# Annual Report

2022/23

Surrey Pension Team

Providing our customers with a better tomorrow

# Contents

# Vision and Mission

The Surrey Pension Team has reviewed its strategic plan for the next three years.

The vision and mission remain the same.

| | |
|---|---|
| **Our vision** | Providing our customers with a better tomorrow. |
| **Our mission** | Responsibly delivering a first class customer experience by ensuring we deliver the right benefits and services to the right people at the right time. |

These are underpinned by our four pillars with the foundation of people, systems & processes, and culture & values.

Our four pillars are:

| | |
|---|---|
| **Customer focus** | Relentless focus on delivering value to the customer through provision of a first class service and customer experience. |
| **Investment Expertise** | Delivering our investment requirements by thought leadership in responsible investment and quality partnerships. |
| **Fit for Purpose** | Continuously improving the efficiency and effectiveness of all our resources achieving excellence and the highest assurance ratings. |
| **Ready for Tomorrow** | Organisational resilience and agility to design and pivot to new service models. |

# Chair's Statement

## Overview

2022/23 was marked by completion of the triennial actuarial valuation and continuing progress with our Responsible Investment approach. The market value of the investments in the Surrey Pension Fund (the Fund) at 31 March 2023 was £5.2bn (2022 £5.3bn) with around 60% invested in equities, a proportion broadly unchanged from last year.

More than 300 employers participate in the Fund and we have over 100,000 members.

## Investment Strategy and Performance

The investment strategy is to ensure a fully diversified portfolio, appropriate to the Fund's long term objectives having regard to the Fund's size, the opportunities presented by pooling with Border to Coast, and the minimisation of risk. Ongoing adjustments in asset allocation are made proactively in line with these aims.

As agreed in the December 2022 Committee meeting, a series of transactions were programmed to take place. The emerging markets exposure of the Fund moving from a passive Legal & General Investment Management (LGIM) product to an actively managed Border to Coast Pensions Partnership (BCPP) product. Also, the exposure to UK equity reducing with proceeds reinvested into LGIM Future Worlds Global. As at 31 March 2023 some of these transactions were in train.

For the year to 31 March 2023, overall performance matched benchmark with a return of -1.8%. Over three years, performance was 10.3% per annum, ahead of benchmark by 0.4% per annum.

## Investment pooling within the LGPS

The Fund continues to make the most of opportunities for pooling its assets with other Local Government Pension Scheme (LGPS) funds in the BCPP. 39% of the Fund's equity investments are held with Border to Coast, with the prospect of this proportion increasing as noted above.

The Committee is prudent in ensuring that the Border to Coast sub funds provide the asset class and mix to suit the Fund's investment strategy. Border to Coast manages investment funds for its Partner Funds to invest in based on their strategic asset allocations.

## Investing Responsibly

The Fund takes an active role in ensuring it invests with due attention to our environmental, social and governance (ESG) responsibilities. Our focus remains on our fiduciary duty, maintaining appropriate investments for financial return while also having regard to the United Nations Sustainable Development Goals.

The Fund has a policy of engagement on ESG issues and enhances its influence through the Local Authority Pension Fund Forum (LAPFF) as well as Border to Coast's engagement lead, Robeco. The Committee is regularly informed about shareholder voting outturns and how this may impact the Fund's investment decisions.

Our own revised Responsible Investment Policy was agreed by the Committee in May 2022 and was the subject of consultation during the latter part of the year. We were pleased that we received 7,300 responses from members to the consultation, with a large majority in support. A net zero date for the Fund's investments of '2050 or sooner' was agreed in June 2023.

The Fund is signed up to the Taskforce for Climate Related Financial Disclosures (TCFD) and will report against these disclosures as appropriate. Since 2018, the estimated Weighted Average Carbon Intensity (WACI) of the listed equity portfolio has fallen by over 58%.

The Investment Strategy of the Fund remains is reviewed regularly and was formally reviewed in June 2023 following the 2022 Actuarial Valuation. A revised Investment Strategy Statement has been prepared.

## Actuarial Valuation

The Valuation was signed off prior to 31 March 2023 and the Funding Strategy Statement is published on the Fund website. New employer contribution rates are now in effect from 1 April 2023.

## Management

May 2022 saw the organisational redesign to an integrated One Pension Team. The recently agreed 3-year Strategic Plan provides the foundations for our path towards achievement of our Vision and Mission. I thank the Surrey Pension Team (SPT) for their ongoing hard work as we aim to ensure the best experience for our members.

**Nick Harrison**

Chair of the Surrey Pension Fund Committee

# Members & Advisors

## Membership of the Pension Fund Committee

**Membership as at 31 March 2023**

**Cllr Nick Harrison: Chairman**
**Elected Member**

Appointed: 25/05/21

**Cllr Trefor Hogg: Vice Chairman**
**Elected Member**

Appointed 25/05/21

**Cllr David Harmer**
**Elected Member**

Appointed: 25/05/21

**Cllr George Potter**
**Elected Member**

Appointed 25/05/21

**Cllr Richard Tear**
**Elected Member**

Appointed 25/05/21

**Cllr Robert Hughes**
**Elected Member**

Appointed 24/05/22

**Kelvin Menon**
**Co-opted Member**
Employer Representative

Re-appointed 25/05/21

**Philip Walker**
**Co-opted Member**
Employees Representative

Re-appointed 25/05/21

**Cllr Steve Williams**
**Co-opted Member**
Appointed 02/08/21

**Cllr Mark Sugden**
**Co-opted Member**

Appointed 09/06/21
Resigned 24/05/22

**Cllr Robert King**
**Co-opted Member**

Appointed 11/07/22

## Membership of the Local Pension Board

**Membership as at 31 March 2023**

**Tim Evans: Chair**
**Independent Chair**

Appointed 19/07/21

**Cllr David Lewis: Vice Chair**
**Employer Representative**

Appointed 19/07/21

**Trevor Willington**
**Surrey LGPS Member**

Appointed 17/07/15

**Siobhan Kennedy**
**Surrey LGPS Member**

Appointed 25/04/20

**Fiona Skene**
**Employer Representative**

Appointed 10/12/20

**William McKee**
**Surrey LGPS Member**
Appointed 19/07/21

**Cllr Jeremy Webster**
**Employer Representative**
Appointed 19/07/21

**Brendan Bradley**
**Employer Representative**
Appointed 16/12/22

**Vacancy**
**Surrey LGPS Member**

For contact details please contact the Governance Manager at the Surrey Pension Team adele.seex@surreycc.gov.uk

## Officer Contact Details

**Leigh Whitehouse**
**Deputy Chief Executive**
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020 8541 7012

**Anna D'Alessandro**
**Director - Corporate Finance & Commercial**
anna.dalessandro@surreycc.gov.uk
07885 434034

**Neil Mason**
**Assistant Director - LGPS Senior Officer**
neil.mason@surreycc.gov.uk
020 8213 2739

## Key Advisors

**Steve Turner**
**Investment Consultant - Mercer**
steve.j.turner@mercer.com
01483 777035

**Anthony Fletcher**
**Professional Advisor - Independent**
Anthony.Fletcher@MJHudson.com
020 7079 1000

**Steven Scott**
**Fund Actuary – Hymans Robertson**
steven.scott@hymans.co.uk
0141 566 7565

| Scheme Management & Advisers During the year | Name of Organisation |
|---|---|
| **Fund Managers** | • CBRE Global Investors<br>• Legal and General Investment Management<br>• LGPS Pool: Border to Coast Pensions Partnership<br>• Newton Investment Management |
| **Global Custodian** | • Northern Trust |
| **Bankers** | • HSBC |
| **Legal Advisors** | • Eversheds (Pensions Law)<br>• Browne Jacobson (Legal Due Diligence) |
| **Private Market Managers** | • abrdn Private Equity<br>• LGPS Pool: Border to Coast Pensions Partnership<br>• BlackRock<br>• Capital Dynamics<br>• Goldman Sachs Asset Management<br>• Hg Capital<br>• Livingbridge Equity Partners<br>• Pantheon Global Infrastructure<br>• Glennmont Partners<br>• Darwin Alternative Investment Management |
| **AVC Provider** | • Prudential Assurance Company<br>• Utmost Life and Pensions Limited |
| **Auditors** | • Grant Thornton UK LLP |

# Overview

## Investment

A summary of the fund value over time is provided in the table below.

| Fund element (£m) | 2018/19 | 2019/20 | 2020/21 | 2021/22 | 2022/23 |
|---|---|---|---|---|---|
| Contributions and transfers | 191 | 198 | 219 | 227 | 244 |
| Less benefits and expenses | (176) | (192) | (187) | (201) | (223) |
| Net additions | 15 | 6 | 32 | 26 | 21 |
| Net investment income | 58 | 51 | 25 | 24 | 41 |
| Change in market value | 186 | (513) | 1,097 | 295 | (128) |
| Net return on investments | 244 | (462) | 1,122 | 319 | (87) |
| Net increase in funds | 259 | (456) | 1,154 | 345 | (66) |
| **Fund value at 31 March** | **4,315** | **3,859** | **5,013** | **5,358** | **5,292** |

## Membership

The table below shows membership by type at 31 March in each of the last five years.

| Category (in thousands) | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|
| Contributory Employees | 34 | 35 | 40 | 41 | 43 |
| Pensioners and Dependants | 26 | 27 | 28 | 30 | 29 |
| Deferred Pensions | 50 | 49 | 44 | 43 | 43 |
| **Total** | **110** | **111** | **112** | **114** | **115** |

In 2022/23 there were over 1,700 new pensions paid.

| Retirement type | Number |
|---|---|
| Ill Health | 38 |
| Early | 71 |
| Normal | 1,653 |
| **Total** | **1,762** |

# LGPS Scheme Details

## Overview

On 1 April 2014, the Local Government Pension Scheme (LGPS) came into effect, replacing the final salary scheme with a career average revalued earnings (CARE) scheme.

The Scheme:

- has a normal pension age equal to state pension age (minimum age 65)
- provides a pension for each year of membership at an accrual rate of 1/49th of pensionable pay received in that year (1/98th for the 50/50 section of the scheme)
- provides increased flexibility for members wishing to retire early
- allows members to pay reduced contributions as an alternative to opting out (though benefits build up at a slower rate)
- provides for previous years' CARE benefits to be inflation proofed in line with the Consumer Price Index
- requires members to have at least 2 years' membership to qualify for pension benefits.

### Key LGPS Facts England and Wales

- Made up of 86 local funds and 8 LGPS pension pools
- Around 6.1 million members
- Total fund assets are over £364 billion (March 2022)
- Total expenditure on benefits is over £14.4 billion.

### Key LGPS Facts Surrey Pension Fund

- Made up of 345 active employers
- Approximately 115,000 members
- Total fund assets are around £5.3 billion
- Total expenditure on benefits is over £176 million p.a.

The following pay bands and contribution rates for 2022/23 were:

| Band | Actual pay for an pensionable employment | Main section contribution rate for that employment | 50/50 section contribution rate for that employment |
|---|---|---|---|
| 1 | Up to £15,000 | 5.50% | 2.75% |
| 2 | £15,001 to £23,600 | 5.80% | 2.90% |
| 3 | £23,601 to £38,300 | 6.50% | 3.25% |
| 4 | £38,301 to £48,500 | 6.80% | 3.40% |
| 5 | £48,501 to £67,900 | 8.50% | 4.25% |
| 6 | £67,901 to £96, 200 | 9.90% | 4.95% |
| 7 | £96, 201 to £113,400 | 10.50% | 5.25% |
| 8 | £113,401 to £170,100 | 11.40% | 5.70% |
| 9 | £170,101 or more | 12.50% | 6.25% |

The regulations governing for the LGPS can be found below:

For members who joined the scheme before 2014

For members who joined the scheme after 2014

The Fund is financed by contributions from employees and employers together with income earned from investments. The surplus of contributions and investment income over benefits paid is invested.

The pay bands increase each April in line with the Consumer Prices Index (CPI).

Employer contribution rates are set following each Actuarial Valuation. A valuation of the Fund's financial position is undertaken every three years. The Fund's Actuary certifies the employer rates payable until the results of the next valuation are known.

Under the regulations employer contributions are set in two parts:

- A primary rate based on the existing and prospective liabilities of the Fund having regard to the circumstances common to all participating employers and to the desirability of maintaining as nearly constant rate as possible.

- Individual adjustments arising from circumstances peculiar to an individual employer.

Pensions paid to retired employees, and benefits with a deferred payment date, are subject to mandatory increases under pensions increase legislation. The cost of inflation proofing benefits is funded through the employer contribution rate.

# Governance Summary

## Pension Fund Committee

Responsibility and governance for the Surrey Pension Fund, including its investment strategy, administration, liability management and corporate governance is delegated to the Surrey Pension Fund Committee. The Committee is made up of:

- 6 nominated members of the County Council
- 2 representatives from the Borough/District Councils nominated by the Surrey Local Government Association
- 1 representative from the external employers
- 1 representative of the employees of the Fund.

The Committee is advised by a representative of the Fund's professional investment consultant, an independent advisor, the Director of Finance and the Assistant Director – LGPS Senior Officer. The Pension Fund Committee meets on a quarterly basis.

## Local Pension Board

From 1 April 2015 the Committee had been assisted in its management of the Fund by a Local Pension Board (the Board). The Board is made up of members and employer representatives.

The role of the Board, as defined by Regulation 106 of the Local Government Pension Scheme Regulations 2013, is to assist the County Council as Administering Authority:

(a) to secure compliance with:

(i) the scheme regulations

(ii) any other legislation relating to the governance and administration of the LGPS Scheme and any connected scheme

(iii) any requirements imposed by the Pensions Regulator in relation to the LGPS Scheme.

(b) to ensure the effective and efficient governance and administration of the LGPS Scheme.

The Board will ensure it effectively and efficiently complies with the Code of Practice on the governance and administration of public service pension schemes issued by the Pensions Regulator.

The Board will also help ensure that the Fund is managed and administered effectively and efficiently and complies with the Code of Practice on the governance and administration of public service pension schemes issued by the Pensions Regulator. The Board has power to do anything that is calculated to facilitate or is conducive or incidental to the discharge of any of its functions but should always act within its terms of reference.

The Board shall consist of at least 8 members and may contain up to 10 members. It shall be constituted as follows:

(i) 4 employer representatives
(ii) 4 scheme member (employee) representatives
(iii) The Board may also contain 2 independent members.

The Local Pension Board agenda and minutes of meetings, as well as those of the Surrey Pension Fund Committee, are available on the Surrey County Council website.

The Board's Annual Report is on page 17.

# Local Pension Board Annual Report

## Chair’s Statement

This has been an exciting year of change, delivering one of the most ambitious transformation programmes the Surrey Pension Fund has ever undertaken. We started the year with the launch on 1 May of an integrated ‘One’ Pension Team, which brought together Investments & Stewardship, Service Delivery, Accounting & Governance, and Change Management under one roof led by our LGPS Senior Officer, Neil Mason. In December the ‘My Pension’ Helpdesk previously sitting within the Surrey Orbis Partnership, was successfully transferred to the Service Delivery team and renamed the Customer Relationship Team.

The transformation programme continues to drive improvements priortising: customer insights; banking controls; culture and training in line with our Vision and Mission.

The Fund continues to grow with 345 employers participating including county and district councils, maintained schools, academies, colleges, universities and admitted bodies (such as; cleaning and catering companies performing outsourced services on behalf of participating employers).

The Board continued to meet during the year to provide the necessary oversight and guidance to the Fund. This complies with the Public Service Pensions Act 2013 and the Local Government Pension Scheme Regulations 2013.

The Board’s primary function is to assist the Pension Fund Committee and Surrey County Council with:

- compliance with the Local Government Pension Scheme (LGPS) Regulations, other relevant legislation and requirements imposed by the Pensions Regulator
- the effective and efficient governance and administration of the Fund.

The Board has closely tracked the administrative performance of the Fund and its impact on members and employers through: quarterly KPI reporting, updates on projects, systems changes and evolving pensions legislation alongside best practice guidance.

The Board has taken a lead in reviewing the risk registers and reporting issues of concern to the Committee. It also reviewed the activities of the Committee at each meeting, providing its input as required.

I would like to take this opportunity to thank all members of the Board for their contributions during the year and for the support of officers. I would also like to pay personal tribute to the immense amount of hard work carried out by the Surrey Pension Team, I thank you all.

The meetings of the Board are held in public. We welcome anyone with an interest in the Fund to attend and see for themselves how we operate. We are also open to suggestions from both scheme employers and members about how we can best support them.

You can find out more by writing to the Governance Manager at the Surrey Pension Team adele.seex@surreycc.gov.uk

**Tim Evans**

Chair of the Surrey Local Pension Board

July 2023

## Compliance Checklist

| Ref | To secure compliance with the Regulations, any other legislation relating to the governance and administration of the Scheme, and requirements imposed by the Pensions Regulator in relation to the Scheme. | How the Board does this: |
|---|---|---|
| a | Review regular compliance monitoring reports which shall include reports to, and decisions made under the Regulations by the Committee. | The Board and Committee receive regular updates regarding their respective activities. The Board and Committee are committed to working together. The Board receives updates on the Border to Coast Pension Partnership (BCPP) pool. |
| b | Review management, administrative and governance processes and procedures in order to ensure they remain compliant with the Regulations, relevant legislation and in particular the Code of Practice. | The Board has oversight of Pension Fund policies and processes.<br><br>The Board reviews Key Performance Indicators (KPIs) for pension administration on a quarterly basis. |
| c | Review the compliance of scheme employers with their duties under the Regulations and relevant legislation. | The Board reviewed employer pension discretions in July 2016 and have continued to monitor compliance over the subsequent years. A review is underway by Surrey Pension Team.<br><br>The Board received a report on Compliance with the Pensions Regulator's Code of Practice No.14 at its meeting on 11 November 2021. |
| d | Assist with the development of and continually review such documentation as is required by the Regulations including Governance Compliance Statement, Funding Strategy Statement and Statement of Investment Principles. | This was reviewed as part of the Fund Annual Report on 17 November 2022, with specific policies also reviewed periodically in 2022/23 meetings. The Board will review these on an annual basis as part of the Fund Annual Report and as part of its Forward Plan. |
| e | Assist with the development of and continually review scheme member and employer communications as required by the Regulations and relevant legislation. | The Board is regularly provided with an outline of the current communications channels for members and employers. The Draft Communications policy was presented to the Board at its meeting on 17 February 2022. |

| Ref | To secure compliance with the Regulations, any other legislation relating to the governance and administration of the Scheme, and requirements imposed by the Pensions Regulator in relation to the Scheme. | How the Board does this: |
|---|---|---|
| f | Monitor complaints and performance on the administration and governance of the scheme. | The Board reviews complaints on a quarterly basis. |
| g | Assist with the application of the Internal Dispute Resolution Process. | The Board receives a quarterly update on the number of Internal Dispute Resolution Procedure (IDRP) cases and monitors any key themes emerging from these. |
| h | Review the complete and proper exercise of Pensions Ombudsman cases. | The Board receives a quarterly update of outstanding Ombudsman cases to consider. |
| i | Review the implementation of revised policies and procedures following changes to the Scheme. | The Board is fully conversant with proposed changes to the LGPS regulations through regular bulletins within the standing item Recent Developments in the LGPS. |
| j | Review the arrangements for the training of Board members and those elected members and officers with delegated responsibilities for the management and administration of the Scheme. | The Board will review its training needs on an annual basis. A record of training undertaken is included in the Board's annual report.<br>All Board members are required to complete the Pensions Regulator Public Sector toolkit in order to comply with the Board's Attendance, Knowledge and Understanding policy. |
| k | Review the complete and proper exercise of employer and administering authority discretions. | The Board received a verbal update on discretions on 11 November 2021. A review of the current position is planned to be completed by the Surrey Pension Team in 23/24. |
| l | Review the outcome of internal and external audit reports. | The Board complies with Surrey County Council's agreed process for internal audit reports being considered by scrutiny boards. This means all relevant audit reports are circulated to the Chair, and any report with one or more high priority recommendation will be considered for discussion at the Board. The results of any external audit are shared with the Board. |
| m | Review draft accounts and scheme annual report. | The Board received both the Draft Statement of Accounts and Fund Annual Report 2021/22 on 30 November 2022. |

| Ref | To secure compliance with the Regulations, any other legislation relating to the governance and administration of the Scheme, and requirements imposed by the Pensions Regulator in relation to the Scheme. | How the Board does this: |
|---|---|---|
| n | Review the compliance of particular cases, projects or processes on request of the Committee. | The Board reviews areas of interest as required from the Committee. |
| o | Any other area within the core function (i.e. assisting the Administering Authority) the Board deems appropriate. | The Board receives regular Breach of Law updates as and when potential breaches occur, the last report was on 18 February 2022. |

## Meetings and agenda items

| Meeting date | Agenda items |
|---|---|
| 26 May 2022 | 1. Summary of the Pension Fund Committee Meeting of 10 March 2022<br>2. Risk Register 2021/22 Quarter 4<br>3. Administration Performance Report 1 January 2022 - 31 March 2022<br>4. Turnaround Update<br>5. Progress Update of 2021/22 Internal Update (Part Two)<br>6. Border to Coast Governance Update (Part Two) |
| 29 July 2022 | 1. Summary of the Pension Fund Committee Meetings of 17 June 2022<br>2. Risk Register 2022/23 Quarter 1<br>3. Administration Performance Report 1 April 2022 - 30 June 2022<br>4. Transformation Programme Update<br>5. Progress update of 2021/22 Internal Audit Plan<br>6. 2022 Valuation<br>7. Surrey Local Pension Board Annual Report 2021/22<br>8. Update on Cyber Security and Business Continuity<br>9. LGPS - Recent Developments |
| 11 November 2022 | 1. Summary of the Pension Fund Committee Meeting of 23 September 2022<br>2. Risk Register Update 2022/23 Quarter 2<br>3. Administration Performance Report and Update 1 July 2022 - 30 September 2022<br>4. Transformation Programme Update<br>5. Internal Audit Update<br>6. 2022 Valuation<br>7. LGPS - Background Papers |
| 17 February 2023 | 1. Summary of the Pension Fund Committee Meeting of 16 December 2022<br>2. Risk Register 2022/23 - Quarter 3<br>3. Administration Performance Report and Update 1 October 2022 - 31 December 2022<br>4. Change Programme Update<br>5. Internal Audit Update<br>6. 2021/2022 External Audit Update<br>7. 2022 Valuation<br>8. Training Policy 2023/24<br>9. Communications Policy Statement 2023/24<br>10. LGPS Update - Background Papers |

# Board attendance and training log

## Members of the Local Pension Board

| Name | Position | Representing | Appointed |
|---|---|---|---|
| Tim Evans | Chair | Independent Chair | 19/07/2021 |
| David Lewis | Vice-Chair | Scheme Employers | 19/07/2021 |
| Trevor Willington | - | Scheme Members | 17/07/2015 |
| Siobhan Kenedy | - | Scheme Members | 29/04/2020 |
| Fiona Skene | - | Scheme Members | 10/12/2020 |
| William McKee | - | Scheme Employers | 19/07/2021 |
| Jeremy Webster | - | Scheme Members | 19/07/2021 |
| Brendan Bradley | - | Scheme Members | 06/12/2022 |

## Meeting attendance

| Name | May 2022 | July 2022 | November 2022 | February 2023 |
|---|---|---|---|---|
| Tim Evans | ✓ | ✓ | ✓ | ✓ |
| David Lewis | ✓ | ✓ | ✓ | Apologies |
| Trevor Willington | Remote | Remote | Apologies | ✓ |
| Siobhan Kennedy | ✓ | Apologies | ✓ | ✓ |
| Fiona Skene | ✓ | x | x | x |
| William McKee | Remote | ✓ | ✓ | x |
| Jeremy Webster | ✓ | ✓ | ✓ | Apologies |
| Brendan Bradley | N/A | N/A | N/A | ✓ |

Key ✓ = Attended

## Training of current Board members

| Name | The Pensions Regulator Public Sector Toolkit | Local Government Association Fundamentals 1 | Local Government Association Fundamentals 2 | Local Government Association Fundamentals 3 |
|---|---|---|---|---|
| Tim Evans | - | - | - | - |
| David Lewis | ✓ | - | - | - |
| Trevor Willington | ✓ | ✓ | - | ✓ |
| Siobhan Kennedy | ✓ | ✓ | ✓ | ✓ |
| Fiona Skene | - | - | - | - |
| William McKee | ✓ | ✓ | ✓ | ✓ |
| Jeremy Webster | ✓ | - | - | - |
| Brendan Bradley | ✓ | - | - | - |

## Additional Training

| Name | Employers Pensions Fund Annual Engagement (AGM) 18/11/2022 | Hymans Valuation Training 16/06/22 | LGA Governance Conference (2 days 19-20/1/23) In person attendance | LGA Governance Conference (2 days 19-20/1/23) Online attendance |
|---|---|---|---|---|
| Tim Evans | ✓ | - | ✓ | - |
| David Lewis | - | ✓ | - | ✓ |
| Trevor Willington | - | - | - | - |
| Siobhan Kennedy | ✓ | - | - | - |
| Fiona Skene | ✓ | - | - | - |
| William McKee | - | ✓ | - | - |
| Jeremy Webster | - | ✓ | ✓ | - |
| Brendan Bradley | N/A | - | - | - |

## Register of interests

The Public Service Pensions Act 2013, Section 5(4) requires that any member of a Pension Board must not have a "conflict of interest", which is defined in Section 5(5) as a "financial or other interest which is likely to prejudice the person's exercise of functions as a member of the board, but does not include a financial or other interest arising merely by virtue of membership of the scheme or any connected scheme."

