

**SURREY COUNTY COUNCIL**

**PENSION FUND COMMITTEE**



**DATE:** 17 JUNE 2022

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

**SUBJECT:** LOCAL PENSION BOARD REPORT

**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 for noting or action by the Pension Fund Committee. (the Committee)

**RECOMMENDATIONS**

1. This report recommends that the Committee:
  - a. Approves the following changes to the combined risk register (Shown as Annexe 1):
    - i. New Risk ID 4A, prior risk ID F16 Added New Responsible Investment Policy for Surrey Pension Fund as planned enhancement.
    - ii. New Risk ID 4B, prior risk ID F17 causes' changed to include Stranded assets, regulatory fines and IPCC 2021 report on Climate change. Impact increased from 3 to 4. Added TCFD report in Enhancements.
    - iii. New Risk ID 5A, prior risk ID F4 Likelihood increase from 1 to 2.
    - iv. New Risk ID 6A, prior risk ID F9 Likelihood reduced from 4 to 3
    - v. New Risk ID 7A, prior risk ID F10 Likelihood increased from 2 to 3.
    - vi. New Risk ID 7C, prior risk ID F15 Likelihood reduced from 2 to 1.
    - vii. New Risk ID 7E, prior risk ID F30 Impact increased from 2 to 3.
    - viii. New Risk ID 10D, prior risk ID A25(new) New risk reflecting implementation of Unit 4. This will replace risk 10D/A19 in due course.

**REASONS FOR RECOMMENDATIONS:**

2. 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 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.
3. This meets the Fund's strategic governance and delivery objectives.

<b>DETAILS:</b>
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## **Risk Registers**

1. It was noted by the Board that the Risk Registers are undergoing a transition, with a three-step approach. Step 1 is complete and the two risk registers which have now been combined into one document are presented in Annex 1.
2. As part of step one the description of the risks has also been extended to explore 'causes' and 'effects' (refer 'Risk management approach' section below). The scoring of the risks has been aligned to the Surrey County Council (SCC) model.
3. Step two is now underway for the Risk register to be reviewed by the Senior Leadership Team who will assess the appropriate presentation of the clustered risk areas.
4. Step three is to summarise risks on a heat map. This will be completed following step two.

## **Administration Performance report and Update**

### Performance

5. A trend analysis report comparing this quarter, 1 January to 31 March 2022, to the same quarter for 2021 shows that significant improvements in performance have been achieved.
6. Significant work has been undertaken to clear the backlog of outstanding cases. At the start of the quarter there were over 8,500 cases and at the end of the quarter this had reduced to c6,700 cases.
7. This quarter the Pension Regulator (tPR) priority cases (Deaths, Retirements and Refunds), except for Survivor's Pensions, met or exceeded the tolerable performance level during the period.
8. The average number of days to complete cases reduced from 58 during the October to December quarter to 37 days during the January to March quarter indicating improved response times to customers.
9. The number of cases on Reply Due (i.e. awaiting receipt of further information/documentation to be able to progress) have reduced slightly to 1,338 at the end of March from 1,541 at the end of December.
10. The improvements mentioned above can be attributed to a reduction in the number of new cases received, from 9,613 during October to December, to 8,642 during January to March. With fewer new cases being received, this releases capacity to review and complete outstanding cases. In addition, with the exit of the final London Borough Fund being completed in the first month of this quarter, the hub 5 team that was set up to focus on non-Surrey cases was able to focus a significant amount of time on progressing outstanding cases.

### Complaints

11. During the period 1 January to 31 March 2022 only one complaint was recorded on the complaint's tracker. One Internal Dispute Resolution Procedure (IDRP) case was also received. Three cases have been referred to the Pensions Ombudsman.

### Report to Pension Regulator on potential breaches

12. There are no reportable issues to the Pension Regulator. In accordance with the breaches policy a responsible officer is currently examining refunds paid more than 5 years after the member left the scheme and death grants paid more than 2 years after being notified of the death. Any potential breaches will be reported back to the Local Pension Board in due course.

### Pensions Helpdesk

13. The Helpdesk handled a total of 12,575 Surrey enquiries between 1 January and 31 March 2022. An average of 87% of all enquiries were resolved at the first point of contact. Queries came to the Helpdesk made up as follows:

i.	Callbacks	143
ii.	Email	7,214
iii.	Telephone	5,218

### McCloud

14. Remediation will be required for affected members. The potential financial impact was estimated at last valuation to be 0.5% of the Fund value. The team are working on providing a clearer understanding of the affected members and more accurate costs in line with the regulatory changes.
15. Regulations enacting this remediation work are not expected until October 2023.

