

SURREY COUNTY COUNCIL

PENSION FUND COMMITTEE



DATE: 10 MARCH 2023

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

SUBJECT: SUMMARY OF THE 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 (17 February 2023) for noting or actioning by the Pension Fund Committee (the Committee).

RECOMMENDATIONS

This report recommends that the Committee:

1. Notes the support of the Board for the following policies to be approved:
 - a) Communications Policy
 - b) Training Policy
2. Make recommendations to the Board if required.

REASONS FOR RECOMMENDATIONS:

The Public Sector Pensions Act 2013 requires Local Pension Boards to assist the Scheme Manager in securing compliance with the Local Government Pension Scheme (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.

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

DETAILS:

Risk Registers Update 2022/23 Quarter 3

1. The below commentary was highlighted to the Pension Board members on the areas in the risk register – December 2022 (Annexe 1). This reflects the request from the Committee at its December meeting for the Board to examine the Inflation risk and inter connectivity with cashflow.

The impact of inflation has been recognised

2. The impact of inflation is reflected in the risk register in several places:

Taken into account in actuarial assumptions	2.1	Risk 3A makes specific reference to inflation within the overall risk concerning actuarial assumptions. The market outlook using recent forecasts for inflation were used within the 2022 valuation work.
Impact on employers considered	2.2	A general risk (2C) has been articulated for employers in relation to affordability or cashflow issues – this could be for many reasons including inflationary pressures. Payments are monitored to ensure timely application of funds.
Cashflow implications reviewed	2.3	Risks 5A and 8A deal with potential cashflow issues – the first in relation to matching of assets and liabilities and the latter in connection with cashflows. Both of these address issues regarding investment that take account of inflation. A detailed review of cashflow by both Mercer and Hymans was presented to the Pension Fund Committee in late 2022. The fund recognises the potential issues and the possible need to pivot on investment types in future.

Changes planned to controls

3. No changes to have been made to risk articulation or scoring. The following enhancements are planned:

Risk ID	Area	Changes
2C	A&G Funding	Employer engagement commenced to address delay in receiving payment notification by March 2023. The objective is to improve timely application of funds to relevant employer accounts.
4A	Investment	Final sign off of Responsible Investment Policy by March 2023.
4B	Investment	Task Force on Climate-Related Financial Disclosure (TCFD) report published by Oct 2023 with increasing amounts of information.
6A	Investment	Dynamic asset allocation analysis. Q4 2022/3 review of fixed income exposure.
12A/ 12B	Service Delivery	Business Continuity plans and Cyber security approach for the Fund to be reviewed during Q4 of 2022/23 with a view to an audit review in 2023/24.
13G	Service Delivery	Technical team to engage with consultations on the proposed framework for Dashboard implementation by March 2023.
15B	A&G Governance	Knowledge assessment undertaken in Q2 of 2022/23 to inform 2023/24 training plans.

4. Commentary previously provided on the three risk areas in the risk register with the highest combined likelihood and impact scores has also been updated below.

Risk	Implementation of new financial systems leads to delayed processing, data integrity issues or financial loss	Skills / knowledge gaps lead to inefficiency and poor performance	Funding requirements higher due to actuarial assumptions materially different to experience
Risk ID	16	9	3
Score	20	16	16
Comment	The change from SAP to Unit 4 is still in the planning stage.	This risk manifested itself with the resignation of the Funding Manager in summer 2022.	Uncertainty in markets has led to some volatility and prospective headwinds.
Action	The Change team is coordinating efforts to understand the transition. Ongoing monitoring of implementation timescales.	Swift backfilling with temporary resource was undertaken. Recruitment for full-time replacement is complete. Organisational structure remains under review for resilience and succession planning.	Latest market outlook and Club Vita analysis used in valuation. Other implications of higher inflation modelled in relation to cashflow. In addition to using latest market outlook data, the Actuary has also undertaken sensitivity analysis to evaluate resilience of preliminary calculations.
Residual risk	Remains a significant risk pending experience of implementation.	Remains a risk – particularly in relation to knowledge no longer with the organisation. There have been consequential issues with e.g. progress of external audit process.	Actions address a degree of near term risk but uncertainty remains and will be monitored.