A conflict of interest exists where there is a divergence between the individual interests of a person and their responsibility towards the Local Pension Board, such that it might be reasonably questioned whether the actions or decisions of that person are influenced by their own interests.

A conflict of interest would prejudice an individual's ability to perform their duties and responsibilities towards the Local Pension Board in an objective way.

An example of a potential conflict of interest could be:

> A Local Pension Board member may be required to review a decision which may be, or appear to be, in opposition to another interest or responsibility, e.g:
>
> - a review of a decision which involves the use of departmental resource in the function of the Local Pension Board, whilst at the same time being tasked with reducing this departmental resource by virtue of their employment.
> - a Local Pension Board member could also be employed or have an interest in either privately or as part of the Council in a service area of the Council for which the Local Pension Board has cause to review.
> - an independent member of the Local Pension Board may have a conflict of interest if they are also advising the Scheme Manager.

## Register of interests

| Name | Employment | LGPS Pension | Conflict with Employment | Other conflicts |
|---|---|---|---|---|
| Tim Evans | Yes | Yes | No | No |
| David Lewis | Not in paid employment | No | No | No |
| Trevor Willington | Not in paid employment | Yes | No | No |
| Siobhan Kennedy | Homelessness, Advice & Allocations Lead for Guildford Borough Council | No | No | No |
| Fiona Skene | Corporate Head of HR & OD – Runnymede Borough Council | No | No | No |
| William McKee | Retired – T/A Consultancy | Yes | No | No |
| Jeremy Webster | Not in paid employment | Yes | No | No |
| Brendan Bradley | Head of Finance for Epsom & Ewell Borough Council | No | No | No |

# Knowledge & Skills Policy

The Surrey Pension Fund (the Fund) recognises the importance of providing appropriate training to both Pension Fund Committee and Local Pension Board members, as well as officers in relation to the operation of the Fund. Compliance to a comprehensive training policy meets the Fund's strategic governance and delivery objectives and as such the Pension Fund Committee considered and acknowledged the 2023/24 Training Policy at its meeting of 10 March 2023.

The Fund is committed to providing training to those involved in the governance of the Fund and to ensuring the Pension Fund Committee and the Local Pension Board members have the necessary skills and knowledge to act effectively in line with their responsibilities.

The objectives of the Fund's training policy are to:

- ensure the Fund is managed, and its services delivered, by members and officers with the appropriate knowledge and expertise to be competent in their role
- provide those with responsibility for governing the Fund to evaluate the information they receive and effectively challenge it where appropriate
- support effective and robust decision making, ensuring decisions are well founded and comply with Regulatory requirements or guidance from the Pensions Regulator, the Scheme Advisory Board and the Secretary of State for the Department for Levelling Up, Housing and Communities (DLUHC)
- ensure an understanding of the operation and administration of the Surrey Pension Fund
- meet the required needs in relation to the Fund's objectives.

The Fund will demonstrate compliance with its training plan on a yearly basis through the Annual Report.

# Annual Investment Review

The Annual Investment Rev report has been prepared by the Independent Investment Advisor for Surrey Pension Fund (the Fund). At the request of the Pension Fund Committee. The purpose of the report is to fulfil the following aims:

- To provide a review of the economic and market background over the 12 months to 31 March 2023
- To provide an overview of market returns by asset class over the last 12 months
- To provide an overview of the Fund’s performance versus the Fund specific benchmark for the last 12 months
- To provide an overview of the outlook for markets.

# Annual Investment Review 2022/2023

Prepared for:

## Surrey Pension Fund

July 2023

## Economic and market background

At the beginning of the financial year, the economic outlook appeared highly uncertain. Russia had invaded Ukraine in the last week of February 2022 and the widespread expectation was for a collapse of the Ukrainian government and the quick imposition of a puppet regime controlled by the Kremlin. While Russia made substantial territorial gains in the south-east joining the separate enclaves it captured in 2014, namely the Crimea and Donbas regions, it has failed in its primary objective. Over the year supported by the “west” Ukraine has been able to recapture some territory and while the attempted “harrowing” of the country by Russia has made life much worse for the civilian population it has proved unsuccessful and the war has become one of attrition.

The global economy was already slowing prior to the uncertainty caused by the Russian Invasion. As the impact of covid fiscal stimulus packages was already fading, the consumer on the other hand was still happy to spend and be active, releasing pent up demand for services and hospitality spending, funded by excess savings and higher incomes. As a result, economic growth while very weak and close to zero in many regions, turned out stronger than expected and a recession was avoided, see chart 1 below.

In December the Chinese government ended its Zero Covid policy and almost instantly rescinded all of its lockdown and travel restriction policies. This change is expected to boost consumer activity as people are allowed to return to normal activity and to bring to an end the last of the supply side issues effecting supply chains, manufacturing and the flow of trade in goods.

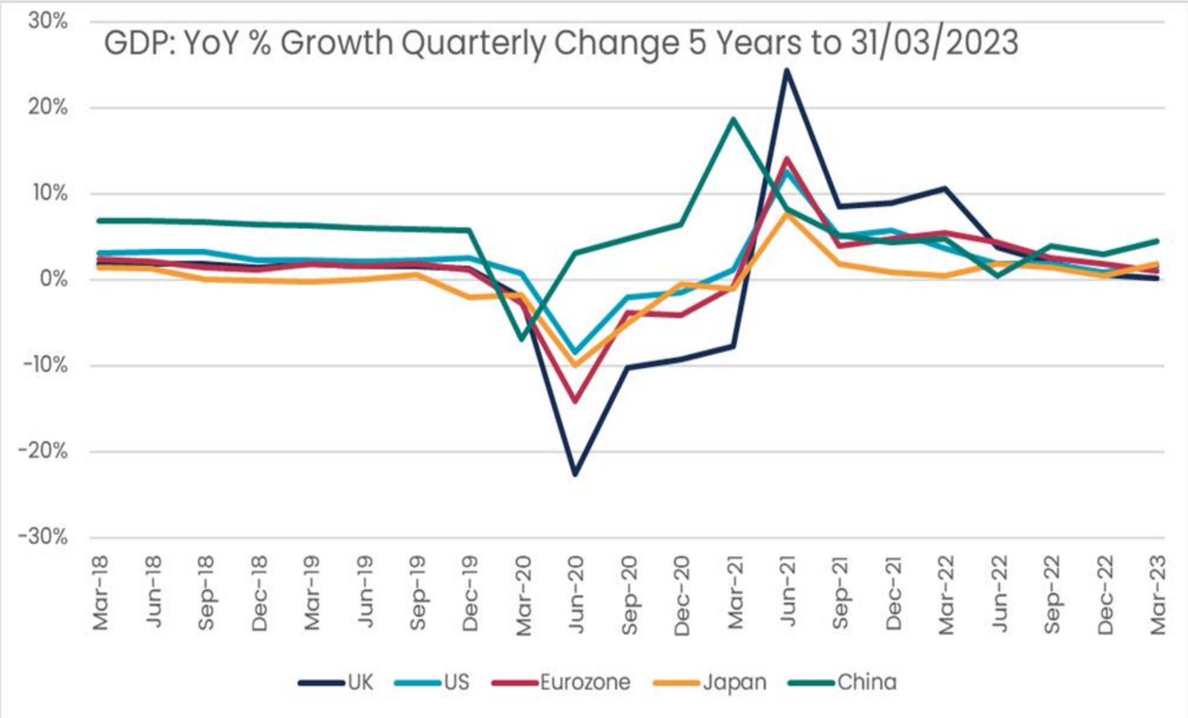


**Chart 1:** - GDP growth, quarterly % change. (Source: - Bloomberg.)

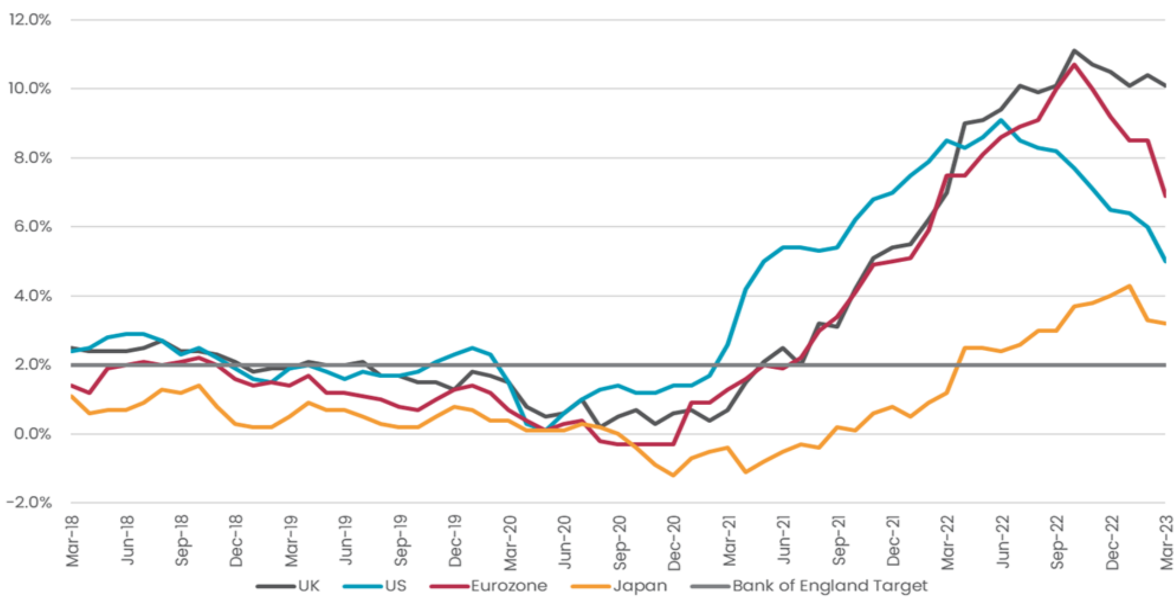
The dominant macro-economic factor of the financial year has turned out to be higher and more persistent inflation than expected. Inflation was already on the rise driven by manufacturing supply side issues, dislocations in global supply chains and strong demand for goods and rising energy prices, all of which were a legacy of the covid pandemic.

The invasion of Ukraine made all this worse, especially in the UK and Europe. In the UK because of the structure of the energy market and the failure of recent governments to have an energy policy that was not solely dependent on the spot market price for gas. In Europe because of the dependence on Russian gas imported mainly through pipelines in Ukraine and because of manufacturing component supply chains in eastern Europe. Globally food price inflation was also impacted because of Ukraine's importance as a major global supplier of grains and seed oil.

Inflation did peak in October 2022, but at much higher levels that expected due to the invasion of Ukraine, see chart 2. By the end of the financial year headline inflation in most regions was falling as the impact of higher energy prices dropped out of the indices. The problem for central banks going forward, with a backdrop of tight labour markets and better that expected growth, is how much of last year's higher costs get passed through into the prices of core goods and services keeping inflation persistently higher.

**Chart 2:** - Headline CPI inflation and the Central bank target rate.

(Source: - Bloomberg.)



Over the summer of 2022 the conservative party held an election for a new leader following the resignation of Boris Johnson as Prime Minister. In September 2022, the new Prime Minister Liz Truss and her Chancellor Kwasi Kwarteng announced a "Fiscal Event", which included major supply side changes and tax cuts aimed at re-invigorating the UK economy for a post-Brexit future. However, because these proposals had not been reviewed by the Office for Budget Responsibility and there were no clear plans for how the tax cuts would be funded, the UK government bond (Gilt) market went into free fall as investors tried to work out the implications for borrowing and the budget and fiscal deficits.

The crisis in the Gilt market led to reluctant short term support provided by the Bank of England to prevent a systemic failure. In the short term it has led to the replacement of Liz Truss and Kwasi Kwarteng by a new Prime Minister Rishi Sunak and Chancellor Jeremy Hunt. I believe in the long term it has done significant damage to the closed defined benefit pensions funds of many corporates and individuals. It may have also increased the risk premium required by domestic and international investors when considering buying UK assets, and it may have unnecessarily increased government borrowing costs.

## Central Banks

In the last year central banks have come under a lot of criticism for failing to anticipate how high inflation would get and for how long it would remain high. But this criticism is largely unfair, as I said last year most of the inflationary problems caused by covid were supply side, not demand side issues and therefore outside of their control. Equally were they supposed to respond to a war in Europe by increasing rates to head off the risk of war induced higher energy and food price inflation, without understanding the implications for growth. Broadly speaking economies suffer the experienced inflation based on the structure of their economy. The problem central banks have had in the last year is do they crash the economy (cause a recession) to hopefully reduce inflation when many of the causes of inflation would not have been reduced by a recession.

What is clear is that inflation remains higher than expected and is now moving from the headline rate as energy prices fall and food prices increases slow, to the core rate as demand for labour and services remain high. This means central banks may have to increase rates further and keep them higher for longer than previously expected. The extraordinary 15 year period since the global financial crisis, which was characterised by emergency low rates and no inflation has finally ended.

## Market Returns

As can be seen in table 1 below, over the financial year in sterling terms Global equities achieved a negative return -0.9%, the UK equity market did better delivering +2.9%. The UK equity indices with their higher weight to energy stocks, outperformed the more interest rate sensitive US technology stocks which dominate the US and Global indices. Emerging Markets, had another difficult year, returning around -3.9%, partly because of Russia being cut off from the world's financial markets following its invasion of Ukraine, but also because its high weighting to China that also dragged down performance over the year as the domestic economy struggled to deal with lasting effects of covid and regulatory changes.

UK government bond markets experienced an "annus horribilis", partly because these bond markets have the highest interest rate sensitivity, but also because of the "Fiscal Event" in September 2022.  UK corporate bonds were not immune to these events but their performance along with that of overseas bonds shows that while all bond markets experienced negative returns due to rising inflation and interest rates, the UK Gilt market performance was exceptionally bad.

**Table 1**, below shows the total investment return in pound Sterling for the major asset classes, using FTSE indices except where noted; for the 3 and 12 months to the end of March 2023.

### Market Returns (%) for the period ending 31 March 2023 – Dividends Reinvested

| Major Asset Classes | 3 months | 12 months |
|---|---|---|
| All World | +4.4 | -0.9 |
| Regional indices | - | - |
| UK All Share | +3.1 | +2.9 |
| North America | +4.7 | -2.6 |
| Europe ex UK | +8.6 | +8.7 |
| Japan | +3.3 | +2.0 |
| Emerging Equity Markets | +0.2 | -3.9 |
| UK Gilts - Conventional All Stocks | +2.5 | -17.2 |
| UK Gilts - Index Linked All Stocks | +4.3 | -27.5 |
| UK Corporate bonds* | +2.5 | -11.4 |
| Overseas Bonds** | +2.9 | -5.5 |
| UK Property quarterly^ | -1.2 | -12.6 |
| Sterling 7 day LIBOR | 0.9 | 2.2 |

FTSE Indices except where noted * ICE £ Corporate Bond; **ICE Global Government ex UK hedged; ^ MSCI.

The UK property market also had a very difficult year, returning -12.6%, as it responded to higher inflation and interest rates, the market was impacted by the September "Fiscal Event" as it caused forced selling by some pension schemes seeking liquidity. Most private markets assets (not represented in the table above), including Infrastructure private equity and private debt delivered steady positive returns.

## Fund Performance and Manager Structure

At the end March 2023, the Surrey Pension Fund was valued at £5,257 million[1]. The Fund's total net investment return was -1.8%, which is in-line with the benchmark that also returned -1.8%. Over the last 3 years the Fund has achieved a total return of +10.4% p.a. which is ahead of the benchmark return of +9.9% p.a. Over the year the "Past Service funding level" of the Surrey Pension Fund improved from 102% to 127%.

Over the year the negative absolute return of the Fund was quite small, but this hides significant volatility in all equity and bond markets. The first half of the financial year was marked by significant negative returns caused initially by the invasion of Ukraine and the subsequent rise in food and energy prices, but also by the more aggressive action from central banks, responding to higher and more persistent inflation.

This all changed in October when US headline CPI was confirmed to have peaked and was trending lower. This caused equity and bond markets to rally into the end of the financial year and as a result much of the Fund's mark to market losses in the first half of the financial year were recovered by the end of it. The Fund's high weight to growth assets like equity and private markets helped the recovery in overall Fund performance. Because the Fund only has a very small exposure to UK government bonds their hugely negative returns only had a very small impact. Overall returns from Property, Listed Alternatives and Multi-asset Credit were also negative, but less so than UK government bonds.

In terms of the overall Fund structure this year saw very few changes in investment strategy and asset distribution. New capital calls to private market commitments were funded predominantly as planned by sales of assets in the BCPP Listed

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[1] Note the £5,257 m value shown in this and subsequent reports comprises the total investments of £5,240 million plus the money market funds of £17 m shown within current assets in the accounts.

Alternatives fund, but also from the UK Equity Alpha fund and the LGIM liquidity fund.

Towards the end of the financial year plans were put in place to move from a passive emerging equity strategy managed by LGIM to an active strategy managed by BCPP and to rebalance equity exposure from the UK to LGIM's Future World global equity fund. In anticipation of the launch of the BCPP Global Property fund, CBRE were instructed not to commit to new closed ended or illiquid property funds and in future the Multi-asset Credit fund will distribute income to help with the Funds overall Cashflow management.

Over the year the Committee, Officers and Advisers invested a huge amount of time making progress in designing and agreeing the Fund's Responsible Investment and Net Zero policies as well as understanding the investment strategy implications of these policies and the impact of the Triennial valuation. These activities are fundamental to the long term investment strategy of the Surrey Pension Fund.

## Economic and Market outlook

The outlook for growth remains weak and inflation while falling is likely to remain higher than expected, which keeps the pressure on central banks to increase interest rates further and keep them higher for longer than previously expected. The recent failure of several US regional banks has led to tighter credit conditions and as a result the risk of recession has increased.

Generally, forecasters are suggesting better growth and even the IMF (23rd May) has revised its global growth forecasts higher. In particular revising their outlook for the UK from -0.3% to +0.4% in 2023. This is still not a great outcome, UK growth should be greater than 2% per year, but the magnitude of the change is worthy of note. In the IMF's previous report UK economic growth was ranked weakest in the G20, that ranking now belongs to Germany which is only expected to achieve 0% growth in 2023.

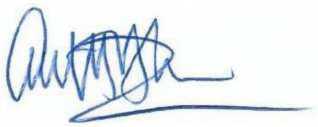
With growth slightly better than expected and full employment, central banks can feel free to increase interest rates to tackle inflation. The headline rate may be falling but the core rate remains stubbornly high and, in some cases, is likely to continue to rise as the last 12 months of "baked in" price increases start to show up in core goods and services.

The post lock down recovery in China has not been as strong as it was in the developed economies and has not yet led to significantly higher inflation, but domestic activity has increased significantly.

While the outlook for UK and European economic growth has improved from a low base it could still be characterised as stagnant rather than recessionary. Market volatility has picked up as investors try to figure out how much further central banks may need to increase rates to get inflation back under control, against a backdrop of tighter credit conditions in the US and the brinkmanship over the US Government's debt ceiling.

I believe inflation will be lower in twelve months' time than it is today but it will be higher that we have become used to over the last 15 years since the GFC.  Which means that interest rates will also be higher than the emergency rates we have become used to.  The period of emergency interest rates needed to recover from the Global Financial Crisis is over.  In future interest rates, bond yields and the returns from equity markets need to reflect that return to normality.

I re-state my comments from last year, while higher interest rates and inflation are bad news for longer duration bond markets, they are not necessarily a bad outcome for equity markets, but it can be bad news for interest rate sensitive growth stocks.  I believe the valuations of "growth" companies may have further to fall relative to "quality and value".  In general, I believe that in future returns are likely to lower, harder won and market volatility could be greater than we have seen in the last 15 years.



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# Investment Report

## Investment Arrangements, Performance & Post Pool Reporting

The Surrey Pension Fund (the Fund) is managed on both an active and passive basis.

