

## SURREY COUNTY COUNCIL

## PENSION FUND COMMITTEE



DATE: 10 MARCH 2022

LEAD OFFICER: ANNA D'ALESSANDRO, DIRECTOR CORPORATE FINANCIAL &amp; 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**

1. This report recommends that the Pension Fund Committee:
  - a. Approves the following changes to the administration risk register (Shown as Annexe 1):
    - i. Total Residual Risk scores (column R) of F3, F4, F13, F14, F16 and F17 have been lowered by reducing its likelihood.
    - ii. Total Inherent Risk score (column J) of F19 has been increased by increasing its likelihood.
    - iii. Risk F12 is no longer relevant.
  - b. Approves the following changes to the Fund risk register (Shown as Annexe 2):
    - i. Total Inherent Risk scores (column J) have been lowered by reducing the various impacts (in columns E to I and shown below in brackets) of the following risks:
      - A1 and A9 (Financial),
      - A2, A17 and A18 (Services and Reputational),
      - A3, A4, A5, A12, A23 and A24 (Financial, Services and Reputational),
      - A10 (Financial and Reputational),
      - A13 (Likelihood)
    - ii. Risk A19 to be modified for more general system transition risk.
    - iii. The following risks are being suggested to be removed with reasons (shown in brackets) and see details in Risks Removed section below:
      - A7 (suggested closure due to risk mitigation)
      - A8 (suggested closure due to Surrey only now)
      - A15 (proposed closure due to Risk A2 above)
    - iv. No change – A14, A16
2. The Local Pensions Board recommend to the Pension Fund Committee, the removal of the following risks:

- a. Risk F12 in Annexe 1: Volatility caused by uncertainty with regard to the withdrawal of the UK from the European Union and its aftereffects.
- b. Risks A6, A11, A20 and A22 in Annexe 2 to be removed as detailed in the Revised Risk Register Cover Report of 11 November 2021 – Minute Item 53/20).
- c. Risk A7 is being suggested to be closed due to risk mitigating measures implemented - Training plans and matrices are now in place for all staff to enhance development, including formal external training which provides accreditation. The introduction of a Training Officer has formalised this and reduced the risk, giving the structure required.
- d. Risk A8 is being suggested to be closed due to the risk reduced - With the final LOBO partner having migrated in January, it is proposed this risk be closed as we are now a single provider to Surrey Scheme only.
- e. A15 is being proposed to be closed in view of the changes made to reduce the Inherent Risks in Risk A2.

#### **REASONS FOR RECOMMENDATIONS:**

3. 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.
4. This meets the Fund's strategic governance and delivery objectives.

#### **DETAILS:**

5. Notes from previous meetings were reviewed.
6. With respect to the approach to responsible investment, the Board noted the challenges in the path to net zero and that Environmental, Social and Governance issues were covered in the Responsible Investment statement.

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

7. The Forward Plan was noted by the Board.

#### **Risk Registers**

8. The Risk Registers were reviewed and revisions suggested. Paragraphs 1 & 2 above provide details of the revisions for consideration and approval by this Committee.
9. It was noted that a meeting had been held with the Council's Head of Strategic Risk to align the approach to reporting risk and that the focus in future would be on key risks.

## Administration Performance report and Update

10. Projects are progressing and the service KPIs show improvement in several areas. Details of the specific work items that were covered in the report are given below.

### McCloud

11. Remediation will be required for affected members. The potential financial impact was estimated at last valuation to be 0.5% of the Fund value.
12. The deadline for employers to submit their McCloud data return was 31 October 2021. For employers that had not met this deadline, weekly reminders were issued throughout November and December. Further communications were sent in January to alternative contacts of those employers who have yet to respond. To date full data from 99 employers has been received, 3 partial responses and 23 data returns are outstanding.
13. The regulations confirming how to calculate compensation for McCloud cases are still awaited.

### Guaranteed Minimum Pension (GMP) reconciliation project

14. Mercer, on behalf of the Surrey pension fund, has worked with HMRC with a view to full rectification by the end of August 2022.
15. The potential cost impact is unknown at this stage with more detail expected in April 2022 once further data has been received from Mercer. Rectification of member records will take place after the April 2022 pension increases have been applied.
16. Initial indications are that no further action is required for nearly 17,000 pensioners out of a total of c.24,000 and circa 43,000 out of around 47,000 deferred members. The work to date has identified 2,900 pensioners and 2,100 deferred members as needing rectification for differences of more than £2 per week.
17. *Action: Further clarification as to the size of the differences in excess of £2 per week was requested by the Board.*

### Performance

18. A trend analysis report comparing this quarter, October to December 2021, to the same quarter for 2020 shows that significant improvements in performance have been achieved. Performance improvements are attributed to reviewing some processes, a revised method of allocating the work items to teams and the creation of a separate team that dealt with the London Boroughs and Surrey backlog work.
19. The number of outstanding cases at the end of December 2021 has reduced by 10% from the beginning of October 2021. The total average SLA for all cases in 2021 Q3 was 88%, an improvement on the 82% in Q2 and 74% in Q1.

20. A new method of running performance reports has been implemented following the adoption of an enhancement to the pensions administration IT system. Work was completed to build new performance reports and parallel running has taken place to ensure the provision of accurate performance reporting data.

