion to sovereign authorities and the exit of the London Boroughs and Phase 2 focusing on redesigning the organisation. A three-year roadmap has been developed, which was presented to the Board.

Phase 1 programme update

7. Completed activity since the last update:
  - a) Migration of SFRS.
  - b) Migration of London Borough of Hillingdon.
8. Planned activity:
  - a) Ongoing activity with the exits of Westminster City Council and the London Borough of Hammersmith and Fulham.

Phase 2 programme update

9. Executive Summary:
  - a) Consultation period closed
  - b) Response to consultation including final structure issued to all staff and Tus
  - c) Bespoke workshops to support staff with expressions of interest and interview planning underway
  - d) Recruitment for Heads of Service planned and interview dates known
  - e) Recruitment approach for all other roles agreed
  - f) Marketing campaign starting with AON webinar and “teaser” video planned
10. Organisational redesign update:
  - a) Completed activity this period: n/a
  - b) Planned activity for next period:
    - i- Meeting with Heywoods to explore what capability is available that we may not be leveraging;
    - ii- Prepare Business Case to set out options for Pensions Helpdesk.
  - c) Risks/dependencies:
    - iii- Maintain ongoing dialogue with Business Operations re Pensions Helpdesk (i.e. to determine whether current design can meet future aims and ambitions at a cost that delivers the best value) so that decision can be made at an appropriate point
11. People and recruitment update:
  - a) Completed activity this period:
    - i- Equality Impact Assessment completed;
    - ii- Voluntary severance applications confirmed;
    - iii- Response to consultation document including confirmed structure issued to staff and Trade Unions (confirmed structure is included as Annexe 1);
    - iv- Marketing campaign in progress.
  - b) Planned activity for next period:
    - i- Finalise marketing campaign;
    - ii- “Teaser” marketing video launched;
    - iii- AON webinar;
    - iv- Head of Service advertisements and shortlisting completed;
    - v- Head of Accounting & Governance interviews (ringfenced post).

- c) Risks/dependencies:
    - i- Date by which leadership structure can be in place is dependent on notice periods of successful candidates – likely to be longer notice periods if external appointments made.
12. Process and technology update:
- a) Completed activity this period: n/a
  - b) Planned activity for next period:
    - i- Complete review of process maps and make recommendations for next steps;
    - ii- Early engagement with IT&D to ensure resource is in place when needed;
    - iii- Engagement with Heywoods to ensure leveraging capability with current system and exploring future capabilities.
  - c) Risks/dependencies:
    - i- Progress and completion of process mapping could be delayed due to impact of consultation on staff leading this work.
13. Culture and training update:
- a) Completed activity this period:
    - i- Work continuing with Human Resources for most appropriate approach to culture change strategy.
  - b) Planned activity for next period:
    - i- Identify resource to build new process training manuals and approach.
  - c) Risks/dependencies:
    - i- Resistance to change could undermine success of new culture.
14. Communication and engagement update:
- a) Completed activity this period:
    - i- Bespoke workshops to support staff with preparing expressions of interest and interviews have been well attended with positive feedback received;
    - ii- Dedicated pensions inbox remains open for staff queries.
  - b) Planned activity for next period:
    - i- Further interview skills workshops;
    - ii- Whole of Pensions meeting to take forward BAU priorities post consultation.
  - c) Risks/dependencies: n/a

## **Administration Performance Report and Update**

### Legacy Removal

15. Surrey Pension Service procured JLT (now Mercer) to support the removal of a significant backlog in undecided leaver cases (also known as status 2s). It was agreed in 2019 that this backlog should be reduced in time for the valuation in 2022 in order to improve the accuracy of the triennial valuation.

### McCloud

16. The government decided that the general principles apply to all public sector pension schemes and has consulted on amending the LGPS Regulations.

17. Employers will be required to provide additional payroll data including some pre-2014 data, which may pose challenges, in order apply the remedy.
18. The potential financial impact at the last valuation has been estimated by Hymans to be 0.5% of the total fund worth.

#### Guaranteed Minimum Pension (GMP) Reconciliation Project

19. Surrey Pension Service procured the service of JLT (now Mercer) to undertake the rectification of members' GMPs in line with the HMRC guidance, with a view to full rectification in the next 9 – 12 months.
20. This work should ensure that our member's GMPs are correct, resulting in fewer over/ underpayments.

#### Performance

21. Surrey Pensions Administration Team received 4,899 new KPI case in the quarter, 649 fewer than the number received between April and June 2021. However, 5,627 cases were completed during in quarter 2 compared to 5,298 cases completed in quarter 1.
22. The number of cases open at the end of September 2021 has fallen by 722 to 9,534 when compared to the previous quarter.
23. There were 6,913 cases more than six months old quarter 2 including 4,912 cases over 2 years old. It is expected that, as the London Borough Funds exit, there will be increased capacity within the team to tackle the overdue cases.
24. There have been improvements in Survivors' Pension Payments, Death Benefits payable and Balance of Payments all of which are KPIs set by the Pensions Regulator (tPR). These improvements are attributable to the introduction of a new method in allocating work to each Hub Team, coupled with the creation of a 5th Hub (team), by drawing members from the other 4 Hubs.