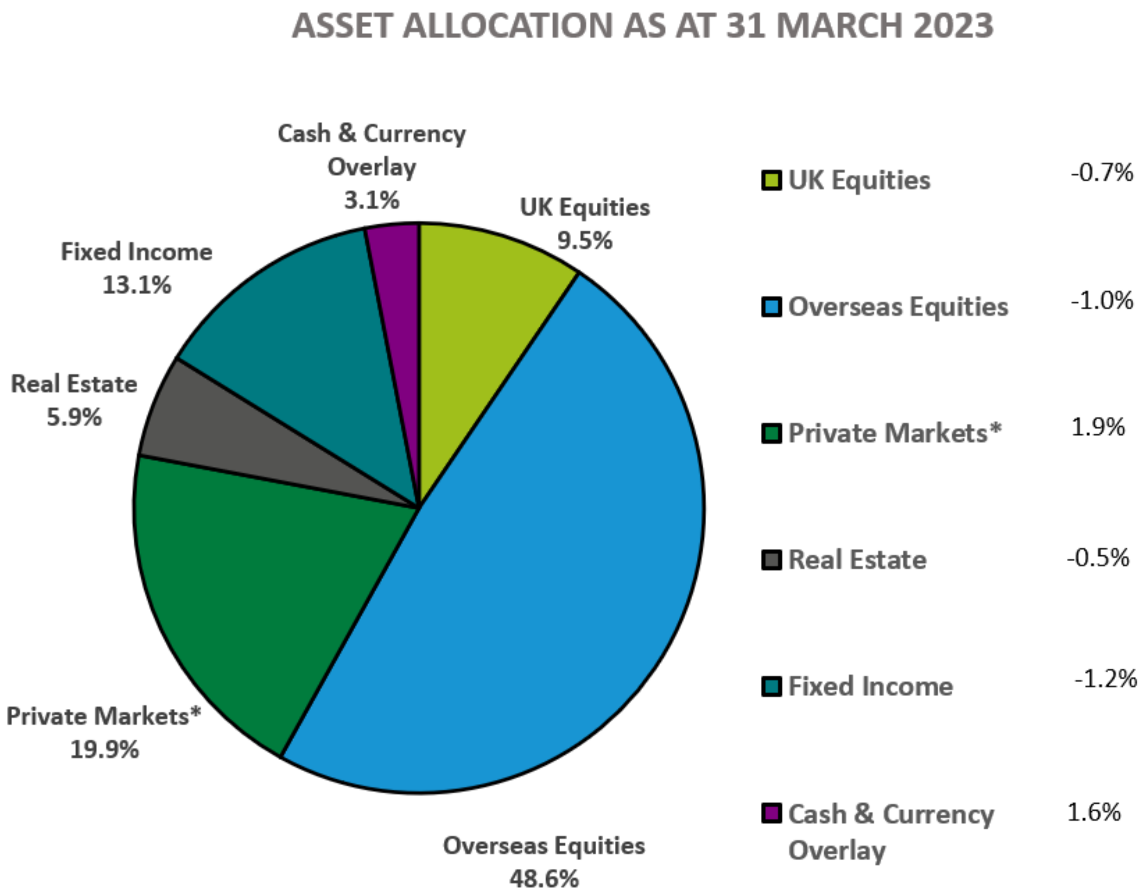
Investment managers have been appointed to undertake day-to-day decisions on the allocation of investment between types of asset and choices of individual investments within approved classes. They are required to take a long-term view, balancing risk against return and are remunerated on scales related to the value of funds under management and in certain cases for performance over and above benchmark return. Regular meetings are held with the managers to assess performance.

As at 31 March 2023, equity, fixed income and real estate exposure is gained through assets held with Border to Coast Pension Partnership (BCPP), Newton Investment Management, Legal & General Investment Management (LGIM) and CBRE. In addition, the Fund has investments in private market funds managed by BCPP, Darwin Alternative Investment Management, Goldman Sachs Capital Partners, abrdn Private Equity, Pantheon, Capital Dynamics, Glennmont Partners, HG Capital, Blackrock and Livingbridge.

As at 31 March 2023 the market value of assets under management was £5.3bn.

## Asset Allocation

The distribution of the Fund investments into different asset classes within the portfolio as at 31 March 2023 is shown in the chart below along with the percentage change since 31 March 2022.



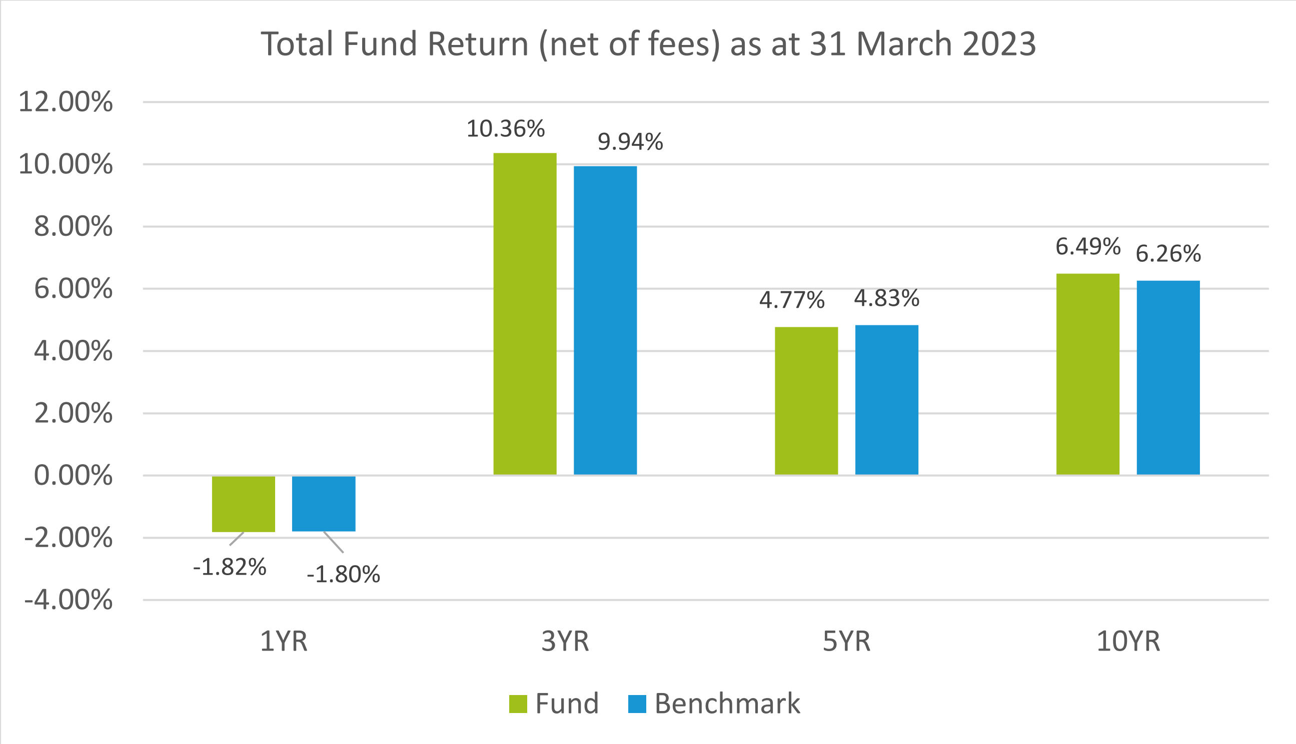

*Includes listed alternatives

The table below shows the investment breakdown by asset class over the last two years and the actual versus target allocation as at 31 March 2023.

| Asset class | MV as at 31 Mar 2022 (£m) | Asset Allocation as at 31 Mar 2022 | MV as at 31 Mar 2023 (£m) | Asset Allocation as at 31 Mar 2023 | Target Allocation as at 31 Mar 2023 |
|---|---|---|---|---|---|
| **Listed Equities** | 3,185.9 | 59.7% | 3,053.6 | 58.1% | 54.8% |
| **Private Markets** | 558.1 | 10.5% | 795.2 | 15.1% | 17.0% |
| **Listed Alternatives** | 402.3 | 7.6% | 250.7 | 4.8% | 3.0% |
| **Property** | 338.4 | 6.4% | 307.8 | 5.9% | 7.6% |
| **Fixed Interest Securities** | 760.1 | 14.3% | 689.8 | 13.1% | 17.6% |
| **Internally Managed Cash, Liquidity Fund & Currency Overlay** | 80.4 | 1.5% | 160.5 | 3.1% | 0.0% |
| **Total** | 5,325.2 | 100% | 5,257.6 | 100% | 100% |

Thirteen fund managers undertook the management of investments during 2022/23 in a mix of passive and active investment. The Fund assesses overall investment performance against a customised benchmark provided by the Fund's custodian Northern Trust. This benchmark is derived from a series of investment indices weighted by the Fund's asset allocation. Performance against target and benchmark is reviewed at regular intervals, in line with the Fund's Investment Strategy Statement.

The graph below shows how the Fund performed against the benchmark, on an annualised basis, for the previous 1, 3, 5 and 10-year periods.



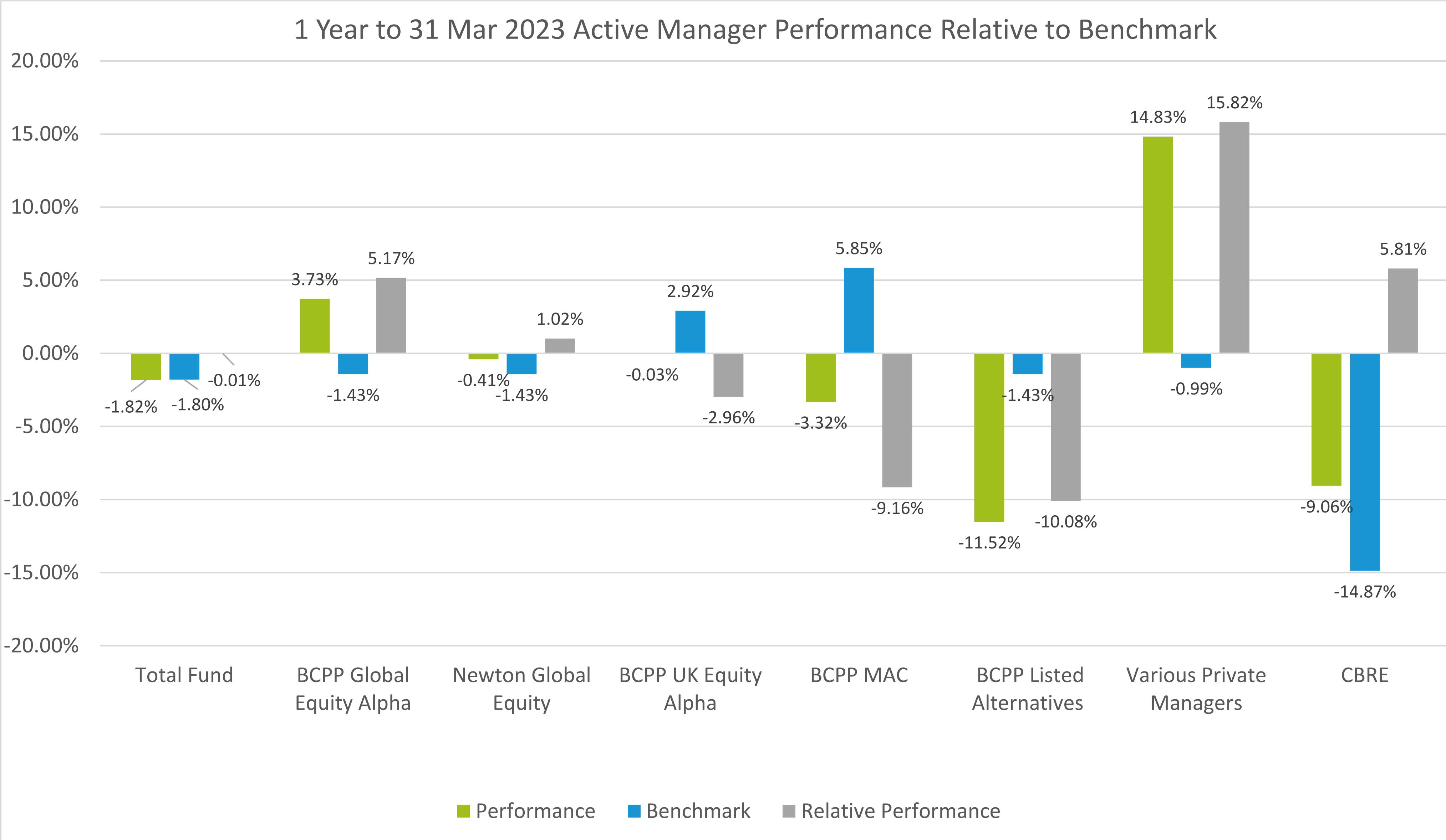

Over the last 1-year and 5-year periods to 31 March 2023, the Fund recorded investment performance marginally below that of the benchmark, as shown in the chart above. However, over the 3 and 10-year periods the Fund outperformed the benchmark. The performance over the last 10 years is in excess of the strategic target return of the Fund, which is 5%.

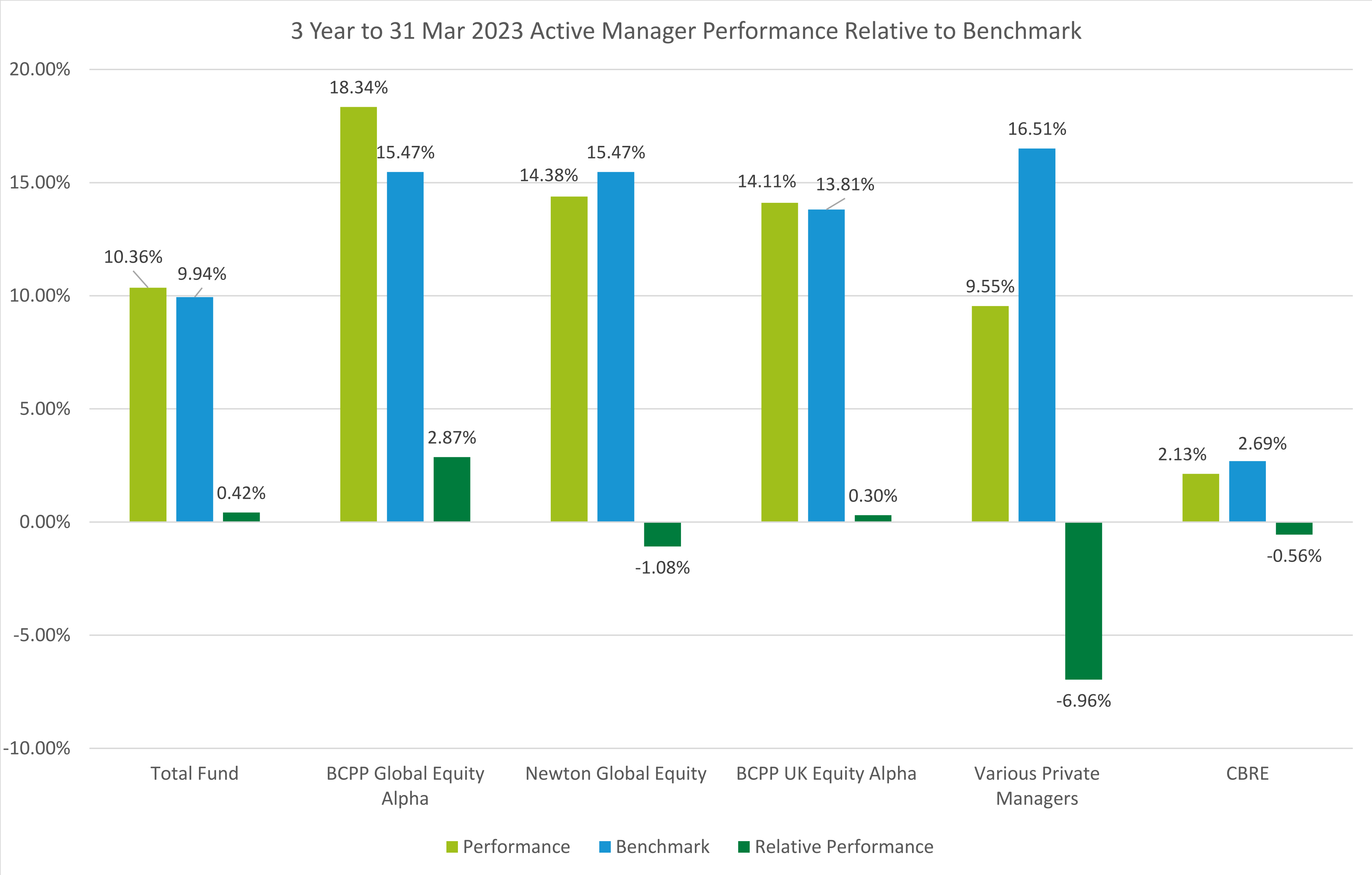
The allocation as at 31 March 2023 for each mandate by fund manager is shown in the table below.

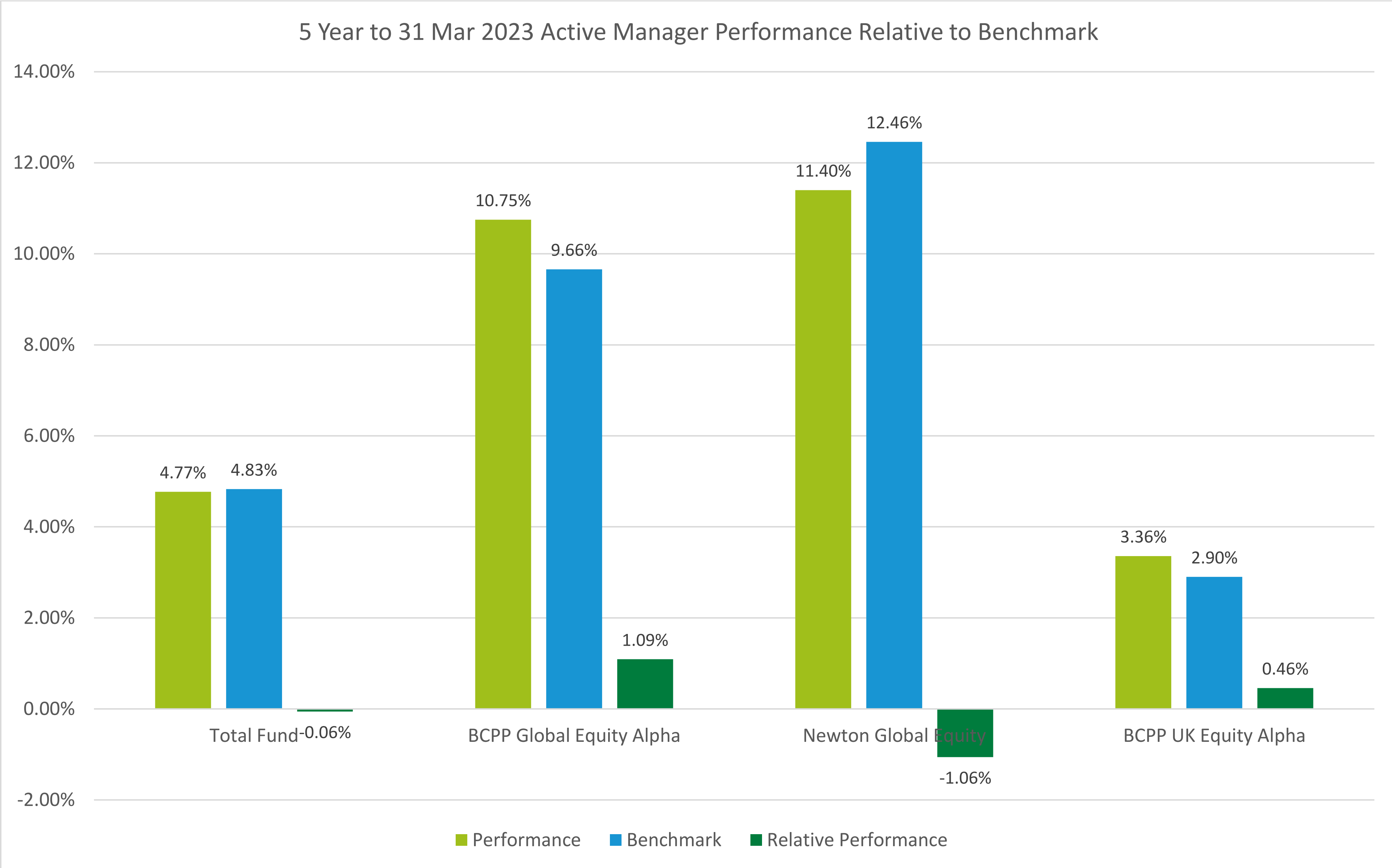
| Mandate / Manager | MV (£bn) as at 31 March 2023 | Allocation as at 31 March 2023 |
|---|---|---|
| **Total Fund** | **5.26** | **100%** |
| **Active Global Equity** | **1.23** | **23.4%** |
| BCPP Global Equity Alpha | 0.74 | 14.1% |
| Newton Global Equity | 0.49 | 9.3% |
| **Active Regional Equity** | **0.50** | **9.5%** |
| BCPP UK Equity Alpha | 0.50 | 9.5% |
| **Passive Global Equity** | **0.93** | **17.6%** |
| LGIM - Future World Global | 0.93 | 17.6% |
| **Passive Regional Equity** | **0.40** | **7.6%** |
| LGIM - Europe Ex-UK | 0.05 | 1.0% |
| LGIM - FW Emerging Markets | 0.01 | 0.2% |
| LGIM - Emerging Markets | 0.28 | 5.2% |
| LGIM - Japan | 0.02 | 0.3% |
| LGIM - Asia Pacific ex-Japan | 0.04 | 0.8% |
| **Fixed Income** | **0.69** | **13.1%** |
| BCPP MAC | 0.56 | 10.7% |
| LGIM Gilts | 0.13 | 2.4% |
| **Private Markets Proxy** | **0.25** | **4.8%** |
| BCPP Listed Alternatives | 0.25 | 4.8% |
| **Private Markets** | **0.80** | **15.1%** |
| Various Private Managers | 0.80 | 15.1% |
| **Real Estate** | **0.31** | **5.9%** |
| CBRE | 0.31 | 5.9% |
| **Liquidity** | **0.16** | **3.1%** |

| Fund/Manager as at 31 Mar 2023 | £bn | 1Y Return | 1Y Benchmark | 1Y Relative Return | 3Y Return p/a | 3Y Benchmark | 3Y Relative Return | 5Y Return p/a | 5Y Benchmark | 5Y Relative Return |
|---|---|---|---|---|---|---|---|---|---|---|
| **Total Fund** | **5.26** | -1.82% | -1.80% | -0.01% | 10.36% | 9.94% | 0.42% | 4.77% | 4.83% | -0.06% |
| **Active Global Equity** | **1.23** | - | - | - | - | - | - | - | - | - |
| BCPP Global Equity Alpha | 0.74 | 3.73% | -1.43% | 5.17% | 18.34% | 15.47% | 2.87% | - | - | - |
| Newton Global Equity | 0.49 | -0.41% | -1.43% | 1.02% | 14.38% | 15.47% | -1.08% | 10.75% | 9.66% | 1.09% |
| **Active Regional Equity** | **0.50** | - | - | - | - | - | - | - | - | - |
| BCPP UK Equity Alpha | 0.50 | -0.03% | 2.92% | -2.96% | 14.11% | 13.81% | 0.30% | - | - | - |
| **Passive Global Equity** | **0.93** | - | - | - | - | - | - | - | - | - |
| LGIM - Future World Global | 0.93 | -1.03% | -0.74% | -0.29% | - | - | - | - | - | - |
| **Passive Regional Equity** | **0.40** | - | - | - | - | - | - | - | - | - |
| LGIM - Europe Ex-UK | 0.05 | 8.13% | 7.64% | 0.49% | - | - | - | - | - | - |
| LGIM - FW Emerging Markets | 0.01 | - | - | - | - | - | - | - | - | - |
| LGIM - Emerging Markets | 0.28 | -4.27% | -4.29% | 0.02% | 9.06% | 8.98% | 0.08% | - | - | - |
| LGIM - Japan | 0.02 | 1.97% | 1.52% | 0.45% | - | - | - | - | - | - |
| LGIM - Asia Pacific ex-Japan | 0.04 | -3.84% | -3.86% | 0.02% | - | - | - | - | - | - |
| **Fixed Income** | **0.69** | - | - | - | - | - | - | - | - | - |
| BCPP MAC | 0.56 | -3.32% | 5.85% | -9.16% | - | - | - | - | - | - |
| LGIM Gilts* | 0.13 | -18.50% | - | - | -3.20% | - | - | - | - | - |
| **Private Markets Proxy** | **0.25** | - | - | - | - | - | - | - | - | - |
| BCPP Listed Alternatives | 0.25 | -11.52% | -1.43% | -10.08% | - | - | - | - | - | - |
| **Private Markets** | **0.80** | - | - | - | - | - | - | - | - | - |
| Various Private Managers | 0.80 | 14.83% | -0.99% | 15.82% | 9.55% | 16.51% | -6.96% | 11.40% | 12.46% | -1.06% |
| **Real Estate** | **0.31** | - | - | - | - | - | - | - | - | - |
| CBRE | 0.31 | -9.06% | -14.87% | 5.81% | 2.13% | 2.69% | -0.56% | 3.36% | 2.90% | 0.46% |
| **Liquidity** | **0.16** | - | - | - | - | - | - | - | - | - |
| **L&G Currency Overlay** | 0.02 | - | - | - | - | - | - | - | - | - |
| **Total Cash & Equivalents** | 0.14 | - | - | - | - | - | - | - | - | - |