### Guaranteed Minimum Pension (GMP) reconciliation project

16. Mercer, on behalf of the Surrey pension fund, has worked with HMRC with a view to complete full rectification by the end of August 2022.
17. The potential cost impact is unknown at this stage. More detail was expected in April 2022 however this has been delayed due to the complexity of duplicate member cases. Rectification of member records is now expected to take place over the summer.

### Data Cleansing

18. During the period of January to April 2022 extensive analysis and correction of known data discrepancies for the valuation years 1 and 2 (2019/20 & 2020/21) has been carried out.
19. The pension fund membership data is measured under two main headings: Common and Scheme-Specific data.

20. With the introduction of a new reporting module as part of the new pensions' administration software contract, it is now possible to run and access reports of the scores and data issues in real time daily. This shift in accessibility and frequency of access to the data has led to a more fluid, targeted and insightful data improvement approach.
21. In line with the new Surrey Pension Team structure from May 2022, a designated team will be in place to deliver against a correction plan. This will be a constant and evolving plan that will be deployed to target priority areas and support with a more proactive style of data cleansing for large scheme events such as the fund valuation, production of annual Pensions Increase and Annual Benefit Statements.

#### Pension Increase 2022

22. The pension increase has been completed for 2022 with all communications issued. Pensioners have received a letter detailing the pension increase applicable and the new annual amount of pension for the coming year, a pay advice for April, their P60 for the last tax-year and the latest pensioner newsletter.

#### Annual Benefit Statements (ABS) for 2022

23. End of year returns have been received from scheme employers or their payroll providers. As at the time of writing, 218 out of the expected 307 returns received as of 30 April 2022.

### **Turnaround Programme Update**

24. Phase 1 is complete with all Funds having exited and the Fund member data deleted from the pension administration system.
25. Phase 2 activities are ongoing. The new team structure is now in place as planned. A launch event on 19<sup>th</sup> May at Dakota was well attended by staff. Completing the recruitment to 2 key vacancies is underway (Snr Benefits Processing Manager and Pensions Support Officer). Work is progressing to transition the Pensions Helpdesk and control of the Pension Fund bank account.
26. Staff induction program is being finalised and continued work on skills based and culture-based training is ongoing.
27. Workshops with our pension software provider, Heywood, have been undertaken to complete the review of the death process and transfer out process. A program of works has been agreed with Heywood that includes further process mapping, Altair re-configuration, cloud hosting, payroll arrears processing and an initiative of "admin by exception".
28. The change programme has now evolved from "Turnaround" to "Transformation" therefore in future updates will be titled Transformation Programme.

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

29. An update on Internal Audit activities was provided.

#### Altair Application Controls

30. 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)

31. The audit is in progress at present. The board will receive an update in July on the three agreed actions.

#### Pension Fund Banking Controls

32. The final audit report was issued in March 2022 with a Minimal Assurance rating. The report highlighted seven (7) high priority findings and management responses have been provided for each of these. Future actions to address the control weaknesses identified are to take direct control of managing the Fund bank account and this work will coincide with the Unit 4 implementation.

#### Pension Fund Investment

33. The audit review is currently in progress., with a draft report for discussion issued The Board will receive a progress update at its next meeting in July 2022.

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

34. 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 the fieldwork against each finding is currently underway.

35. The Board will receive a further update at its next meeting on 29 July 2022 on the progress of the above audits.

### **The Governance Framework of Border to Coast**

36. A review of the Border to Coast Governance is in progress. The review includes the operation of the Joint Committee, a review of shareholder governance (which will be discussed with shareholder representatives) and a review of the governing documentation (including the Inter Authority Agreement, Shareholder Agreement, and the Company's Articles of Association).

37. *Action: It was agreed that a separate meeting would be held with the Chairman of the Surrey Pension Fund Committee to review the progress and documents under this governance review, with a verbal update and any appropriate recommendations provided to the Committee and Board.*

### **CONSULTATION:**

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

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

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

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

40. 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**

41. 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**

42. 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**

43. 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**

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

### **WHAT HAPPENS NEXT**

45. 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:**

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**Annexes:** Administration Risk Register

1. Fund Risk Register