#### Administration Team Update

25. Following discussions regarding staff productivity at the last Local Pension Board meeting, an action was taken to provide further information on Performance.
26. A separate team was set up to focus on project work including the London Borough exits and other projects. The existing teams are focusing on Surrey pension fund work as it becomes due for action.
27. The implementation of a new work allocation process has begun to improve the monthly KPIs.
28. There was a slight dip in the number of tasks completed in August due to staff absences (annual leave), which was higher than July.

#### **Complaints**

29. During the period 1 July to 30 September 2021 a total of 10 complaints were received, a reduction from the 22 received in the previous quarter. 5 of these were responded to within the corporate service legal agreement and 5 were resolved outside that timescale.

30. The Board expressed an interest in receiving more insight into complaints.

Actions:

- a) Officers will provide feedback on current complaints process

### **Internal Dispute Resolution Procedure (IDRP) Appeals**

31. Two stage 1 appeals were determined, which were both declined, and one stage 2 was determined and partially upheld. Three Pensions Ombudsman cases were received in the quarter.

### **Breach of Law**

32. There were no breaches to report.

### **Engagement and Education**

33. The team has built a new Employer Website supported by Surrey County Council's Digital Team. This has now gone live and was launched to scheme employers in the employer newsletter issued on 30 September. The website was trialled with the District and Borough Councils first for early sight and feedback from this tranche of employers.

34. A new Surrey Pension Fund member website is also being developed in conjunction with Hymans who provide the website.

35. Quarterly meetings are now in place with HR and Finance representatives from the District & Borough Councils, and Surrey Police.

36. The Board noted its surprise that Helpdesk case handling was not provided within the integrated pension service.

Actions:

- b) Officers will provide update on Helpdesk provision in future Turnaround Programme updates.

### **Valuation 2022**

37. The Fund's actuary, Hymans Robertson, carries out a valuation of the Fund's assets and liabilities (currently) every three years. They set the primary and secondary contribution rates for all employers in the Fund and the accompanying investment strategy is derived from this valuation.

38. The next triennial valuation is due on 31 March 2022 (effective 1 April 2023) and the project timeline for the next valuation runs from July 2021 to April 2023.

39. Members of the Committee will be provided with training on the valuation

process by the Fund actuary.

40. Officers will work with Hymans to refine this plan and report regularly on progress towards the valuation to the Board.

#### **Compliance with the Pension Regulator's Code (tPR) of Practice 14**

41. Compliance with the Pension Regulator's Code of Practice 14 gives assurance that the Fund has effective processes and practices in place for the administration of the Pension Fund.
42. Although tPR consulted on introducing a Single Code of Practice in 2021, it has been paused following mixed feedback and it is not expected to be implemented until late summer 2022.
43. The Compliance checklist shows Surrey Pension Fund's progress on 'Partially' complete sections of TPR Code of Practice no 14 and whether further actions are required. The Fund is compliant in most areas; however, there are some where the Fund is making progress towards being able to demonstrate full compliance and they will be prioritised.

#### **Draft Annual Report and Statement of Accounts**

44. The external auditor is required to report on the Pension Fund Financial Statements. During the external audit, Grant Thornton identified some inconsequential issues, which led to minor amendments being made to the 2020/21 draft financial statements and related notes to the accounts.
45. The draft Pension Fund Accounts were presented to the Pension Fund Committee in July 2021. They approved the draft accounts subject to them being fully audited.
46. The Final Pension Fund Accounts along with the Council Accounts will be presented to the Audit and Governance Committee.

#### **Risk Registers 2021-22 Quarter**

47. The Senior Finance Manager (Pensions) explained that Surrey is considering replacing the Treasury's Orange Book model of risk management and relacing with a different method.

Action:

- a) The Chair to further explore the risk methodology.

#### **CONSULTATION:**

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

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

49. Risk related issues have been discussed and are included within the report.

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

50. 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 CORPORATE FINANCIAL & COMMERCIAL COMMENTARY**

51. The Director of Corporate Financial & Commercial is satisfied that all material, financial and business issues and possibility of risks have been considered and addressed.

## **LEGAL IMPLICATIONS – MONITORING OFFICER**

52. 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**

53. 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**

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

## **WHAT HAPPENS NEXT**

55. The following next steps are planned:

- a) Monitor the progress of the Turnaround Program.
- b) Receive further reports and continue collaboration between the Pension Fund Committee and Local Pension Board.

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### **Annexes:**

1. Minutes of the Local Pension Board meeting 11 November 2021.
2. Administration Risk Register.