*Performance for total Bespoke Fund


1 Year to 31 Mar 2023 Active Manager Performance Relative to Benchmark
20.00%
15.00%
10.00%
5.00%
0.00%
-5.00%
-10.00%
-15.00%
-20.00%
-1.82%
-1.80%
-0.01%
3.73%
-1.43%
5.17%
-0.41%
-1.43%
1.02%
-0.03%
2.92%
-2.96%
-3.32%
5.85%
-9.16%
-11.52%
-1.43%
-10.08%
14.83%
-0.99%
15.82%
-9.06%
-14.87%
5.81%
Total Fund
BCPP Global Equity Alpha
Newton Global Equity
BCPP UK Equity Alpha
BCPP MAC
BCPP Listed Alternatives
Various Private Managers
CBRE
Performance
Benchmark
Relative Performance


3 Year to 31 Mar 2023 Active Manager Performance Relative to Benchmark
20.00%
15.00%
10.00%
5.00%
0.00%
-5.00%
-10.00%
10.36%
9.94%
0.42%
18.34%
15.47%
2.87%
14.38%
15.47%
-1.08%
14.11%
13.81%
0.30%
9.55%
16.51%
-6.96%
2.13%
2.69%
-0.56%
Total Fund
BCPP Global Equity Alpha
Newton Global Equity
BCPP UK Equity Alpha
Various Private Managers
CBRE
Performance
Benchmark
Relative Performance



5 Year to 31 Mar 2023 Active Manager Performance Relative to Benchmark
14.00%
12.00%
10.00%
8.00%
6.00%
4.00%
2.00%
0.00%
-2.00%
4.77%
4.83%
-0.06%
10.75%
9.66%
1.09%
11.40%
12.46%
-1.06%
3.36%
2.90%
0.46%
Total Fund
BCPP Global Equity Alpha
Newton Global Equity
BCPP UK Equity Alpha
Performance
Benchmark
Relative Performance

## Transition of Assets onto Border to Coast Pensions Partnership (BCPP)

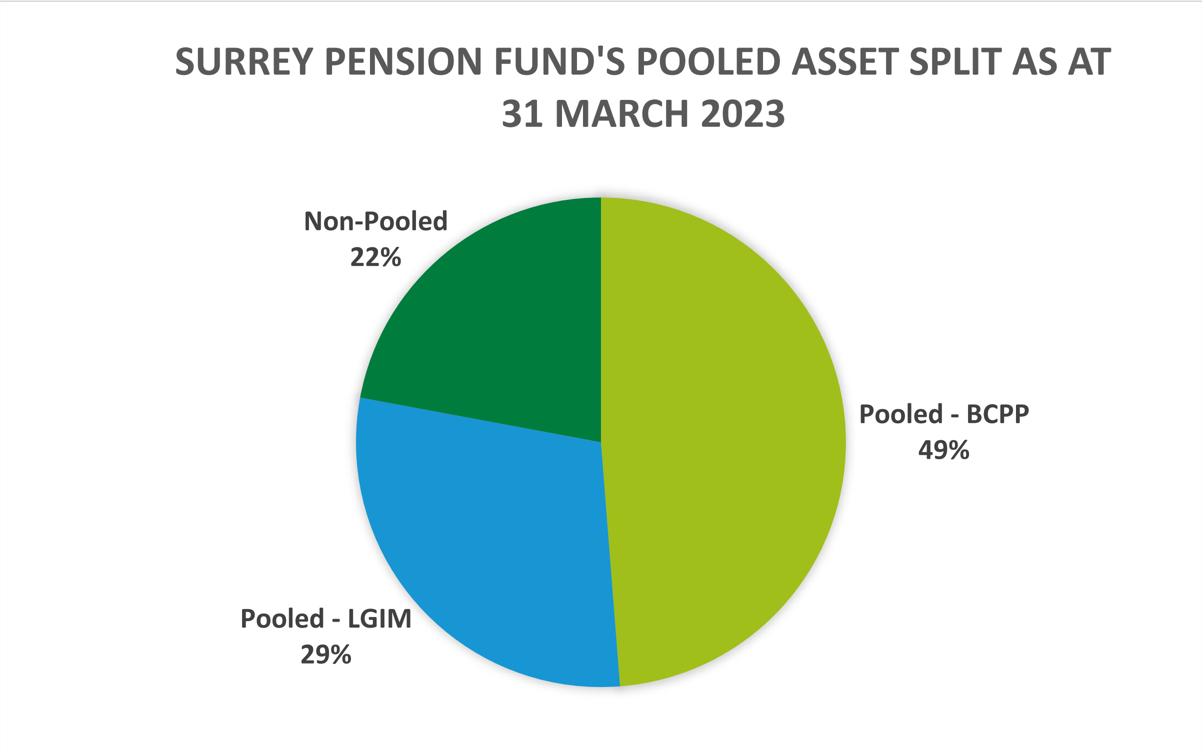
In 2015 the Department of Housing, Communities and Local Government (as it then was) issued LGPS: Investment Reform Criteria and Guidance which set out how the government expected funds to establish asset pooling arrangements. The objective was to deliver:

- Benefits of scale
- Strong governance and decision making
- Reduced costs and excellent value for money, and
- An improved capacity and capability to invest in infrastructure.

This led to the creation of eight Asset Pools which significantly changed the previous approach to investing. Although, it should be stressed that the responsibility for determining asset allocations and the investment strategy remains with individual pension funds. Surrey Pension Fund (the Fund), along with 10 other funds, is a partner fund of Border to Coast Pensions Partnership (BCPP). Each partner fund had invested in Class A and B Shares at a cost (transaction price) of £1 and £1,181,818 respectively.

Some of the risks associated with LGPS asset pooling as a whole include:

- Conflicting strategic goals of different partner funds affecting funds on offer
- Indirect relationship between the Fund and the underlying investment managers and less flexibility in terminating underperforming managers
- Cost implications of future investment decisions by other partner funds.



## Pooling Costs and Fee Savings

During 2022/23 BCPP has continued to gather data and build a savings model and process to enable consistent reporting against key metrics. This supports one of the original objectives of pooling, to reduce costs and deliver value for money.

Savings from future launches are not included in the analysis but the level of savings should grow as BCPP develop other funds.

## Transition Costs and Fee Savings

The cumulative transition and operating costs, as provided by BCPP, are highlighted in the table below.

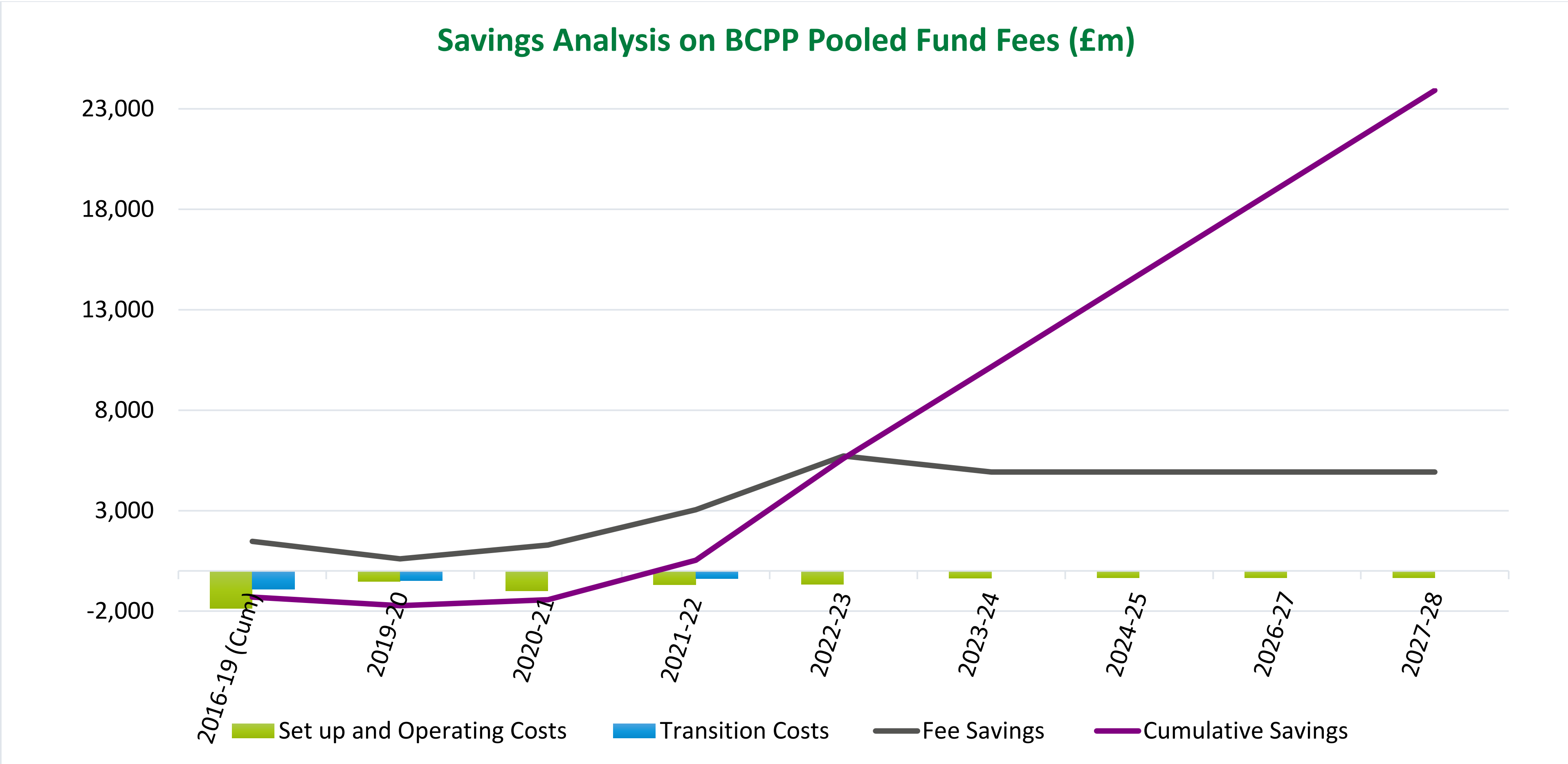
| Pooling Costs 2022/23 | Total £000s | Cumulative £000s |
|---|---|---|
| **Set up and Operating Costs** | **660.4** | **4,740.4** |
| Other Costs | - | 903.0 |
| **Transition Costs** | - | - |
| Transition Fees | 74.1 | - |
| Other Transition Costs Commissions | - | - |
| Other Transition Costs Taxes and Stamp Duty | - | - |
| **Total Transition costs ex implicit** | **74.1** | **1,857.0** |
| **Other Transition Costs Implicit** | **-** | **12,649.0** |
| **Total Transition Costs** | **734.5** | **20,149.4** |

Based on the assumptions and figures provided by BCPP, the Fund is realising savings due to pooling.

The table and chart below show historic, expected and cumulative savings to be realised from pooling, using BCPP assumptions.

## Savings Analysis on BCPP Pooled Fund Fees (£m)

| Cost / Saving | 2016-19 (Cum) | 2019/20 | 2020/21 | 2021/22 | 2022/23 | 2023/24 | 2024/25 | 2026/27 | 2027/28 |
|---|---|---|---|---|---|---|---|---|---|
| Set up and Operating Costs | -1,869 | -528 | -992 | -691 | -660 | -358 | -338 | -338 | -338 |
| Transition Costs | -915 | -494 | 0 | -374 | 0 | 0 | 0 | 0 | 0 |
| Fee Savings | 1,474 | 601 | 1,282 | 3,043 | 5,720 | 4,924 | 4,924 | 4,924 | 4,924 |
| **Cumulative Savings** | **-1,310** | **-1,731** | **-1,441** | **537** | **5,597** | **10,163** | **14,749** | **19,335** | **23,921** |


Savings Analysis on BCPP Pooled Fund Fees (£m)
23,000
18,000
13,000
8,000
3,000
-2,000
2016-19 (Cum)
2019-20
2020-21
2021-22
2022-23
2023-24
2024-25
2026-27
2027-28
Set up and Operating Costs
Transition Costs
Fee Savings
Cumulative Savings

### Cost Transparency Initiative (CTI)

Given the level of scrutiny that had existed historically with the transparency of investment management expenses, a Voluntary Code of Transparency covering investment management fees and costs was developed and approved by the Local Government Scheme Advisory Board and launched in May 2017. A copy of the Code can be found on the LGPS Board website.

Fund managers to the LGPS are encouraged to sign up to this Code and there are currently over 150 signatory firms. The aim of this Code is to improve fee transparency and consistency.

In total, 10 of the 13 managers, responsible for over 99% of the Fund's assets, are signatories to the Code and have provided Cost Transparency templates for the production of this year's annual report.

Total Investment fees for 2022/23 as submitted by fund managers through CTI templates. This includes both direct and indirect fees.

| 2022/23 Investment Management Expenses from CTI Templates | Pooled BCPP £000's | Pooled BCPP - Private £000's | Pooled LGIM £000's | Non-Pooled Equity £000's | Non-Pooled Real Estate £000's | Non-Pooled Private £000's | Total Assets £000's |
|---|---|---|---|---|---|---|---|
| **% of Assets** | **39%** | **10%** | **29%** | **9%** | **6%** | **7%** | **100%** |
| **Total Fund Management & Administration Expenses** | **6,164** | **13,874** | **1,127** | **1,092** | **4,216** | **5,537** | **32,010** |
| Management Fees | 5,992 | 2,753 | 1,127 | 1,092 | 3,554 | 3,960 | **18,478** |
| Administration | 164 | 10,878 | 0 | 0 | 258 | 1,223 | **12,523** |
| Governance & Compliance | 8 | 243 | 0 | 0 | 392 | 354 | **997** |
| Client Service/ Custody & Communication | 0 | 0 | 0 | 0 | 12 | 0 | **12** |
| **Total Transaction Costs** | **9,182** | **0** | **902** | **1,103** | **6,715** | **0** | **17,902** |
| Indirect transaction costs | 0 | 0 | 877 | 0 | 65 | 0 | **942** |
| Commissions | 341 | 0 | 0 | 87 | 197 | 0 | **625** |
| Taxes and stamp duty | 1,302 | 0 | 0 | 112 | 510 | 0 | **1,924** |
| Implicit Costs | 7,692 | 0 | 66 | 904 | 48 | 0 | **8,710** |
| Other transaction costs | 42 | 0 | 7 | 0 | 5,939 | 0 | **5,988** |
| Less: Dilution Levy Offset | -195 | 0 | -48 | 0 | -44 | 0 | **-287** |
| **Total Investment Management Expenses** | **15,346** | **13,874** | **2,029** | **2,195** | **10,931** | **5,537** | **49,912** |

# Responsible Investment

## Responsible Investment Developments

During the year ended 31 March 2023, the Surrey Pension Fund (the Fund) worked towards completing its Responsible Investment (RI) Policy, with the help of Minerva Analytics. After several rounds of review by the Responsible Investment Sub-Committee, the Policy was approved by the Pension Fund Committee (the Committee) on 17 June 2022, subject to consultation with Fund members.

The consultation was launched on 12 September 2022 and closed on 6 November 2022, and was run by the independent Business Impact Analysis (BIA) Research team, who are within Surrey County Council, the Fund's Administering Authority. This team manage many large-scale consultations on a myriad of topics and using them allowed the Fund to utilise the full resources and expertise available while maintaining standard processes. All members and employers received either an email or a letter with online links to both the policy and the consultation. Members were able to request a hard copy if needed. The consultation was also open to the public.

The consultation comprised several questions that covered the Fund's commitment to the UN's Sustainable Development Goals, the Fund's core RI beliefs, the corporate engagement approach and escalation policy, and the Fund's openness to collaboration regarding engagement. There was a text box at the end for further comment if required.

There were over 7,300 submission responses, of which over 1,100 included written comments in the freeform text box. There were also 80 separate communications that came directly to the Fund, outside of the prescribed consultation process.

The results were collated and reviewed by the BIA Research team, officers, the Committee and consultants, to determine the level of support for the policy and whether changes to this, or future policies, were required.

In summary, there was strong support for all areas of the RI Policy and it was approved by Committee on 10 March 2023. For each question, the average response rate within the Agree or Strongly Agree categories was 70%. No question response exceeded 7% in Disagree or Strongly Disagree combined. The question regarding the Fund's approach to engagement with investee companies had a proportionately higher amount of Neither Agree nor Disagree answers than the other questions. Therefore, the wording in this section has been reviewed, amended and approved post this year end.

The free form text box comments highlighted the wide range of views amongst stakeholders ranging from asking the committee to focus purely on maximising returns, to requesting that all fossil fuels are divested and a short-term Net Zero date set. There was significant support for the RI Policy throughout this range of views. A number of comments referred to the general style of the wording of both the Policy and the consultation. Whilst technical language is sometimes unavoidable when discussing investment, the team will endeavour to use more ‘plain English’ in future.

The RI Policy, consultation analysis and comments can be found on the Fund’s website (www.surreypensionfund.org/investment/responsible-investment/). The Policy can be found later in this report.

The core beliefs of the Surrey Pension Fund, as laid out in the policy are re-produced below.

- Surrey believes that the United Nations Sustainable Development Goals represent an appropriate foundation in terms of the Fund’s overall RI approach.
- Surrey believes that taking account of RI considerations can provide investment opportunities, as well as identifying investment risks.
- Surrey requires the consideration of Environmental, Social and Governance (ESG) factors to be incorporated into the portfolio construction process of all investments made by its investment managers.
- RI considerations are important irrespective of asset class.
- RI considerations are important across all time horizons, but especially in the medium and long-term. This is true not just in terms of protecting and enhancing long-term investment return, but also increasingly in terms of the interests expressed by our stakeholders.
- Going further, Surrey believes that ESG factors are relevant in the context of benchmarking, risk analysis and investment opportunity identification.
- Responsible management of RI issues by Surrey and its agents is also considered a reputationally important issue.
- Surrey views climate risk - and the issues which contribute to it - as being of significant concern to all stakeholders, and as a result the Fund’s approach towards ‘Net Zero’ is a prominent area of focus.
- Surrey believes in an ‘Engagement with Consequences’ approach. This advocates the use of engagement over divestment as the means to promote its RI beliefs – however, taking legal action against company management or selling an asset remain options when it comes to inadequately addressed ESG concerns in the investments made by the Fund managers.
- Surrey also recognise the value in engaging collaboratively to leverage greater influence together with other investors who share its priorities through joint initiatives and organisations.

- The exercise of ownership rights through voting is an important part of implementing RI beliefs.

The agreed key priorities for the Committee resulting from implementing RI Policy for the year 2023/24 are to:

- Set a net zero date for the Fund's investments
- Update the voting policy
- Submit the RI Policy to the Fund's equity managers to report on current compliance and alignment
- Prepare to submit an application to become a signatory of the UK Stewardship Code.

### Responsible Investment Activities of our Key Partners

The responsible investment activities undertaken by Border to Coast Pensions Partnership (BCPP) and supporting documents can be found on their website.

The responsible investment activities undertaken by Legal & General Investment Management (LGIM) and supporting documents can be found by following on their website.

The Fund is a member of the Local Authority Pension Fund Forum (LAPFF), a membership group of LGPS funds and pools that engages on Environmental, Social and Governance (ESG) issues. Representing over £350bn in assets under management, this engagement demonstrates a commitment to sustainable investment and the promotion of high standards of corporate governance and responsibility. More information and engagement activities can be found on the LAPFF website.

### Task Force for Climate-Related Financial Disclosures (TCFD)

The Task Force for Climate-related Financial Disclosures is an industry-led initiative, created by the Financial Stability Board in December 2015. The aim of the TCFD is to develop voluntary, consistent, climate-related financial risk disclosures across a wide range of sectors, demonstrating the risk that climate change poses at a macro-economic level. This provides useful decision-making information for investors, lenders, insurers and other stakeholders. The disclosures enable organisations to identify and consider relevant information about material climate-related financial risks and opportunities that can have an impact on the decisions made by their stakeholders.

Since its launch, TCFD has become the de-facto climate framework for global regulators. In November 2020, the UK Chancellor of the Exchequer announced that in order to accelerate progress on climate risk disclosures, the UK will move towards mandatory TCFD reporting across major segments of the UK economy by 2025.