### Complaints

21. During the period 1 October to 31 December 2021 a total of 6 complaints were received and addressed – down from 10 in the previous quarter and 22 in the quarter before.
22. Following a request from Members of the Local Pension Board at its previous meeting, information about the type (category) of the complaint and a summary of each complaint was shared at the last meeting. Two complaints were categorised as ‘poor communication’, two as ‘service quality/delivery’, one as ‘procedure’ and one as ‘general enquiry’.

### Internal Dispute Resolution Procedure (IDRP) Appeals

23. One Stage 1 appeal was determined. The adjudicator explained that the Scheme can only pay the pension that a member is entitled to and refused the member’s request for a guarantee that they would receive benefits to the value of earlier incorrect statements. There were no Stage 2 appeals in this period.

### Pensions Ombudsman Appeals

24. Responses were issued for three complaints to the Pensions Ombudsman in the period. The Pensions Ombudsman has indicated that it will be several months before these cases may be determined.

### Breaches of Law

25. There are no breaches to report for this period.

### Pensions Helpdesk

26. The Helpdesk handled a total of around 9,700 Surrey enquiries in Q3. 86% of all enquiries (covering all pension funds) were resolved at the first point of contact. The team are currently responding to e-mails on the day of receipt (SLA 3 days) and the current volume of telephone calls is very low.
27. The Helpdesk is still functioning on the same level of resource as before the London Borough Fund exits and therefore have capacity to support the Pensions Team on various tasks.

### Engagement and Education

28. Results of the 2021 Employer Survey have been published. Recurring themes in the results were:
- a. try to simplify the language used on forms
  - b. better communication with members, especially regarding the retirement process
  - c. try to move more processes online.

29. Action: The Board requested information on the 'membership coverage' of the responses to the survey – with 26 responses from c.300 employers.

#### Horizon Planning

30. Planning is underway for Annual Benefit Statement work and the 2022 Pension Increase exercise along with data cleansing in preparation for the Actuarial Valuation.

##### Annual Benefit Statements

31. Plans are being drawn up to manage this year's Annual Benefit Statement and Annual Allowance exercises, with ABS statements due to be sent to active and deferred members by the end of August. Communications with all scheme employers are expected to begin at the end of February.

##### Valuation Data Cleansing

32. Work has begun in collaboration with the Fund actuary, Hymans Robertson, to agree plans for the submission of the valuation data, covering all aspects of the process. Current priorities are on the data cleansing of the member data in preparation for the member data loads earmarked for July 2022.

33. Checkpoints have been agreed with Hymans, with a key milestone date of March 2022, when it is anticipated all errors for the years 2020 and 2021 will have been corrected.

##### Pensions Increase 2022

34. A schedule of works of the actions involved will be drawn up in the coming weeks to ensure successful completion of this key annual process.

#### **Turnaround Programme Update**

35. Phase 1 is substantially complete with all Funds having exited and member data deleted for all except Hammersmith & Fulham which will be deleted before the end of March 2022.

36. Phase 2 activities include completing the new organisational design of the new pensions team. Engagement with Business Operations and finalising the business case for way forward is progressing. All leadership positions and internal recruitment has been completed. The next activity is onboarding of Head of Investment and Stewardship and filling vacant roles.

37. Workshops with our pensions software provider, Heywood, have been undertaken to complete the review of the death process and workshops for the transfer out process have begun. The remaining processes are to be reviewed and the risk area here is on having the right subject matter experts involved.

38. Work on the induction program for all staff is underway and core training needs are being identified. Risk area could be 'resistance to change'.

39. Workshops for interview preparation were well attended. The Pensions consultation inbox remains open for any queries from staff and whole team meetings and a refresh of staff newsletter are planned.

### **Progress of 2021/22 Internal Audit Plan**

40. An update on Internal Audit activities was provided. The Board noted that Internal Audit has adopted a risk-based approach which means that assurance levels would likely be lower in future. The audit plan for 2022/23 includes 100 days of activity – double the level of prior years.

#### Altair Application Controls

41. The audit opinion on the pensions administration IT system is Reasonable Assurance. 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. The audit report has 8 findings (6 medium and 2 low priority) and agreed actions.

#### Key Administrative Processes (including tPR work items)

42. The Terms of Reference for the audit are currently being drafted. The Board will receive an update at its next meeting in May 2022.

#### Pension Fund Banking Controls

43. The draft audit report was issued in January 2022 and Pension Management are in the process of responding to the findings and agreeing actions for implementation.
44. The Board will receive a progress update at its next meeting in May 2022 by when the final audit report will have been published.

#### Pension Fund Investment

45. The audit review is currently in progress. The Board will receive a progress update at its next meeting in May 2022.

#### Follow up audit of the 2020/21 Administration

46. The 2020/21 Administration audit report was issued in July 2021 with a Partial Assurance audit opinion. This opinion means that there are weaknesses in the system of control and/or the level of noncompliance is such as to put the achievement of the system or service objectives at risk. The audit report has 10 findings (4 high and 6 medium priority) and agreed actions.
47. While progress is being tracked against the agreed actions by the Pension Service Delivery Manager, the Terms of Reference for the follow-up audit are currently being drafted.
48. The Board will receive a progress update at its next meeting in May 2022.

## **CONSULTATION:**

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

## **RISK MANAGEMENT AND IMPLICATIONS:**

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

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

51. 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**

52. 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**

53. 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**

54. 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**

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

## **WHAT HAPPENS NEXT**

56. The following next steps are planned:

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

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### **Contact Officer:**

Paul Titcomb, Head of Accounting and Governance  
Colette Hollands, Head of Service Delivery

### **Annexes:**

1. Administration Risk Register
2. Fund Risk Register

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