5. In respect of Risk 16 – Unit 4 a member of the Board highlighted the need for a project plan in terms of timescales for implementation Unit 4, and noted this as an area of concern.
6. The Accounting and Governance Manager provided a response explaining that the project was under the control of Surrey County Council and that a plan had not been sighted in terms of final implementation timescales. The Surrey Pension Team Change Management Team are working in conjunction with the Unit4 team.

7. The Board member would like to escalate the Board's concern to the Pension Fund Committee, and it was agreed that a request for an update on the project by individuals closer to the programme be provided to the Board in May.
8. A member of the board also highlighted the recently published consultation for the proposed changes to the LGPS CARE revaluation date and the risks involved in feeding back to the consultation and undertaking the proposed changes in the time available.

Administration Performance Report and Update

9. The Board were provided with an update on performance for the quarter 1 October 2022 to 31 December 2022. **Annexe 2**. Highlighting the performance level in this period which has fallen, an overall score of 80% has been achieved and specifically for The Pensions Regulator (tPR) work area this is 80%.
10. In response to the Board and Committees request, a comparative quarterly performance trend analysis was provided, **Annexe 3**.
11. In response to the committee's request, additional information has been supplied within **Annexe 4** that presents a summary of the most common categories of cases being terminated.
12. Reducing the backlog is a high priority for the Service Delivery team. A work plan to identify resource requirements and/or training needs is being compiled and will be presented to the Board.

GMP

13. The Board was advised by the Head of Service Delivery that we have experienced delays from our third-party provider Mercer. We now have received a revised plan and are on track for delivery by the summer.

McCloud

14. The Head of Service Delivery explained to the Board that the team have continued to liaise with employers who have not yet provided the necessary data. We currently have 113 returns out of the 127 expected. Initial findings have identified some employers will need to provide additional information.

Pension Dashboard

15. The Board members were made aware that plans were underway to cleanse the data in preparation of the expected go live date set for April 2025, with the eco-system connectivity dates set for September 2024.

Change Programme Update

16. The Board was provided with a verbal update from the Assistant Director – LGPS Officer. A permanent Head of Change Management, Nicole Russell, is now in post. The team are working on several key areas, that will be included in our strategic 3-year plan.

Progress of 2021/22 Internal Audit Plan

17. An update on Internal Audit activities was provided to the Board. This report provided an update on five completed internal audits. Officers are working through the findings. The planned programme for the year was reviewed.
18. The Board was also provided with a verbal update on the transfer out Administration review, which has been issued with a Reasonable Assurance rating, with two medium and one low recommendations.

2021/22 External Audit Update

19. Covered in separate report.

Valuation 2022

20. Covered in separate report.

Training Policy

21. The Board recommended approval of the Training Policy to the Pension Fund Committee (Committee) on 10 March 2023 (please see separate report).

Communications Policy

22. The Board recommended approval of the Communications Policy to the Pension Fund Committee (Committee) on 10 March 2023 (please see separate report).

CONSULTATION:

23. The Chairs of the Pension Fund Committee and the Board has been consulted on this report.

RISK MANAGEMENT AND IMPLICATIONS:

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

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

25. The performance of administration and governance presents potential financial and value for money implications to the Pension Fund. The monitoring of these implications is addressed within the report.

DIRECTOR CORPORATE FINANCIAL & COMMERCIAL COMMENTARY

26. 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

27. 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

28. 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

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

WHAT HAPPENS NEXT

30. The following next steps are planned:

- a) The Committee will receive further reports and continue to work with the Board where necessary and appropriate.

Contact Officer:

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Neil Mason, Assistant Director, LGPS Senior Officer

Annexes: Risk Register – December 2022- Annexe 1
Service Delivery Performance Report- Annexe 2
Quarterly performance trend analysis -Annexe 3
Terminated Case Summary - Annexe 4