The Fund became a supporter of TCFD in June 2019. The Fund recognised the importance of understanding climate risks and opportunities relative to its role as an institutional investor. The TCFD reports can be found on the Surrey Pension Fund website.

# Scheme Administration Report

## Overview

The Service Delivery team is part of the wider Surrey Pension Team (SPT) sitting within the Corporate Finance Division of the Resources Directorate of Surrey County Council. Service Delivery provides a full range of pension services to current and former members and pensioners of the Surrey Pension Fund (the Fund). The Service provision includes:

- Administering the Local Government Pension Scheme (LGPS) in accordance with relevant legislation and Committee decisions
- Administering the early retirement arrangements and local policies for 345 employers in accordance with the relevant legislation, discretion polices and Committee decisions
- Maintaining a central database of all scheme members
- Actively contributing to the formulation of national pension policy to reflect the Fund's preferred approach
- Providing advice to scheme members, employers, and other key parties in line with scheme legislation
- Maximising the technology available to improve standards and efficiency to deliver excellent customer service.
- Proactively train and develop staff to meet service objectives.

The Service Delivery team consists of 50 FTE staff. There are 5 teams split across two sections, being Operations and Benefits Administration. The work of each section is as follows:

### Benefits Administration

This section is overseen by the Deputy Head of Service Delivery - Benefits Administration and is responsible for the effective administration of all member benefits in line with the legislation and the operation of the service wide Customer Relationship Team.

**Immediate Benefits Team:**

The team is managed by the Immediate Benefits Manager and deals with the processing of entitlements for: forthcoming retirements, pensions and deaths benefits.

**Future Benefits Team:**

The team is managed by the Future Benefits Manager and deals with the processing of entitlements for: refunds, transfers into and out of the Fund and deferred benefits.

**Customer Relationship Team:**

The team provides an advisory service through varying communication channels for our members, employers, and other key stakeholders. Additionally, the team coordinates and monitors the complaints procedure for the wider service.

## Operations

This section is overseen by the Deputy Head of Service Delivery - Operations and is responsible for effective management of the pension administration system, ensuring data integrity of the database and the processing of new entrants to the scheme.

**Pension Trainee Team:**

This team is managed by the Membership and Data Manager and deals with the setting up of new members, incoming correspondence and provides flexible support across the SPT when required.

**Data Quality Team:**

This team is managed by the Membership and Data Manager and deals with the cleansing and validation of data; both that which is currently held in the administration system and any new incoming data.

**Systems Team:**

This team is managed by the Systems Manager and deals with maintaining and developing the administration system, including implementing additional software products, ensuring it's fit for purpose.

## General

The team has an active role in the delivery of scheme events and key projects such as Annual Benefit Statements, Annual Allowance statements and other required projects, both on a legislative and a continuous improvement basis. Additionally, the team takes an active role in dealing with complaints raised; both on an informal basis and/or where these have been raised through the two stage Independent Dispute Resolution Procedure (IDRP) within the LGPS regulations.

The Head of Service Delivery is Tom Lewis, and he has two deputies in Jim Woodlingfield (Deputy Head of Service – Benefits Administration) and John Coombes (Deputy Head of Service – Operations). The management group is contactable through our Customer Relationship Team at crtpensions@surreycc.gov.uk

Service Delivery reports to the Assistant Director – LGPS Senior Officer, Neil Mason.

## Review of 2022/23

Surrey Pensions launched its new operational model this year, bringing key departments such as investments, finance, governance, and service delivery (formerly administration) under one umbrella.

As part of the re-design, the decision was taken to transition the Customer Relationship Team (formerly the Pension Helpdesk) into the new organisational setup, replacing the original service provision supplied by Surrey County Council. This ensured all key service areas operate with close alignment to support the delivery of the Surrey Pension Team Vision and Mission of putting the customer at the heart of everything we do.

After carrying out the analysis of service productivity post covid, a decision was taken for all services to continue operating a hybrid working model, with staff combining the use of home and office space.

## Key works update

During the last 12 months there has been several additional work streams aside from the day-to-day operations which include:

- Moving to a digital mail service which sees all physical post sent to a mailing house to be indexed, scanned and uploaded to a secure SharePoint site. It is then transferred into the pension system for processing. This approach was taken to support the Service as it operates in its hybrid working model.

- In collaboration with Surrey County Council Internal Audit, there has been a drive to improve key processes that will benefit members and provide service efficiencies. Working in partnership with our pension administration system provider, Heywood Pension Technologies, changes to the retirement, transfer and death processes were adopted to standardise and maximise system functionality.

- The service has recognised and responded to the ever-increasing concerns being faced by the current financial crisis by continuing its engagement drive with key stakeholders. Through a combination of newsletters, websites, scheme events, webinars and employer financial events, the service has promoted key information to support members and employers.

- The continued development and training of staff remains high on the agenda with the introduction of revised training plans and skills matrices to enhance staff knowledge. This has been coupled with the launch of a more focussed staff development program, and the evolution of the Pension Trainee program, to invest in our people and support the plans of ‘growing our own’.

- Heywood Pension Technologies provide Surrey Pensions with its Altair administration system (including the Member Self Service Portal) and this year saw a change to hosting arrangements. Historically the database was housed on servers within the Surrey County Council data centre. As part of the review into the business continuity plans, it was recognised that moving to a hosted server with our supplier would improve business continuity, enhance the disaster recovery protocol, and simplify system maintenance.

## Regulatory Update

There have been several regulatory areas of work undertaken this year, alongside the annual scheme events and responding to legislative changes. These include:

- The Guaranteed Minimum Pension (GMP) Reconciliation project has been ongoing work in partnership with a third-party administrator. There have been concentrated efforts to fully understand the affected members and to determine the financial impact this may have on both the individuals and the Fund. It’s expected this work will be complete by the end of 2023/24.

- With the McCloud Remediation legislation expected towards the end of 2023, work has continued to both monitor the situation and understand the impact on the fund. To date the Fund has received 90% of the expected employer returns containing the required data. These returns are now going through detailed checking in partnership with a data specialist supplier.

- Pensions Dashboard remains a high priority and work continues in preparation for go live. Targeted efforts have been made to cleanse the scheme member data (such as name, date of birth, National Insurance number and address) to support the member matching process. With expected go live dates in 2025/26 work will continue to cleanse data, with the data quality team playing a key role in the readiness plans.

- This year saw the successful production of annual benefit statements for over 99% of the membership. With 42,719 (99%) issued to our deferred members and 34,104 (99%) issued to our active members.

- Each year we are required to provide data scores as part of the Pensions Regulator's Annual Scheme Return. The data is split into two categories. Common Data relates to member data such as name, date of birth, National Insurance number. Scheme Specific Data (SSD) refers to member information held to process a benefit such as their status or events taken place during membership. The data submitted for the previous years are as follows:

| Data Type | 2020 | 2021 | 2022 |
|---|---|---|---|
| Common Data | 94% | 95% | 96% |
| Scheme Specific Data (SSD) | 98% | 95% | 98% |

## Membership

The Fund membership numbers are shown in the Overview section of this report. The table below summarises the age ranges as a percentage of total membership by membership category.

| Age Band | Active | Deferred | Pensioner | Dependant | % of Membership |
|---|---|---|---|---|---|
| 0 - 5 | 0% | 0% | 0% | 0% | 0% |
| 6 - 20 | 1% | 0% | 0% | 0% | 1% |
| 21 - 40 | 9% | 9% | 0% | 0% | 19% |
| 41 - 55 | 14% | 18% | 0% | 0% | 32% |
| 56 - 75 | 8% | 13% | 17% | 1% | 39% |
| 76 - 100 | 0% | 0% | 7% | 2% | 9% |
| 100+ | 0% | 0% | 0% | 0% | 0% |

# Key Performance Data

The following tables summarise the performance for processing key casework including:

- The total number of cases completed in 2022/23
- A comparison of performance targets versus performance achieved.

## Casework activity in year

| Process | No. cases outstanding at start of year | No. cases commenced in year | No. cases completed in year | No. cases outstanding at year end | % completed in year |
|---|---|---|---|---|---|
| Death Grant Paid | 11 | 281 | 265 | 27 | 91% |
| Death Notification | 0 | 708 | 701 | 7 | 99% |
| Deferred Status | 3,276 | 4,943 | 4,576 | 3,643 | 56% |
| Refunds | 80 | 3,936 | 3,905 | 111 | 97% |
| Retirement Actual | 217 | 1823 | 1787 | 253 | 89% |
| Retirement (Initial Notification) | 115 | 2853 | 2637 | 331 | 90% |
| Transfer In (Actuals) | 328 | 2491 | 2276 | 543 | 78% |
| Transfer In (Estimates) | 728 | 1998 | 2076 | 650 | 66% |
| Transfer Out (Actuals) | 51 | 652 | 612 | 91 | 90% |
| Transfer Out (Estimates) | 157 | 1112 | 1112 | 157 | 85% |
| **Grand Total** | **4963** | **20797** | **19947** | **5813** | |

## KPI Performance in year

| Process | Performance target | Performance level |
|---|---|---|
| Death Grant Paid | 90% | **87%** |
| Death Notification | 90% | **91%** |
| Deferred Status | 80% | **88%** |
| Refunds | 80% | **96%** |
| Retirement Actual | 85% | **87%** |
| Retirement (Initial Notification) | 90% | **88%** |
| Transfer In (Actuals) | 80% | **80%** |
| Transfer In (Estimates) | 80% | **82%** |
| Transfer Out (Actual) | 80% | **90%** |
| Transfer Out (Estimates) | 80% | **90%** |

## Internal Dispute Resolution Procedure

There are instances when Scheme members, employers and the Administering Authority disagree about a pension issue.  In these cases, the Fund's aim is for the parties involved to reach a resolution locally before choosing to initiate the formal Internal Dispute Resolution Procedure (IDRP).

The IDRP is a two-stage process.  When the Fund or an employer makes a decision about a benefit entitlement under the Local Government Pension Scheme Regulations, and the member or beneficiary is not satisfied with that decision, they can apply to the employer or the Fund to have their complaint reviewed at Stage 1 of the IDRP. If they are not satisfied with the Stage 1 decision, they can invoke Stage 2 of the IDRP.  If, after a Stage 2 decision, they are still dissatisfied, they may refer the complaint to the Pension Ombudsman (PO).

Below are the number of IDRP cases for the past two years.

**Year 2021/22**

| Result of Procedure | Stage 1 | Stage 2 | PO |
|---|---|---|---|
| Complaint Not Upheld | 2 | 0 | 0 |
| Complaint Upheld | 2 | 0 | 1 |
| Withdrawn | 0 | 0 | 0 |
| **Total** | 4 | 0 | 1 |

**Year 2022/23**

| Result of Procedure | Stage 1 | Stage 2 | PO |
|---|---|---|---|
| Complaint Not Upheld | 0 | 1 | 0 |
| Complaint Upheld | 5 | 2 | 1 |
| Withdrawn | 0 | 0 | 0 |
| **Total** | 5 | 3 | 1 |

# Communications Policy Statement

## Contents

## Introduction

This is the Communication Policy for the Surrey Pension Team (SPT), who administer the Surrey Pension Fund (the Fund).

Communication is at the heart of everything the SPT does and there is a dedicated communication team in place to help the Fund meet its current and future communication challenges.

The Fund has 345 employers with contributing members and a total membership of around 115,000 scheme members, which are split into the categories below and with the approximate numbers of members in each category:

| Type of Membership | Approximate Numbers (000s) |
|---|---|
| Active members | 43 |
| Deferred members | 43 |
| Pensioner members | 29 |

The policy outlines the strategic approach of SPT regarding communications and should be read in conjunction with the Communication Plan which is detailed in Appendix A of this document.

## Regulatory Framework

The policy has been produced in accordance with Regulation 61 of the Local Government Pension Scheme (Administration) Regulations 2013.

The Regulation requires that an administering authority must prepare, maintain, and publish a written statement setting out its policy concerning communications with:

- Members
- Representatives of members
- Prospective members
- Scheme employers

In particular, the statement must set out its policy on:

- The provision of information and publicity about the scheme to members, representatives of members, and scheme employers
- The format, frequency, and method of distributing such information or publicity
- The promotion of the scheme to prospective scheme members and their employers.

The policy must be revised and published by the administering authority following a material change in their policy on any matters referred to in paragraph 7.

For the purposes of this policy published means being accessible on the publicly available Surrey Pension Fund website.

## Key Objective

The key objective is to ensure that SPT delivers clear, timely and accessible communication with a broad range of stakeholders.

To achieve this, SPT will:

- Communicate information about the scheme's rules and Regulations in an effective, straightforward, and timely manner to the different groups of stakeholders
- Recognise the requirement for different methods of communication for different members
- Promote the LGPS as an attractive benefit to scheme members and potential scheme members
- Communicate information about the investment decisions made by the SPT
- Inform customers and stakeholders to enable them to make decisions regarding pension matters
- Inform customers and stakeholders about the management and administration of the Fund
- Consult with key stakeholders on changes to policies and procedures that affect the Fund and its stakeholders
- Support employers to enable them to fulfil their statutory role in the Fund by providing regular relevant information and access to various types of resources
- Seek continuous improvement in the way that SPT communicates.

## Stakeholders of the Fund

The Fund has a varied audience of stakeholders with whom it communicates, including:

Internal bodies:

- Scheme members
- Prospective scheme members
- Representative of scheme members
- Scheme employers
- SPT officers
- Pension Fund Committee
- Local Pension Board
- Administering Authority
- Border to Coast Joint Committee

Partner Groups:

- Pensions and Lifetime Savings Association (PLSA)
- The Scheme Advisory Board (SAB)
- The Local Government Association (LGA)
- Pension Officers Groups
- The Local Authority Pension Fund Forum (LAPFF)
- Border to Coast Company and Border to Coast partner funds
- AVC Providers
- Trade Unions
- Surrey County Council - other departments, Council Members and Chief Officers
- Internal Audit

External bodies:

- General Public
- Prospective Employees
- Surrey Residents (Council Taxpayers)
- Her Majesty's Revenue & Customs (HMRC)
- Department for Levelling Up, Housing and Communities (DLUHC)
- Pension Fund Investment Managers, Advisers, Actuaries and Pension Fund Custodian
- The Pensions Regulator (tPR) and Pensions Ombudsman
- Department of Work and Pensions (DWP)
- Chartered Institute of Public Finance and Accountancy (CIPFA)
- External Auditors
- Wider Pensions Industry

## Accessibility

SPT is committed to ensuring communications are accessible to all stakeholders.

To achieve this, SPT will ensure that all communications use plain English and where possible, are available in electronic, print, large print, braille, and audio as requested.

SPT is committed to develop further use of electronic means of communicating through email, websites and the 'My Pension' portal.

Where possible, responses will be sent to stakeholders by electronic means unless requested otherwise.

SPT is committed to ensuring that the Surrey Pension Fund website and the Surrey Pension Fund for Employers website, together with the documents available on the websites, meet the Web Content Accessibility Guidelines (WCAG 2.1).

## Communication Channels

LGPS support is available nationally through websites and guidance for both employers and scheme members. SPT communications will continue to reference these national resources, together with material provided by pension industry experts.

SPT will continue to support collaboration and development of communication media with other administering authorities through membership of the Communications Working Group.

The Communication Plan in Appendix A of this document details SPT's method of communication, intended audience, publication media, frequency, and method of distribution.

SPT maintains the Surrey Pension Fund website which provides access to member guides, forms, policies, reports, investment information, newsletters, videos, and other information.

The member self-service portal ('My Pension' portal) is a secure online web portal hosted by Aquila Heywood. Registered members can:

- View the details SPT hold for them and keep their personal details up to date
- View personal correspondence such as letters and general scheme forms and guides
- View and print annual benefit statements (active members) or annual statements (deferred members)
- Create, view and update nominations for any death grant that may be payable
- Perform quotations for deferred benefits, future benefits, and death benefits (depending on member status)
- View P60s and pay slips (pensioner members).

To encourage members to engage with their pension, SPT are integrating the 'My Pension' portal with standard work processes, to increasing take up across all membership groups.

Monthly website and 'My Pension' portal data is recorded to monitor the usage and member registration numbers, to measure the success of campaigns run by the SPT.

SPT maintains the Surrey Pension Fund for Employers website which provides access to employer procedures, guides, investment information, forms, spreadsheets, newsletters, and other information.

SPT provide access to iConnect for employers who use Surrey payroll as their payroll provider. This requires monthly payroll updates and provides the facility to request estimated benefits, including costs, and other information. iConnect will be made available to other employers in the future.

All members and employers can contact the Customer Relationship Team for information or requests. The team have two telephone numbers: one for general enquiries and one for assistance with the 'My Pension' portal, together with a general use email address and an email address for forms, certificates, etc.

SPT recognises the growing importance for organisations to have an online presence and has a corporate LinkedIn profile. The LinkedIn account is used to raise SPT online profile in business, promoting SPT's innovations and achievements, advertise job opportunities, and helping build relationships with other LGPS funds and professional bodies within the pensions industry.

News items and blogs are produced on the websites regularly and as the need arises, to highlight current issues, upcoming changes or to provide articles of interest.

Members can visit our offices if they prefer to speak to us face to face. This must be by appointment, to ensure that the correct member of staff is available to discuss the member's enquiry.

Periodical documents issued to members, including:

- Annual Benefit Statements by 31 August to active members
- Annual Statements by 31 August to deferred members
- Pay advices, pension increase letters, and P60s are issued to pensioner members between March and May each year
- Annual Allowance letters issued to relevant members by 6 October

SPT arranges a programme of online and face to face events each year to meet with groups of members. SPT arrange these events in conjunction with employers, via Olive for Surrey CC members, and these events are advertised to members of the scheme.

For Surrey CC members, SPT provide a SharePoint site and regular posts to advertise events and provide information.

SPT obtains feedback periodically for different member groups and employers and publishes all relevant results on the websites.

SPT recognises that its staff are its greatest resource and that they are kept informed about the Fund's aims to deliver a quality and accurate service. This is achieved via use of email, internal and on-line meetings, quarterly performance meetings, internal and external training events on specific topics, together with the opportunity to study for professional qualifications.

SPT communicates with the Pension Fund Committee and Local Pension Board in various ways including:

- Weekly email from the LGPS Senior Officer on Border to Coast and administration updates, and other useful information
- Committee and Board meetings
- Fund officer reports
- Investment manager reports
- Training (refer to Training Policy)

SPT proactively communicates with several external bodies, including:

- Border to Coast, Pension Fund Investment Managers, Advisers and Actuaries
- Pension Fund Custodian
- Pensions and Lifetime Savings Association (PLSA)
- Local Authority Pension Fund Forum (LAPFF)
- Minerva Analytics

## Data Protection

SPT has a duty to protect personal information and will process personal data in accordance with the Data Protection Act 1998 and any amendments to the act. SPT may, if it chooses, pass certain details to a third party, if the third party is carrying out an administrative function of the Fund, for example the Fund's Actuary or AVC provider.

The Full Privacy Notice can be found through the resources on our website.

## Freedom of Information

Anyone has a right under the Freedom of Information (FOI) Act to request any information held by the Fund which is not already made available.

FOI requests will be dealt with openly and swiftly. Requests should be made in writing to the Freedom of Information Officer at the address at the end of this document. A fee may be charged, in line with our published FOI guidance.

## Review

The policy will be reviewed annually and updated sooner if the communications arrangements, stakeholder feedback, or other matters included within it merit reconsideration.

## Further Information

Our contact details are:

Surrey Pension Team

PO Box 465

Reigate

RH2 2HA

Telephone: 0300 200 1031 – general enquiries

Email: crtpensions@surreycc.gov.uk

Telephone: 0300 200 1034 – 'My Pension' portal registration/logon enquiries

Email: crtpensions@surreycc.gov.uk

If you have any Freedom of Information requests, please send them to:

Freedom of Information Officer

Corporate Information Governance Team

Surrey County Council

Woodhatch Place

11 Cockshot Hill

Reigate

Surrey

RH2 8EF

Email: corp.infogov@surreycc.gov.uk

| | |
|---|---|
| Effective date of policy | 1 April 2023 |
| Approved date | 17 February 2023 |
| Next review | 1 April 2024 |

## Appendix - Communications Plan

| Method of Communication | Media | Frequency of Issue | Method of Distribution | Audience Group |
|---|---|---|---|---|
| Send a notification of joining the LGPS to a Scheme Member – Contractual Enrolment | Electronic or Paper Based | 2 months from date of joining the scheme | E-mail, ‘My Pension’ portal or Letter to Home Address | New Members |
| Send a notification of joining the LGPS to a scheme member – Automatic Enrolment/Re- Enrolment | Various | Within 1 month of receiving jobholder information where the individual is being automatically enrolled or re-enrolled | Employer | New Members |
| Inform a member who left the Scheme of their leaver rights and options | Electronic or Paper Based | As soon as practicable and no more than 2 months from date of notification (from employer or from scheme member) | E-mail, ‘My Pension’ portal or Letter to Home Address | Members leaving the scheme |
| Obtain transfer details for transfer in, and calculate and provide quotation to member | Electronic or Paper Based | 2 months from date of request | E-mail, ‘My Pension’ portal or Letter to Home Address | Active Member |
| Provide details of transfer value for transfer out, on request | Electronic or Paper Based | 3 months from date of request (CETV estimate) | E-mail, ‘My Pension’ portal or Letter to Home Address | Deferred Member |

| Method of Communication | Media | Frequency of Issue | Method of Distribution | Audience Group |
|---|---|---|---|---|
| Provide a retirement quotation on request | Electronic or Paper Based | As soon as practicable, but no more than 2 months from date of request unless there has already been a request in the last 12 months | E-mail, 'My Pension' portal or Letter to Home Address | Active and Deferred Member |
| Notify the amount of retirement benefits | Electronic or Paper Based | 1 month from date of retirement if on or after Normal Pension Age (NPA), or 2 months from date of retirement if before NPA | E-mail, 'My Pension' portal or Letter to Home Address | Active and Deferred Member |
| Calculate and notify dependant(s) of amount of death benefits | Paper Based | As soon as possible but in any event no more than 2 months from date of becoming aware of death, or from date of request by a third party (e.g., Personal representative) | Letter to Dependants Home Address | Dependant Member |
| Provide all Active and Deferred members with an Annual Benefit Statement (ABS) | Electronic or Paper Based / Other format on request | By 31 August each year | 'My Pension' portal or Statement to Home Address / Other format | Active and Deferred Member |
| Provide Pension Saving Statement to eligible members | Electronic or Paper Based | By 6 October each year | E-mail, 'My Pension' portal or Letter to Home Address | Active Member |

| Method of Communication | Media | Frequency of Issue | Method of Distribution | Audience Group |
|---|---|---|---|---|
| General Member Enquiries | Electronic or Paper Based by Request | - | Email or Letter to Home Address | All Members |
| Pensions Increase Letters | Paper Based | By 30 April each year | Letter to Home Address | Pensioner Member |
| Pensioner P60s (HMRC requirement) | Paper Based | By 31 May each year | Letter to Home Address | Pensioner Member |
| Member Scheme Guide | Electronic or Paper Based by Request | Within 2 months of request | Member Self Service, Surrey Pension Fund website or Home Address on request | All Members |
| Active Member Media | Electronic or Paper Based by Request | - | Member Self Service, Surrey Pension Fund website or Home Address on request | Active Member |
| Deferred Member Media | Electronic or Paper Based by Request | - | Member Self Service, Surrey Pension Fund website or Home Address on request | Deferred Member |

| Method of Communication | Media | Frequency of Issue | Method of Distribution | Audience Group |
|---|---|---|---|---|
| Pensioner Member Newsletters | Paper Based | - | Sent with PI letters and P60s to Home Address | Pensioner Member |
| Presentations/Roadshows | Online and Face to Face | - | Via scheme employer | Active Member |
| Drop-In Sessions | Face to Face | - | Via scheme employer | Active Member |
| Customer Satisfaction Feedback – Member | Electronic, Face to Face or paper based | - | E-mail, in person or via post | All Members |
| Customer Satisfaction Feedback – Retired Members | Electronic, Face to Face or paper based | - | E-mail, in person or via post | Pensioner member |
| Changes in Legislation | Electronic | - | E-mail to scheme employers | Scheme Employer |
| Material Alterations to Basic Scheme Information | Electronic | As soon as possible and within 3 months after the change takes effect. | E-mail or Letter to Home Address | All Members |

| Method of Communication | Media | Frequency of Issue | Method of Distribution | Audience Group |
|---|---|---|---|---|
| Employer Valuation & Funding Consultations | On-line or Face to Face | Triennially | Via scheme employer | Scheme Employer |
| Employer Training | On-line or Face to Face | - | Via scheme employer | Scheme Employer |
| Employer Guides | Electronic | - | LGPS Regs Website | Scheme Employer |
| Employer Newsletters | Electronic or Paper Based on Request | Quarterly | E-mail to Scheme Employer Contacts | Scheme Employer |
| Customer Satisfaction Feedback – Employer | Electronic | - | E-mail | Scheme Employer |
| Member, employer or third- party enquiries | Incoming to Helpdesk via telephone | - | Telephone and Email | All Groups |
| Member, employer or third- party enquiries | Incoming via post | - | Various | All Groups |

| Method of Communication | Media | Frequency of Issue | Method of Distribution | Audience Group |
|---|---|---|---|---|
| Member Self Service | Electronic | - | Always available on-line | All Member Groups |
| Employers Pension Fund Annual Engagement | On-line or Face to Face | - | Via Fund | Scheme Employers |
| Surrey Pension Fund Website | Electronic | - | Always available on-line | All Groups |
| Surrey Pension Fund for Employers Website | Electronic | - | Always available on-line | Scheme Employers |

# Communications Policy Statement Review

In accordance with regulation 61 of the Local Government Pension Scheme Regulations 2013, the Surrey Pension Fund's Communications Policy Statement has been reviewed as part of the production of this report.

The revised policy was presented and considered at the meeting of the Local Pension Board on 1 January 2023 and the Pensions Committee on 17 February 2023. There is no immediate need to review the policy further at this time.

The key objective was to ensure that Surrey Pension Team (SPT) delivers clear, timely and accessible communications with a broad range of stakeholders.

The SPT issued newsletters to pensioners (in April), deferred members (in July) and active members (in April and August). Information contained in the newsletters included legislation changes, details of changes to the LGPS, pension scam awareness, helpful resources, pension scheme tax implications and notification of increases to pensions. SPT also produced a quarterly newsletter for our Employers detailing key changes to the LGPS and helpful resources for both employers and members.

Pensioner members received pay advice slips and a P60 in April. Annual Benefit Statements were issued to active and deferred members by the August deadline.

Videos were produced for members on the topics of their Annual Benefit Statement, retirement process, opting out and the 50/50 scheme.

We held 8 online Q&A webinars for active members on a range of topics as well as bespoke presentations for employers.

In addition, a Responsible Investment Policy consultation was launched on 12 September 2022. The results of the consultation can be found on our website.

# Employer Monitoring

## Employer Monitoring Position

The Surrey Pension Fund (the Fund) has established a Pension Administration Strategy setting out its policy in relation to communications between, and levels of performance for, the Fund and employers within the scheme.

The Fund has 345 participating employers including the county council, district and borough councils, universities, colleges, academies, and private companies providing public services.

The Pension Administration Strategy details:

- Details service standards of the Fund
- Sets out the requirements for scheme employers
- Outlines additional administration charges
- Sets out additional fees that may be charged by the Fund
- Sets out additional costs arising from an employer's level of performance.

### Current situation

Currently the Fund monitors employer performance on an informal basis. Team Managers check contribution target progress, Key Performance Indicators (KPI) levels, workloads and data quality. This is then escalated to managers and the Employer Team if any issues are found.

Employer performance is reviewed regularly and where issues are identified these are discussed with the respective employer.

### Future Developments

As the Fund starts to make more use of the Heywood Insights reporting system, resolve internal backlogs and embed process improvements, it will transition to a more routine and structured enforcement of the Pension Administration Strategy.

This will require a further review of the Pension Administration Strategy, which will include consulting employers and the development of new service standards to cover electronic data transmission and the impact on the Fund and employers.

# Pension Administration Strategy

## Contents

## Introduction

The Local Government Pension Scheme (LGPS) is one of the largest public sector pension schemes in the UK. The Surrey Pension Fund (the Fund) is part of the LGPS and is the Administering Authority for 345 employers in the scheme.

The LGPS is a valuable element of the total remuneration package of employees working with employers in the scheme. Good quality administration and communication of the overall benefits of the LGPS aids in the confidence of membership towards the scheme and in their value of this employee benefit.

The LGPS Regulations 2013 enables the Administering Authority to prepare a written Pension Administration Strategy (the Strategy) of its policy in relation to communications between and levels of performance for both the Fund and employers within the scheme.

This Strategy replaces the current Pension Administration Strategy with effect from 1 April 2020 and applies to all existing employers in the Fund, and all new employers joining the Fund after the effective date of 1 April 2020. This Strategy has been reviewed in August 2023, with no material changes.

The Strategy sets out the expected levels of administration performance of both the Fund and the employers within the Fund, as well as details on how performance levels will be monitored and the action that might be taken where persistent failure occurs.

The Strategy is broken into 9 sections:

- Regulatory context of the Strategy
- Aims of the Strategy
- Service standards of the Fund
- Requirements for scheme employers
- Outline of additional administration charges
- Additional fees that may be charged by the Fund
- Additional penalties for poor performance by employers
- Penalties for poor performance by the Fund
- Consultation and review

Surrey County Council has delegated responsibility for the management of the Fund to the Surrey Pension Committee (the Committee), taking into consideration advice from the Surrey Local Pensions Board (the Board). The Committee and the Board will monitor the implementation of this Strategy. Any enquiries in relation to this Strategy should be addressed to:

Adele Seex - Governance Manager
Surrey Pension Team
PO Box 471
Reigate
RH2 2HA
Email: adele.seex@surreycc.gov.uk

## The Regulatory Context of the Strategy

In accordance with the Public Sector Pensions Act 2015, the LGPS is regulated by the Pensions Regulator (tPR). The Fund and scheme employers and employers are also required to comply with regulatory guidance or Code of Practice issued by tPR.

The Local Government Pension Scheme Regulations 2013 (**Regulation 59(1)**) enables a LGPS Administering Authority to prepare a written statement of the Administering Authority's policies in relation to such matters mentioned in **Regulation 59(2)** that it considers appropriate. This written statement shall be known as the "Pension Administration Strategy" and shall include the following:

- Procedures for liaison and communications between the Administering Authority and Scheme Employers (its Scheme Employers)
- The establishment of levels of performance which the Administering Authority and its Scheme Employers are expected to achieve in carrying out their Scheme functions ("Service Level Agreements (SLA)"). These functions are:
    - (i) The setting of performance targets
    - (ii) The making of agreements about levels of performance and associated matters, or
    - (iii) Such other means as the Administering Authority considers appropriate.
- Procedures which aim to secure that the Administering Authority and its Scheme Employers comply with statutory requirements in respect of those functions and with any agreement about levels of performance

- Procedures for improving the communications by the Administering Authority and its Scheme Employers to each other of information relating to those functions

- The circumstances in which the Administering Authority may consider giving written notice to any of its Scheme Employers under these regulations (additional costs arising from the Scheme Employer's level of performance) on account of that employer's unsatisfactory performance in carrying out its Scheme functions when measured against levels of performance established under the SLA

- The publication by the Administering Authority of annual reports dealing with:

  (i) The extent to which the Administering Authority and its Scheme Employers have achieved the level of performance established under the SLA

  (ii) Such other matters arising from The Pension Administration Strategy as the Administering Authority considers appropriate.

- Such other matters as appear to the Administering Authority after consulting its Scheme Employers and such other persons as it considers appropriate, to be suitable for inclusion in The Pension Administration Strategy.

In addition, **Regulation 59(3 - 7)** requires that:

- Where the Administering Authority produces a Pension Administration Strategy, it is kept under review and revised where appropriate

- When reviewing or revising the Pension Administration Strategy the Administering Authority must consult with its Scheme Employers and such other persons it considers appropriate

- Where the Administering Authority produces a Pension Administration Strategy or revises that strategy it must send a copy of it to each Scheme Employer and to the Secretary of State

- The Administering Authority and Scheme employers must have regard to the Pension Administration Strategy when carrying out functions under the LGPS regulations.

**Regulation 60** requires each employing authority to publish its discretion on:

- Funding additional pension [16(2)(e) and 16(4)(d)]
- Flexible retirement [30(6)]
- Waiving actuarial reductions [30(8)]
- The award of additional pension [31]

In addition, Regulation 14 of the Local Government (Discretionary Payments)(Injury Allowances) Regulations 2011 requires employers to publish and keep under review its policy on these regulations.

There are also a number of discretionary discretions under the current regulations and some mandatory discretions under previous sets of regulations.

The Pension Fund Team can provide template discretion policies upon request.

**Regulation 70** of the Local Government Pension Scheme Regulations 2013 enables the Administering Authority to recover additional costs from a Scheme Employer when, in the opinion of the Administering Authority, it has incurred additional costs because of the poor performance of the Scheme Employer in relation to the Pension Administration Strategy SLA.

The Administering Authority may give written notice to the Scheme Employer stating:

- The Administering Authority's reasons for forming the opinion
- The amount the Administering Authority has determined the Scheme Employer should pay under **Regulation 69(1)(d)** in respect of those costs and the basis on which the specified amount is calculated
- The provisions of the Pension Administration Strategy which are relevant to the decision to issue the notice.

## Aims of the Strategy

In accordance with the Public Sector Pensions Act 2015, the LGPS is regulated by the Pensions Regulator (tPR). The Fund and scheme employers and employers are also required to comply with regulatory guidance or Code of Practice issued by tPR. Guidance is also available from the Local Government Association (LGA). The aims of the Strategy are to:

- Set out the quality and performance standards expected of the Fund and scheme employers
- Promote good working relationships and improve efficiency between the Fund and scheme employers
- Ensure scheme employers are aware of and understand their roles and responsibilities under the LGPS regulations
- Ensure the correct benefits are paid to, and the correct income collected from, the correct people at the correct time
- Maintain accurate records and ensure data is protected and has authorised use only
- Ensure that the administration costs attributable to scheme employers are charged proportionately.

The efficient delivery of the benefits of the scheme is reliant upon effective administrative procedures being in place between the Fund and scheme employers.

This Strategy sets out the expected levels of performance of the Fund and scheme employers and the action(s) that might be taken where standards are not met by employers and/or when non-compliance occurs. It also provides scheme employers with an outline of administration charges they may occur in addition to the administration allowance contained in the employer contribution rate.

## Service standards of the Fund

Overriding legislation, including the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 (as amended), dictates minimum standards that pension schemes should meet in providing certain pieces of information to the various parties associated with the scheme. Further, the LGPS itself sets out a number of requirements for the Administering Authority or employers to provide information to each other, to scheme members and to prospective scheme members, dependants, other pension arrangements or other regulatory bodies. In addition to the legal requirements, the Fund has performance standards which cover all aspects of the administration of the Fund.

The Fund service standards are reviewed by the Pensions Fund Committee, Local Pensions Board and are available for consideration by tPR. Regular reporting is undertaken, and performance is also shown in the Fund annual report and accounts. The following sets out the Fund key performance indicators.

| Activity | Description | Service Standards | Limits |
|---|---|---|---|
| **New starter** | When the team receives electronic/paper notification of the new starter. They will verify the information, set up a new record and send confirmation to the new member. | 30 working days | No |
| **Inter-fund adjustment in (aggregation) estimate** | Check previous service recorded on starter form and write to previous provider(s) if a transfer has been requested. | 20 working days | No |
| **Transfer-in estimate** | Check previous service details and offer member the option to transfer and advise of timescales. | 20 working days | No |
| **Transfer-in actual** | Check correct payment has been received, update database and issue statutory notice | 20 working days | No |
| **Additional Pension Contributions Actual** | Update database and inform payroll of the additional pension contribution deduction to be made. | 20 working days | No |

| Activity | Description | Service Standards | Limits |
|---|---|---|---|
| | | | |
| **Additional Voluntary Contributions** | Provide information on the Fund's AVC schemes | 10 working days | No |
| **Nomination Forms** | Update database and send acknowledgement. | 20 working days | No |
| **Member correspondence** | Reply to member query. | 20 working days | No |
| **Employer correspondence** | Reply to employer query. | 20 working days | No |
| **Employee Estimates** | Estimate of deferred benefits and/or voluntary retirement for age 60 and over. | 30 working days | No |
| **Employer estimate** | Provide employer with estimate as requested. | 10 working days | No |
| **Refunds (Frozen Refunds)** | Calculate refund due and issue payment. | 20 working days | No |
| **Opt-outs** | Provide a memo to payroll to cease contributions and inform the member accordingly. | 20 working days | No |
| **Deferred** | Calculate final pay for surrey members, deferred benefits and issue confirmation to all members. | 2 months | No |
| **Inter-Fund Adjustment Out Estimate** | Provide service and pay details to new employer. | 20 working days | No |

| Activity | Description | Service Standards | Limits |
|---|---|---|---|
| **Inter-Fund Adjustment Out Actual** | Issue payment. | 20 working days | No |
| **Provide estimate of transfer value** | Provide transfer details. | 20 working days | No |
| **Make payment of transfer value** | Issue payment. | 20 workings days | No |
| **Death in service** | Send condolence letter, request certificate, and enclose any claim forms. | 5 working days | No |
| **Death in service final letter** | Provide details of deceased salary for Surrey members, monies due to/from the estate, calculation of any spouse's and dependants benefits, send letter and make payment of any death grant. | 10 working days | No |
| **Death of deferred member initial** | Send condolence letter, request certificates and enclosed any claim forms. | 5 working days | No |
| **Death of deferred member final** | Provide details of any benefits due and make payment of death grant. | 10 working days | No |
| **Deferred into payment** | Send initial letter and forms to member. | 10 working days | No |
| **Retirement** | Calculate final pay for Surrey members, retirement benefits and send initial letter and forms to all members. | 15 working days | No |
| **Payment of retirement grant and initiate pension** | Issue payment of retirement grant and initiate payroll record. | 15 working days | No |

| Activity | Description | Service Standards | Limits |
| --- | --- | --- | --- |
| **Revised Payments including Guaranteed Minimum Pensions/Modifications** | Inform the member of any adjustments to the pension in payment and update payroll entry. | 20 working days | No |
| **Death on pension** | Terminate payment, send condolence letter, request certificate and enclosed any claim forms. | 5 working days | No |
| **Death on pension final letter** | Provide details of deceased's pension, monies due to/from the estate and spouse's/dependants benefits. | 10 working days | No |
| **Complaints** | - | All complaints to be dealt with in line with the additional criteria | No |
| **Employer forums seminars** | Employer forum hosted by the Fund. | Annually | Yes – limited to one per year. Further seminars will be chargeable**.** |
| **Requests for legislative or regulatory advice** | Provision of technical advice and employer email bulletins. | 15 working days | No |
| **Follow-up to all member queries not answered within SLA** | Email / letter to update member. | 10 working days | - |
| **Pension payments** | Monthly payment of regular pensions. | Paid on the final Thursday of each month | - |
| **Annual benefit statements** | Provision of an annual benefit statement for all active and deferred pension members. | By 31 August following the end of year | - |

| Activity | Description | Service Standards | Limits |
|---|---|---|---|
| **Pension Saving Statements** | Provision of an pension saving statement for active and deferred pension members who exceed the Annual Allowance limit. | By 6 October each year | - |

## Requirements for scheme employers

Overriding legislation dictates minimum standards that pension schemes should meet in providing certain pieces of information to the various parties associated with the LGPS. In addition, regulatory guidance sets out a number of requirements for the Fund and scheme employers to provide information.

Under this Strategy scheme employers will be responsible for the following activities in the manner and timescale set out below and the potential consequence of failing to meet these service standards.

| Activity | Timescale | Potential consequence of breach |
| --- | --- | --- |
| **Dedicated employer contact** | The Scheme Employer should notify the Fund of a dedicated pension liaison contact within 1 month of the adoption of the Pension Administration Strategy. | The Fund will regularly check that contacts are up to date. The failure to appoint a dedicated employer contact will make failure of performance SLAs more likely. |
| **Discretions policy** | The Scheme Employer should provide the Fund with a copy of their Discretions Policy by 1 July 2014, or within 1 month of the date of the Scheme Employer's entry in the Fund. | The provision of a discretions policy is a legal requirement. The Fund will chase receipt of this policy and charge at the prevailing Fund officer rates. |
| **Payment of monthly contributions** | Correct payments should be made to the Fund by the 19th (21st for electronic payments) of the month following deductions of pension contributions by the scheme employer (monthly payroll run). | Late payments will incur a charge of £50 plus interest per day. Interest on late payments becomes due with effect from 1 month following the required payment date. Interest is calculated at 1% above the Bank of England base rate on a daily basis. |

| Activity | Timescale | Potential consequence of breach |
|---|---|---|
| **Payment of capital sums** | Correct capital sums should be made to the Fund within 30 days of being invoiced. These may relate to pension strain costs or fees for work in relation to the charges due to the Fund. | Late payments will incur a charge of £50 plus interest per day. Interest on late payments becomes due with effect from 1 month following the required payment date. Interest is calculated at 1% above the Bank of England base rate on a daily basis. |
| **Monthly contribution schedule** | A monthly contribution schedule should be sent to the Fund before or at the same time as the monthly contribution. The schedule should be sent electronically and in the format requested by the Fund. | The provision of a monthly contribution schedule is essential to the correct calculation of member benefits. The Fund will chase receipt of the monthly contribution schedule and charge at the prevailing Fund officer rates. |
| **End of year processing** | An end of year data return should be sent to the Fund within 30 days of the end of the scheme year (31 March). The schedule should be in the format requested by the Fund and be 100% accurate. | The provision of an annual statement is essential to the correct calculation of member benefits. The Fund will chase receipt of the end of year returns. Any additional administration work incurred by the Fund as a result of late or inaccurate submissions will be charged at the prevailing Fund officer rates. |
| **Correct admission of members into the Fund** | The Scheme Employer must ensure that members are correctly admitted to the Fund. | In cases where an employer has incorrectly admitted an employee into the Fund where they were not eligible to be in this Fund, the Fund will correct this error. Any additional administration work incurred by the Fund will be charged at the prevailing Fund officer rates. |

| Activity | Timescale | Potential consequence of breach |
|---|---|---|
| **Notification of new starters** | The Scheme Employer should notify the Fund of a new starter within 30 days of their joining the pension scheme. | The provision of new starter information is essential to the correct calculation of member benefits. Any additional administration work incurred by the Fund will be charged at the prevailing Fund officer rates. |
| **Notification of leavers** | The scheme Employer should notify the Fund of a new leaver within 30 days of their leaving the pension scheme. | The provision of leaver information is essential to the correct calculation of member benefits. Any additional administration work incurred by the Fund will be charged at the prevailing Fund officer rates. |
| **Notification of retirements** | The Scheme Employer should notify the Fund of a retirement initially in advance of the retirement date and provide final confirmation within 10 days of their last day of service. | The provision of retirement information is essential to the correct calculation of member benefits. Any additional administration work incurred by the Fund will be charged at the prevailing Fund officer rates. |
| **Notification of relevant changes** | The Scheme Employer should notify Fund of any relevant changes within 30 days of the change. | The provision of employment change information is essential to the correct calculation of member benefits. Any additional administration work incurred by the Fund will be charged at the prevailing Fund officer rates. |
| **Appoint an Independent Registered Medical Practitioner (IRMP) in order to consider all ill-health retirement applications** | The Scheme Employer should appoint an IRMP. The appointment must be approved with the Fund. | The nomination of an IRMP is a legal requirement. |

| Activity | Timescale | Potential consequence of breach |
|---|---|---|
| **Appoint a "nominated adjudicator" as part of the stage 1 internal dispute resolution procedure (IDRP)** | The scheme Employer should appoint a "nominated adjudicator" as part of the stage 1 IDRP within 1 month of the date of the Scheme employer's entry in the Fund. Or within 1 month of the resignation of an existing "nominated adjudicator". | The nomination of a "nominated adjudicator" as part of the stage 1 IDRP is a legal requirement. |
| **Comply with auto-enrolment legislation as required by the Pensions Regulator** | From the Scheme Employer's auto-enrolment staging date. | Compliance with auto-enrolment legislation is a legal requirement, with non-compliance punishable by the Pensions Regulator. |

## Outline of additional administration charges

The following scheme functions are outside of the work covered by the administration allowance as part of the employer contribution rate (this can often be because the charges relate to employers who are yet to be admitted to the Fund). These fees will be payable by scheme employers and are generally related to actuarial, legal or administration costs.

| Activity | Description | Indicative charge | Comments |
|---|---|---|---|
| **New employer processing** | Assessment of contribution rate of the new scheme employer<br><br>Assessment of the bond value of the new scheme employer (if applicable)<br><br>Assessment of the cost attributable to pension risk (if applicable)<br><br>Drafting and executing of admission agreements (if applicable)<br><br>Admission administration costs | According to the prevailing rates of the Fund actuary<br><br>According to the prevailing rates of the Fund actuary<br><br>According to the prevailing rates of the Fund actuary<br><br>According to the prevailing rates of the Fund legal advisers<br><br>Charged at the prevailing Fund officer rates (estimated £1,000). | Costs will increase if there are delays in providing data or date requires recalculation.<br><br>Costs will increase if there are delays in providing data or date requires recalculation.<br><br>Costs will increase if multiple calculations are required.<br><br>Costs will increase according to the complexity of the negotiated drafting of the admissions agreement.<br><br>Costs will increase according to the complexity of the negotiated admission to the Fund. Costs will be incurred irrespective of whether or not the applying Scheme Employer abandons the application. |
| **Re-assessment of the bond value of the new scheme employer** | The Fund will re-assess bond values in line with the conditions laid out in the admissions agreement. | According to the prevailing rates of the Fund actuary | - |

| Activity | Description | Indicative charge | Comments |
|---|---|---|---|
| **Reports for scheme employer FRS102/IAS19 returns** | The Fund will complete a pension data report required for scheme employer FRS102/IAS19 accounting returns | Administration charge of between £200 and £400 plus VAT.<br><br>Any further charge would be in accordance with the prevailing rates of the Fund actuary | - |
| **General actuarial queries** | Additional actuarial queries in relation to the scheme employer | According to the prevailing rates of the Fund actuary | - |
| **General legal queries** | Additional legal queries in relation to the scheme employer | According to the prevailing rates of the Fund legal advisers | - |
| **Pension strain costs** | A pension strain cost may be incurred by the scheme employer where a member retires early on the grounds of redundancy or business efficiency or where an active member or deferred member chooses to retire early and the scheme employer elects to waive the actuarial reduction to their pension. | The Find will calculate the strain cost. Payment will be due as a lump-sum payment within 30 days of being invoiced in line with this strategy's SLA. | Costs are based on age, gender, service and pay of the member |
| **Valuation of unfunded liabilities** | Calculation and invoicing of unfunded liabilities relating to additional pension benefits awarded to employees which do not form part of their entitlement under the LGPS Regulations. | Annual administration charge of £250. | - |
| **Costs of awarding additional pension** | The scheme employer may elect to award additional pension to a member. This will incur a charge | The Fund will calculate the cost. Payment will be due as a lump-sum payment within 30 days of | - |

| Activity | Description | Indicative charge | Comments |
|---|---|---|---|
| | | being invoiced in line with the strategy's SLA. | |
| **Cessation costs**<br><br>*These costs are in addition to any cessation deficit payment required in accordance with the Funding Strategy Statement* | The Scheme Employer will incur a cost if they cease membership of the Fund. | Charged at the prevailing Fund actuary's rates (approximately £3,000 plus VAT)<br><br>Further charge is according to the prevailing rates of the Fund actuary.<br><br>The Fund approach to Scheme Employer cessation is laid out in the Funding Strategy Statement | - |
| **Provision of stage 1 Internal Dispute Resolution Procedure (IDRP) adjudication** | The Scheme Employer will incur an administration fee if they nominate the SPF as their stage 1 IDRP adjudicator. | Charged at the prevailing Fund officer rates (not exceeding £500.00 except in the most complicated cases). | Costs will increase according to the complexity of the case. |
| **Establishment of security for the Fund** | The Scheme Employer will incur a cost of establishing a form of security required by the Fund; e.g. a legal charge, Bond or Escrow account. | Administration charge of £500.<br><br>Further charge in according to the prevailing rates of the Fund actuary and legal advisers. | **-** |
| **Covenant assessment** | The Scheme Employer will incur a cost of the Fund carrying out a covenant assessment of the Scheme Employer to establish risk assurance. | Further charge is according to the prevailing rates of the Fund covenant advisers (approximately £10,000, depending on circumstances). | **-** |

## Additional fees that may be charged by the Surrey Pension Administration Team

| Activity | Description | Indicative charge | Comments |
|---|---|---|---|
| **Pension sharing on divorce pension in payment CEV (pensioners)** | Charges may be levied for CEVs because they are not part of business as usual. | Charge of £117 | - |
| **Pension sharing on divorce implementing a pension sharing order** | Charges may be levied for CEVs because they are not part of business as usual. | Charge of £643 | - |
| **Additional cash equivalent transfer values (CETVs)** | Additional quotations may be provided | None | There is no statutory basis for charges. |

## Additional costs arising from an employer's level of performance (regulation 70)

| Activity | Description | Indicative charge | Comments |
|---|---|---|---|
| **Failure to provide end of year returns in good time** | This prevents the Pension Section from producing annual benefit statements, delays the processing of pension benefits and hinders the smooth administration of the pension scheme and runs the risk of incurring substantial fines from the Pensions Regulator. | A charge of up to £5,000 will be payable if the end of year return is received later than 30th June as it may be too late to produce an annual benefit statement (they must be sent out by 31st August). | - |
| **Failure to provide monthly contribution returns in good time** | This is dealt with in requirements for scheme employers (above). | - | - |
| **Failure to initiate an admission agreement or arrange alternative pension arrangements before a contract is let.** | This leads to great uncertainty for the members being transferred and a considerable amount of additional work for the Surrey Pension Team. | A charge of up to £2,000 depending upon the severity of the delay. | - |
| **Failure to pay pension strain costs in good time.** | This is dealt with in requirements for scheme employers (above). | - | - |
| **Pension recharges that are late for any reason.** | As the payments are made from the Fund, the Fund suffers if it is not reimbursed promptly. | Interest at 1% above base rate from the date the payment fell due. This provides modest protection for the pension fund without being too onerous for employers | - |

## Additional costs arising from an employer's level of performance (regulation 70)

| Activity | Description | Indicative charge | Comments |
|---|---|---|---|
| **Failure to self-calculate a contribution rate within 10 working days.** | This can lead to uncertainty for the employees being transferred and additional work for the Surrey Pension Team. | A penalty of up to £500.00 depending the severity of the delay | - |
| **Failure to provide membership data for new academies within 15 working days.** | This can lead to uncertainty for employers and additional actuarial fees for the Surrey Pension Team. | A penalty of up to £500.00 depending the severity of the delay. | - |
| **Failure to provide membership data for exiting employers 15 working days** | Failure to provide this information in good time can lead to a breach of the law, reputational damage for the pension fund and generate considerable additional work for the Surrey Pension Team. | A penalty of up to £1,000. | - |
| **Failure to produce papers for the Local Pension Board, Local Firefighters Board and Pension Fund Committee within the deadlines.** | This makes the board roles harder, leads to additional work for the Surrey Pension Team and undermines effective scrutiny. | A penalty of up to £500 per paper. | - |

## Consultation and review

In preparing this administration strategy statement the Fund consulted with scheme employers. The original consultation period was in 2019/2020.

Following the consultation, employers' comments were reviewed and were added to the final administration strategy.

The administration strategy was approved on 13 March 2020 and reviewed in 2022 and 2023 with no material changes.

All Scheme Employers will be consulted before any material changes are made to the Strategy.

| | |
|---|---|
| Effective date of policy | 1 April 2022 |
| Approved date | 13 March 2020 |
| Next review | 1 April 2024 |

# Investment Strategy Statement

## Contents

## Introduction

The Surrey County Council ("the Council") is the designated statutory body responsible for administering the Surrey Pension Fund ("the Fund") on behalf of the constituent Scheduled and Admitted Bodies. The Council is responsible for setting investment policy, appointing suitable persons to implement that policy, carrying out regular reviews and monitoring of investments.

Responsibility and governance for the Fund, including investment strategy, fund administration, liability management and corporate governance is delegated to the Surrey Pension Fund Committee ("the Committee), which is made up of:

- Six nominated members of the Council
- Two representatives from the Borough/District Councils nominated by the Leader of the Council
- One representative from the external employers
- One representative of the members of the Fund

The Committee is advised by a representative of the Fund's professional investment consultant, an independent advisor, and Fund Officers. The Committee meets on at least a quarterly basis.

Assisting, monitoring and scrutiny of the Fund are delegated to the Local Pension Board, which is made up of:

- An independent non-voting chairman
- Four employer representatives
- Four employee representatives

The Local Pension Board is advised by Fund Officers.

The Local Pension Board meets on at least a quarterly basis.

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 requires administering authorities to formulate and to publish a statement of its investment strategy, in accordance with guidance issued from time to time by the Secretary of State.

The Investment Strategy Statement is an important governance tool for the Fund, as well as providing transparency in relation to how the Fund's investments are managed. It will be kept under review and revised from time to time in order to reflect any changes in policy.

The Committee complies with the requirements of the Myners Review of Institutional Investment, which can be found in Appendix A, alongside a review of the Fund's compliance with the principles.

## Key Investment Beliefs

The Fund's key investment beliefs are set out below:

### (i) Investment Governance

The Fund has access to the necessary skills, expertise and resources to manage the whole Fund, as well as internally managing a small proportion of the Fund's assets (primarily cash).

Investment consultants, independent advisors and Officers are a source of expertise and research to inform and assist Committee decisions.

The Fund should continuously monitor and improve its governance structure where relevant, through bespoke training in order to implement tactical views more promptly but acknowledges that achieving optimum market timing is very difficult.

There can be a first mover advantage in asset allocation and category selection (where considered appropriate), but it is difficult to identify and exploit such opportunities and may require the Fund to be willing to take-on unconventional risk, thus requiring Committee members to have a full understanding of the risk.

### (ii) Long Term Approach

The Fund looks to take a long-term approach to setting investment strategy, as appropriate, depending on a number of factors, including consideration of the strength and status of underlying employer covenants.

The most important aspect of risk is not the volatility of returns, but the risk of absolute loss, and of not meeting the objective of facilitating affordable, stable contribution rates for employers.

Illiquidity and volatility are risks which offer potential sources of additional compensation to the long term investor. Moreover, it is important to avoid being a forced seller in short term market setbacks.

Participation in economic growth is a major source of long term equity return.

Over the long term, equities are expected to outperform other liquid assets, particularly government bonds and cash.

Well governed companies that manage their business in a responsible manner will likely produce higher returns over the long term.

### (iii) Appropriate Investments

Allocations to asset classes other than listed equities and bonds (e.g. private market assets) offer the Fund other forms of diversification/returns with different risk premia.

Diversification across asset classes and manager strategies that have relatively low correlations with each other will tend to reduce the volatility of the overall Fund return.

In general, allocations to bonds are made to achieve additional diversification.

### (iv) Management Strategies

A well-balanced portfolio has an appropriate mix of passive and active investments.

Passive, index-tracker style management provides low cost exposure to equities and bonds, and is especially attractive in efficient markets.

Active managers, capturing diversified investment styles, can add value over the long term, particularly in less efficient markets, and the Fund believes that, by following a rigorous approach, it is possible to identify managers who are likely to add value, over the long term.

Active management can be expensive but can provide additional performance. Fees should be aligned to the interests of the Fund rather than performance of the market.

Active management performance should be monitored over multi-year rolling cycles and assessed to confirm that the original investment process on appointment is being delivered and that continued appointment is appropriate.

### Objectives

The Committee seeks to ensure that the Fund has sufficient assets to be able to meet its long term obligations to pay pensions to the Fund’s members, i.e. over the long term to be at or above a 100% funding level. It also has an objective to maintain employer contribution rates as reasonably stable and affordable as possible. In order to meet these objectives, a number of secondary objectives have been agreed:

i. To have a clearly articulated strategy for achieving and maintaining a fully funded position over a suitable long term time horizon. The Committee recognises that funding levels can be volatile from year to year, as they depend on both investment market levels and estimates of liability values, so the long-term strategy needs to be capable of steering a robust course through changing market environments.

ii. To have a strategic asset allocation that is both well diversified and expected to provide long-term investment returns in excess of the anticipated rise in the value of the Fund's liabilities.

iii. To appoint managers that the Committee believes have the potential to consistently achieve the performance objectives set over the long term and to give each appointed manager a clearly defined benchmark and performance objective against which they can be judged.

iv. To ensure investment risk is monitored regularly both in absolute terms (the risk of losing money) and relative to the Fund's liabilities (the risk of funding shortfalls); the Committee will have regard to best practice in managing risk.

v. To have sufficient liquid resources available to meet the Fund's ongoing obligations.

This statement will be reviewed by the Committee on a regular basis or should any significant change occur.

## Investment Strategy

The Fund’s overall benchmark investment strategy, along with an overview of the role each asset is expected to perform is set out in the following table:

| Asset class | Allocation % | Advisory ranges % | Role(s) within the strategy |
|---|---|---|---|
| **Listed Equities** | **55.8** | **52.8 – 58.8** | Generate long-term returns in excess of inflation, through exposure to the shares of domestic and overseas companies. |
| UK | 6.7 | - | - |
| Global Market Cap | 21.8 | - | - |
| Global Regional | 2.2 | - | - |
| Emerging Markets | 5.6 | - | - |
| Global Sustainable | 19.5 | - | - |
| **Alternatives** | **27.3** | **22.3-32.3** | Generate long-term returns in excess of inflation, through exposure to illiquid assets that are not publicly traded, whilst providing some diversification away from listed equities and bonds. |
| Private Equity | 5.0 | 2.0-8.0 | - |
| Infrastructure | 6.0 | 3.0-9.0 | - |
| Private Debt | 6.0 | 2.0-8.0 | - |
| Miscellaneous Alternatives | 3.0 | 0.0-6.0 | - |
| Property | 7.3 | 4.3–10.3 | - |
| **Multi Asset Credit** | **15.1** | **12.1-18.1** | Offer diversified exposure to global credit markets to capture both income and capital appreciation of underlying bonds. |
| **Fixed Interest Gilts** | **1.8** | **0.0 – 3.6** | Used within the lower risk orientated Employer-related strategies for risk management purposes. |
| **Total** | **100.0** | - | - |

**Note:** Due to the closed ended nature of the majority of the Alternatives allocation, assets awaiting drawdown will be invested into Listed Alternatives, which aim to replicate some of the risk exposures whilst providing more liquidity in order to meet drawdowns.

Cashflows into and out of the Fund will be used to rebalance the portfolio back towards the target investment strategy stated above where possible. The rebalancing process has been delegated to Officers, although the Committee have discretion to exclude certain mandates from the rebalancing at their discretion.

## Employer-Related Strategies

These strategies are designed for Core, Exited and Closed employers. Employers who are exiting the Fund are required to fully fund their liabilities before exit as the Fund will have no recourse to additional contributions in the future.  For Closed employers who have no active members it is expected that they will exit the Fund at some point in the future.

In order to protect other participating (active) employers of the Fund, Exited and Closed liabilities are valued on a more prudent basis in order to help reduce the risk to other employers that deficits emerge that would need to be funded.

The employer-related strategies are as follows:

| Exited | Closed | Core |
|---|---|---|
| 5% Listed Equities<br><br>20% Multi-Asset Credit<br><br>75% Fixed Interest Gilts | 35% Listed Equities<br><br>15% Multi-Asset Credit<br><br>35% Fixed Interest Gilts<br><br>15% Alternatives | 57% Listed Equities<br><br>15% Multi-Asset Credit<br><br>28% Alternatives |

## Risk measurement and management

There are a number of risks to which any investment is exposed. The Committee recognises that, whilst increasing risk increases potential returns over a long period, it also increases the risk of a shortfall in returns relative to that required to cover the Fund's liabilities as well as producing more short term volatility in the funding position.

In addition to targeting an acceptable overall level of investment risk, the Committee seeks to spread risks across a range of different sources, believing that diversification limits the impact of any single risk. The Committee aims to take on those risks for which a reward, in the form of excess returns, is expected over time.

Over the long-term, the Committee expects that around two-thirds of the Fund's overall investment risk (in terms of absolute volatility of returns) to be related to listed equities, with the balance coming from private markets and liquid credit.

The following risks are recognised and considered by the Committee:

**Valuation risk:** the Actuarial valuation assumes that the Fund generates an expected return equal to or in excess of the Fund's discount rate. An important risk to which the Fund is exposed is that the return is not achieved (for whatever reason).

**Longevity risk:** this is the risk that the members of the Fund live longer than expected under the Actuarial Valuation assumptions. This risk is captured within the Actuarial Valuation report which is conducted at least triennially and monitored by the Committee, but any increase in longevity will only be realised over the long term.

**Sponsor Covenant risk:** the financial capacity and willingness of the sponsoring employers to support the Fund is a key consideration of the Committee and is reviewed on a regular basis. The Fund has in place different employer-related investment strategies to help manage this at the overall Fund level.

**Diversification risk:** the Committee recognises the risks that may arise from the lack of diversification of investments. Subject to managing the risk from a mismatch of assets and liabilities, the Committee aims to ensure that the asset allocation policy results in an adequately diversified portfolio.

**Concentration risk:** the Committee takes into consideration concentration risk which arises, for example, when a high proportion of the Fund's assets are invested in securities, whether debt or equity, of the same or related issuers or in the same or similar industry sectors. The overall investment arrangements are intended to provide an appropriate spread of assets by type and spread of individual securities within each asset class.

**Liquidity risk:** the Committee recognises that there is liquidity risk in holding assets that are not readily marketable and realisable. Given the long term investment horizon, the Committee believes that a degree of liquidity risk is acceptable, given the potential return. The majority of the Fund's assets are realisable at short notice.

**Manager risk:** the Fund's assets are invested with a number of managers to provide appropriate diversification.

**Regulatory and political risk:** across all of the Fund's investments, there is the potential for adverse regulatory or political change. Regulatory risk arises from investing in a market environment where the regulatory regime may change. This may be compounded by political risk in those environments subject to unstable regimes. The Committee will attempt to invest in a manner which seeks to minimise the impact of any such regulatory or political change should such a change occur.

**Exchange rate risk:** this risk arises from unhedged investment overseas. The Fund has a currency hedge in place: 50% of its exposure to the US dollar, Euro and Yen within the liquid equity allocation. For other asset classes, currency hedging is reviewed on a case-by-case basis.

**Cashflow risk:** the net cashflow position of the Fund is monitored on a regular basis**.** Over time, it is expected that the size of pensioner cashflows will increase as the Fund matures and greater consideration will need to be given to raising capital to meet outgoings. The Committee recognises that this can present additional risks, particularly if there is a requirement to sell assets at inopportune times.

**Inflation risk:** as pension payments will change in-line with CPI inflation, the Fund takes this into consideration when reviewing investment strategy, together with the regular cashflow and liquidity position.

**Governance risk:** members of the Committee and Local Pension Board participate in regular training delivered through a formal programme. Both the Committee and Local Pension Board are aware that poor governance and in particular high turnover of members may prove detrimental to the investment strategy, fund administration, liability management and corporate governance and seeks to minimise turnover where possible.

**Environmental, Social and Governance risk:** The Fund has developed a separate Responsible Investment Policy, which sets out in detail the approach taking to ESG issues, including climate change. The policy builds on the holistic review of the Fund's approach to Responsible Investment in 2020, where it was agreed that the UN Sustainable Development Goals should play a key role in helping shape the investment strategy, as well as monitoring progress on ESG issues over time.

In general, the Committee prefers to take an engagement-led approach to ESG but does reserve the right to disinvest from companies where engagement has not driven the changes expected.

## Approach to asset pooling

In order to satisfy the requirements of the LGPS (Management and Investment of Funds) Regulations 2016, the Surrey Pension Fund is a shareholder in the Border to Coast Pensions Partnership (BCPP) Limited. BCPP is a Financial Conduct Authority (FCA) regulated Operator and an Alternative Investment Fund Manager ("AIFM"). The BCPP submission received approval from Government on 12 December 2016.

BCPP has an internal team of investment managers, in addition to appointing external managers. Its role is to implement the investment strategies of the partner funds, through a range of investment sub-funds, offering internally and externally managed solutions. It is anticipated that a significant proportion of the Fund's investments will be made through BCPP. Where it is not practical or cost effective for assets to be transferred into the pool (e.g. existing private market investments), they will continue to be managed at the Fund level. Whilst these assets are unlikely to be transferred, it is expected that once these investments are fully distributed, the proceeds will be reinvested into funds with BCPP.

## Advice Taken

In constructing this statement, the Committee has taken advice from a representative of the Fund's professional investment consultant (Mercer Limited), an independent advisor, the Director Corporate Financial and Commercial and the Assistant Director - LGPS Senior Officer.

| | |
|---|---|
| Effective date of policy | 16 June 2023 |
| Approved date | 16 June 2023 |
| Next review | 31 March 2026 |

# Appendix A: Myners Investment Principles Compliance Statement

## Principle 1: Effective Decision-Making

Administering authorities should ensure that:

- decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation; and
- those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.

### Full compliance

The Committee and Local Pension Board are supported in their decision making/assisting roles by the Director Corporate Financial and Commercial and the Assistant Director – LGPS Senior Officer.

Members of both the Committee and Board participate in regular training delivered through a formal programme. Training is provided at every quarterly meeting.

## Principle 2: Clear Objectives

An overall investment objective should be set out for the fund that takes account of the scheme's liabilities, the potential impact on local taxpayers, the strength of the covenant for non-local authority employers, and the attitude to risk of both the administering authority and scheme employers, and these should be clearly communicated to advisors and investment managers.

### Full compliance

The Fund's overall objectives are defined in the Funding Strategy Statement and are directly linked to the triennial actuarial valuation. The investment objectives are clearly stated in the Investment Strategy Statement.

The content of the Funding Strategy Statement reflects discussions held with individual employers during the actuarial valuation process. Employers understand that contribution rates are set, having given consideration to the key tenets of affordability, sustainability and stability but also with the understanding that any decisions made must be prudent. To this end, the strength of the employer covenant is considered when setting contribution rates.

## Principle 3: Risk and liabilities

In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities. These include the implications for the local taxpayers, the strength of the covenant for participating employers, the risk of their default and longevity risk.

### Full compliance

The Fund's actuary reviews the funding position of each employer every three years, and this valuation includes an assessment of the gap between the employer's share of the Fund assets and the liabilities specific to each employer. The strength of the employer covenant is considered when setting contribution rates.

The Fund's investment strategy is reviewed periodically and at least in line with each triennial valuation to ensure that the investment strategy will achieve the expected returns assumed during the valuation process.

As a member of Club Vita, a bespoke set of assumptions are specifically tailored to fit the membership profile of the Surrey Fund. The assumptions selected are intended to make an appropriate allowance for future improvements in longevity, based on the actual experience of the Fund.

### Principle 4: Performance assessment

Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisors.

Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision-making body and report on this to scheme members.

### Full compliance

Each manager's performance is measured quarterly against benchmark targets, which are specified in the contract between the Fund and the manager. The Fund's global custodian produces performance data for each manager and for the Fund as a whole. The Fund performance is also assessed with reference to the local authority peer group.

Performance data is reported to the Committee on a quarterly basis. Fund managers present to the officers or the Committee on at least an annual basis and officers hold four additional meetings with managers each quarter to discuss the portfolio composition, strategy and performance.

Consideration has been given to quantitative measures to assess the performance of the Committee, although options other than measuring meeting attendance and the success of the Committee's implemented strategies are limited.

### Principle 5: Responsible ownership

Administering authorities should:

- Adopt, or ensure their investment managers adopt, the Stewardship Code
- Include a statement of their policy on responsible ownership in the Investment Strategy Statement
- Report periodically to scheme members on the discharge of such responsibilities.

### Full compliance

All new investment mandates will be expected to include a statement of a manager's adoption of the Stewardship Code.

The Council wishes to have an active influence on issues of environmental or ethical concern with companies in which the Pension Fund is a shareholder. It will seek to codify its approach with Fund Managers and will use the services of specialist agencies as necessary to identify issues of concern. The Council requires the Fund Managers to take into account the implications of substantial "extra financial" considerations, e.g., environmental, social or reputational issues that could bring a particular investment decision into the public arena.

The Fund wishes to be an active shareholder and exercise its voting rights to promote and support good corporate governance principles. In addition, the Fund is a member of the Local Authority Pension Fund Forum (LAPFF), thus demonstrating a commitment to sustainable investment and the promotion of high standards of corporate governance and responsibility.

All of the Fund's managers are signed up to the Stewardship Code, which provides a framework for investors to consider environmental, social and corporate governance issues when making investment decisions.

### Principle 6: Transparency and reporting

Administering authorities should:

Article I. Act in a transparent manner, communicating with stakeholders on issues relating to their management of investments, its governance and risks, including performance against stated objectives.

Article II. Provide regular communication to scheme members in the form they consider most appropriate.

### Full compliance

The Fund's annual report includes all of the Fund's policies including the governance policy statement, governance policy compliance statement, communications policy statement, responsible investment policy, funding strategy statement and investment strategy statement. The annual report can be found on the council's website together with standalone versions of each of these documents.

Quarterly reports to the Committee and half yearly reports to the Local Pension Board on the management of the Fund's investments are publicly available on the council's committee administration website.

Pensions newsletters are sent to all Fund members.

## Appendix B: Border to Coast Sustainability Resources

Border to Coast publish reports related to Responsible Investment on their website at the link below. This includes the Corporate Governance and Voting Guidelines, Responsible Investment Policy and the annual Investment Reports.

Responsible Investment Policy 2023 - Border To Coast

# Responsible Investment Policy

## Contents

## Executive Summary

Surrey Pension Fund's Responsible Investment (RI) Policy has been developed around five pillars, to give structure to the Fund's approach:

**1: Governance:** sets out the background, objectives and governance arrangements of the Fund, and introduces Surrey's RI Beliefs.

**2: Process:** explains the approach employed by the Fund in identifying RI risks, expectations of where RI risks should be addressed in the investment process, and highlights some examples of the investment risks and opportunities that arise from RI considerations.

**3: Implementation:** describes how the Fund's RI beliefs and objectives are best delivered over short, medium and long-term investment timeframes, sets out some high-level expectations of any third parties working on behalf of the Fund, and covers the topic of working collaboratively with other likeminded investors.

**4: Stewardship:** focusses on the main tools available for the delivery of Surrey's RI Policy, which are through voting (for all listed assets) and engagement (for a wider set of assets).

**5: Monitoring and Reporting:** sets out the Fund's views on reporting on RI matters, including defining some reporting expectations of its investment managers, and covers the Fund's own bespoke RI reporting needs, including communicating with scheme members and other stakeholders.

The key high-level points of this draft policy are:

- As a large pension fund responsible for the investment arrangements of its members, it is important that **the Fund has a comprehensive RI Policy**, that is updated periodically.
- Surrey believes that the **United Nations Sustainable Development Goals** provide a useful frame of reference in helping identify and address Environmental, Social and Governance ('ESG') issues within its investment arrangements.
- Surrey believes that **RI issues have the potential to impact investment returns** over the short, medium and long-term.
- RI issues and concerns should be addressed primarily (but not exclusively) **at the point of investment** by asset managers, whether that is in relation to an individual stock, or an entire portfolio.
- **The Surrey Pension Fund Committee will set out RI priorities for the coming year and will review these priorities every year. Active stewardship remains the preferred approach** when it comes to investments, with engagement over divestment being the initial approach.

- **However, legal action and/or divestment remain appropriate options,** should an engagement process prove unsuccessful.
- Surrey will seek to ensure **appropriately structured RI reporting is provided by its agents**, so that the Fund can meet its own RI stewardship, reporting and communication objectives.

# Section 1: Governance

## 1.1 Definitions and Purpose

### 1.1.1 Purpose Statement of the Fund

The **Surrey Pension Fund** (‘Surrey’ or ‘the Fund’) is part of the national **Local Government Pension Scheme** (‘LGPS’). Surrey County Council is responsible for managing the fund and is known as the **'administering authority'**. There are over 300 employers participating in the Fund, including the county council, district and borough councils, universities, colleges, academies and private companies providing public services. The Fund has over 110,000 current, deferred and pensioner members with assets in excess of £5 billion.

The Fund’s **Vision,** is:

‘Providing our customers with a better tomorrow’.

This is delivered through its **Mission** Statement:

‘Responsibly delivering a first-class customer experience’.

### 1.1.2 Surrey Pension Fund - Background Information

The **County Council** is the designated statutory body responsible for administering the Fund on behalf of the constituent Scheduled and Admitted Bodies. The Council is responsible for setting investment policy, appointing suitable persons to implement that policy and carrying out regular reviews and monitoring of investments.

Responsibility and governance for the Fund, including investment strategy, fund administration, liability management and corporate governance is delegated to the **Surrey Pension Fund Committee** (‘the Committee’), which is made up of:

- Six nominated members of the County Council
- Two representatives from the Borough/District Councils nominated by the Surrey Leaders
- One representative from the external employers
- One representative of the members of the Fund

The Committee is advised by a representative of the Fund’s professional investment consultant, an Independent Investment Advisor, the Director, Corporate Finance and Commercial and the Assistant Director - LGPS Senior Officer. The Committee meets on at least a quarterly basis.

Assisting, monitoring and scrutiny of the Fund are delegated to the **Local Pension Board**, which is made up of:

- Four employer representatives
- Four employee representatives
- An independent Chair

The Local Pension Board is advised by the Assistant Director - LGPS Senior Officer, the Head of Investments and Stewardship, the Head of Accounting and Governance and the Head of Service Delivery. The Local Pension Board meets on at least a quarterly basis.

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 requires administering authorities to formulate and to publish a statement of its investment strategy, in accordance with guidance issued from time to time by the Secretary of State.

### 1.1.3 Purpose of the RI Policy

Previously, Surrey's RI approach was set out in terms of its approach to Environmental, Social and Governance (ESG) factors within the Fund's Investment Strategy Statement ('ISS'), which was created and periodically updated by the Pension Fund Committee. The last update of the ISS took place in September 2021, where it was decided to create a separate RI Policy, to reflect the increased importance of RI matters, and to capture recent changes in terms of institutional investors approaches towards RI and ESG factors.

This document, therefore, is the first standalone version of Surrey's RI approach, created in early 2022. It seeks to set out the Fund's approach as a responsible asset steward in addressing RI issues associated with its investment strategy, and to communicate the Fund's position to stakeholders.

The expectation is that, given that approaches to RI and ESG factors are continually developing, the Fund's RI Policy will be reviewed annually and updated to reflect developing good practice.

### 1.1.4 Definition of RI and Links to the SDGs

The Fund believe that investments made on behalf of scheme members should be sustainable in the short, medium and long-term through the fundamental identification and integration of ESG factors into the investment selection, monitoring and deselection process. Whilst the Fund has an overriding fiduciary and public law duty to act in the best long-term interests of scheme members to achieve the best possible financial returns with an appropriate level of risk, it also recognises that RI considerations increasingly reflect real financial risks, and as a result these factors should also be included in the investment decision-making process.

Since early 2020, the Fund has worked to understand how its investments might impact on the delivery of the **United Nations Sustainable Development Goals** (SDGs). The SDGs are 'an urgent call for action by all countries - developed and developing - in a global partnership. They recognize that ending poverty and other deprivations must go hand-in-hand with strategies that improve health and education, reduce inequality, and spur economic growth – all while tackling climate change and working to preserve our oceans and forests.'

The results of an SDG Mapping exercise were delivered in early 2021, which showed a link between the Fund's investments and their potential impact on the delivery of the SDGs. The Pension Fund Committee determined that this link was worth exploring further, and as a result identified the link between the Fund's investments and the SDGs to be an important part of any future RI activity.

#### 1.1.5 RI Links to Assets

The views, beliefs and expectations set out in this RI Policy are important to the Fund, in terms of its governance activity as a 'sustainable steward'. Accordingly, this RI Policy is of relevance to all the investment assets held by the Fund, managed on its behalf by its agents. Surrey is responsible for the creation, maintenance and communication of this Policy to its agents, and also for monitoring the results and outcomes of the implementation of the policy, with the assistance of its agents.

### 1.2 RI Beliefs

#### 1.2.1 Surrey's RI Beliefs

Surrey's Key RI beliefs have been agreed and are set out below:

- **Surrey believes that the United Nations Sustainable Development Goals** represent an appropriate foundation in terms of the Fund's overall RI approach.
- Surrey believes that **taking account of RI considerations can provide investment opportunities, as well as identifying investment risks.**
- Surrey **requires the consideration of ESG factors to be incorporated into the portfolio construction process** of all investments made by its investment managers.
- RI considerations are important **irrespective of asset class.**
- **RI considerations are important across all time horizons**. This is true not just in terms of protecting and enhancing long-term investment return, but also increasingly in terms of the interests expressed by our stakeholders.
- Going further, Surrey believes that ESG factors are relevant in **the context of benchmarking, risk analysis and investment opportunity identification.**

- **Responsible management of RI Issues** by Surrey and its agents **is also considered a reputationally important issue.**
- Surrey views **climate risk** - and the issues which contribute to it - **as being of significant direct and indirect concern to all stakeholders**, and as a result the Fund's approach towards 'Net Zero' is a prominent area of focus.
- Surrey believes in an **'Engagement with Consequences'** approach. This advocates the use of **engagement over divestment** as the means to promote our RI beliefs – however, **taking legal action** against company management or **selling an asset** remain options when it comes to inadequately addressed ESG concerns in the investments made by our managers.
- We also recognise the value in **engaging collaboratively** to leverage greater influence together with other investors who share our priorities through joint initiatives and organisations.
- The **exercise of our ownership rights through voting** is an important part of implementing our RI beliefs.

### 1.2.2 RI Beliefs and Different Asset Classes

Surrey expects its investment managers – **irrespective of the asset class they manage** – to take the Fund's RI Beliefs into account when managing investments on behalf of the Fund.

Surrey readily acknowledges that – currently - incorporating ESG/RI issues into the process of making and then monitoring investments is more straightforward for some asset classes than others – for example, in relation to actively managed listed equities as opposed to Government bonds. The fact that some asset classes are at an earlier point of development in terms of ESG integration does not exclude them from Surrey's objective to be a responsible asset steward. Accordingly, the Fund expects its investment managers for such asset classes to demonstrate leadership in addressing and communicating ESG/RI issues in their investment process.

Surrey expects its investment managers to report on their ESG/RI factor integration approaches for all asset classes. All investment managers will be required to describe how, and the extent to which, they incorporate ESG/RI issues into their investment processes, and any new investment managers appointed will also be required to disclose their ESG/RI approaches at the time of their consideration for appointment.

### 1.2.3 Surrey's RI Priorities

The following topics have been identified as specific RI priorities for the Fund:

(i) Actively seek to align the Fund's RI approach with the United Nations Sustainable Development Goals

(ii) Make a commitment to achieving 'Net Zero' in terms of the Fund's investments[2]

(iii) Become a Signatory to the UK Stewardship Code 2020

(iv) Publish a Report in line with the Recommendations of The Task Force On Climate-Related Financial Disclosures (TCFD)

(v) Work with Border to Coast Pensions Partnership ('BCPP' – the Fund's regional asset pool) and the Fund's non-pooled investment managers to ensure understanding and integration of this Policy

(vi) Identify and implement any required contract changes to formalise the RI Policy with all relevant agents

(vii) Identify specific RI reporting requirements for the Fund, and communicate these to all relevant agents

(viii) Review and update Surrey's Voting Policy

(ix) Explore the range of third-party collaborations/bodies to identify best match for any RI priorities

(x) Create a Conflicts of Interest Policy.

A key theme underpinning most of the planned work for 2022/23 relates to establishing a 'benchmark' position, in terms of current investment managers' existing approaches to ESG & RI and what they already identify and can then report.

### 1.2.4 Surrey's Progress with the SDGs

In 2020 and 2021, Surrey undertook ground-breaking work to understand the Fund's starting position against the SDGs and how it can further contribute towards the delivery of these goals.

The Fund used the World Benchmarking Alliance's (WBA) SDG 2000 Benchmark to understand its starting position against the SDGs, as the most robust approach in understanding how best to target systematic change with the world's most influential companies. The companies targeted within the SDG 2000 have the most potential to help deliver the SDGs if they are managed and run in a sustainable manner and become leaders in their sectors for others to follow as an example.

The findings from the Fund's mapping against the WBA SDG 2000 are summarised below:

- Approximately 63% of the Fund's equity and corporate bond holdings are also in the WBA SDG 2000 Index

[2] The Committee agreed to a net zero target of 2050 or sooner at its meeting of 16 June 2023

- Whilst the overlap against the WBA SDG 2000 was purely coincidental, it presents an opportunity to focus on these holdings, and how these companies are managed. Improving the management of these companies can allow them to make progress in helping deliver the SDGs.

The Fund has since used this analysis and worked with the Pension Fund Committee to discuss how it can integrate the findings into its Investment Strategy as well as ensuring the SDGs form the foundation of its Investment Core Beliefs.

Some areas currently in development include:

- Working with BCPP in using its influence to engage with its invested companies
- Seeking further SDG-friendly investment opportunities
- Developing future Climate Impact (SDG 13: Climate Action) related performance reporting and how it impacts the Fund's investments.

## 1.3 Governance Arrangements

### 1.3.1 Surrey's Governance Structure

The Fund is part of the national Local Government Pension Scheme (LGPS). The County Council has appointed a Pension Fund Committee with responsibility for the management of the Pension Fund. The Pensions Committee oversees the management of the Surrey Pension Fund and act as trustees of the Fund.

Governance arrangements for pension schemes in the public sector require Surrey County council, as an administering authority for the LGPS (Local Government Pension Scheme), to have in place a local pension board. The role of the Local Pension Board is to assist the Surrey Pension Fund Committee comply with all the legislative requirements to ensure the scheme is being effectively and efficiently governed and managed. The Local Pension Board:

- Plays a key advisory role in assisting the Surrey Pension Fund Committee in managing the Surrey Pension Fund
- Ensures that the Surrey Pension Fund Committee is compliant with LGPS and other relevant regulations
- Is made up of eight members, with equal representation of scheme members and employers
- Has regular meetings (at least twice a year).

### 1.3.2 Surrey's RI Resources

As at May 2022, there will be 57 full time team members associated with the oversight and administration of the Surrey Pension Fund, of which 2 Full Time Equivalents (FTEs) focus specifically on the investment arrangements of the Fund. The Fund also has in place an Investment Consultant, and an Independent Investment Advisor to assist in the management of the Fund's investments.

Surrey will make use of existing arrangement to their full potential and – with the approval of the Pension Fund Committee - will seek additional resources where deemed necessary to deliver the Fund's RI objectives and reporting requirements.

Surrey also expects its agents (BCPP, its master custodian and accounting service provider, Northern Trust, its non-pooled investment managers and Stewardship Advisor) to support it in terms of providing an appropriate level of information and cooperation to enable Surrey to meet its requirements and developing its RI monitoring and reviewing capabilities.

### 1.3.3 Surrey Culture & RI Fit

Surrey's aims to deliver a first-class service to stakeholders through strong partnerships with scheme members, employers, the Border to Coast Pool and the wider LGPS community. The highest standards of corporate governance are fundamental to our approach, underpinned by informed decision making, taking ESG considerations into account, comprehensive risk assessment & management, and the use of technology. The Fund's prevailing RI approach was developed further in 2020, where it was agreed that the UN Sustainable Development Goals should play a key role in helping shape the Fund's stewardship activities.  The recent expansion of the investment and pensions team reaffirms our commitment to providing stakeholders with a first-class service, whilst enabling Surrey to deal with the increasing RI challenges facing the Fund and scheme members' investments.  The Fund has also demonstrated its commitment to high standards of corporate governance through its long history of voting and engagement activities, monitoring the stewardship activity of its investment managers, by its membership of the Local Authority Pension Fund Forum (LAPFF) and latterly by agreeing the stewardship approach of the Border to Coast pool with the other partner funds.

### 1.3.4 Statement on Conflicts of Interest

Surrey recognizes the need for the clear identification and consideration of any conflicts of interest – real or perceived, and also notes that having a Conflicts of Interests Policy is a requirement of becoming a UK Stewardship Code 2020 Signatory. Accordingly, the creation of a Conflicts of Interest Policy has been identified as a priority for the coming year.

# Section 2: Process

## 2.1 RI Perspective

### 2.1.1 Process for Identifying RI Issues, Themes and Risk

RI issues, themes and risks typically cover ESG factors. Surrey's position is that these factors should be taken into consideration when investment decisions are made, and in ongoing monitoring of investments held, to enhance long-term sustainable financial performance.

Accordingly, Surrey believes that it is primarily the responsibility of its investment managers to effectively identify, mitigate and report on such risks, specifically those that may be financially material, as part of their investment selection, monitoring and deselection process. Surrey expects its investment managers to take a holistic approach to identifying risk as opposed to a stand-alone concern and believes that RI risks should be fundamentally integrated into a sustainable investment approach.

Surrey also considers the Pension Fund Committee's and Local Pensions Board's views on RI issues, themes and risks when formulating and updating its RI Policy.

### 2.1.2 Linkage of RI risks to Investment Strategy

The Pension Fund Committee has the responsibility for setting investment strategy with due regard for Surrey' funding position and risk appetite. The Fund's investment strategy has allocations to different asset classes, including equities, bonds, real estate and infrastructure assets. It is primarily through the individual investments in these asset class that RI risks are identified, mitigated where possible, and reported. Whilst RI issues - such as climate change – have long-term financial implications for the Fund and its stakeholders, clearly short-term actions are necessary to start to address the long-term challenges.

Surrey's expectation is that its investment managers, having taken the Fund's RI views into account, are responsible for the identification, mitigation (where possible) and reporting of RI risks, over short, medium and long-term timeframes. The Fund's investment managers should be able to clearly identify the actions that they have taken to identify and mitigate (where possible) RI risks in the context of the short, medium and long-term – and then be able to report this activity to Surrey.

### 2.1.3 Integrating RI Beliefs & Issues

Surrey firmly believes that the addressing of ESG factors and RI issues should be incorporated at a fundamental level into the investment selection, monitoring and deselection processes of their investment managers, irrespective of the asset class concerned.

Whilst Surrey remains responsible for setting its own investment strategy, it relies to an increasing extent on BCPP for ensuring appropriate investment arrangements and options are put in place. For any investment managers appointed – now, or in the future - Surrey expects BCPP to ensure that:

- The managers have in place processes to include ESG factors and RI issues into their investment process at a fundamental level
- The managers report back on how these processes work
- BCPP reports back to Surrey their monitoring and assessment of these processes.

#### 2.1.4 Process for Reviewing and Revising RI Risks

Surrey will make use of a ‘top-down’ and ‘bottom-up’ approach to reviewing and revising the RI & ESG risks that the pool and its partner funds face:

**Top-down:** members of the Pension Fund Committee, with the support of Officers, the Investment Consultant and the Independent Advisor, can feed into the RI risk identification and management process, by providing any comments, views or priority concerns they might have to BCPP and their non-pooled investment managers, for further investigation and mitigation; and

**Bottom-up:** the Fund’s asset managers investment activity and stewardship approaches can also generate RI or ESG issues or concerns that can be included in the Fund’s RI risk identification and management process.

Surrey intends to use this twin track approach to further develop the Fund’s existing Risk Register, to ensure it continues to cover a wide range of known ESG and RI risks that might affect the investments of the Fund.

### 2.2 RI Factors and Investment Process

#### 2.2.1 Techniques Available to Help Identify RI Risks and Opportunities

Surrey believes that utilising a combination of both traditional financial and ESG factor analysis can enhance long-term performance of the Fund’s assets through enabling the identification of a broader range of risks and opportunities. Statistical tools such as scenario models and company specific data can be used to help monitor and mitigate RI risks, and identify RI opportunities.

Different techniques that Surrey may utilise as part of RI risk management include measuring and reporting on carbon-equivalent emissions of individual investments, portfolios and managers; encouraging active engagement for business strategy alignment with the targets of the Paris Agreement; and creating a Risk Register to monitor and identify possible future material risks.

Surrey actively encourages its agents such as BCPP, the master consultant, and the external non-pooled asset managers to provide relevant, transparent, and accessible ESG-related information through reporting. Reporting expectations may also be driven by other factors, such as reporting that is aligned with The Taskforce for Climate-related Financial Disclosures (TCFD).

Surrey's agents are expected to evaluate RI risks on an ongoing basis, with regular reporting being used as a mechanism to inform decision-making and assess and monitor progress towards the Fund's RI objectives.

### 2.2.2 RI Risk Expectations of Investment Managers

Surrey's expectation is that its investment managers, having taken its RI views into account, are responsible for the identification, mitigation (where possible) and reporting of RI risks, over short, medium, and long-term timeframes. Surrey's' investment managers should be able to clearly identify any such actions that they have taken to identify and mitigate RI risks in the context of the short, medium, and long-term and then be in a position to report this activity.

### 2.2.3 Defining ESG Factors, Issues and Considerations

The Fund expects RI activities undertaken by its agents to cover all asset classes across all markets in which the Fund invests, including equities, fixed income, property, infrastructure, and private markets.

ESG concerns should be embedded into the investment process of any investment managers appointed to manage Fund assets, and the impact of these factors must be considered on a regular basis. To help define ESG issues, the Pensions and Lifetime Savings Association ('PLSA') has provided a simple breakdown of some individual E, S and G factors – this is shown in the following diagram:


Source: 'ESG and Stewardship: A Practical Guide to Trustee Duties' PLSA June 2019

Surrey expects its agents to at least use these descriptions of ESG concerns as a starting point for their own approaches to defining these factors – but not be limited to just these specific areas of concern.

### 2.2.4 Key RI Risks and Opportunities for Institutional Investors

When thinking about responsible investment, there are four levels where RI issues can be addressed by the Fund:

| | |
|---|---|
| **Investment level** | **Integration:** incorporating ESG & RI issues into the everyday individual investment selection, monitoring and engagement processes |
| **Manager level** | **Expectations:** setting explicit expectations at the investment manager mandate level |
| **Authority level** | **Policy:** setting an overarching policy, generated from core investment beliefs, that shapes the direction of travel |
| **Pool level** | **Policy:** through the BCPP RI Policy and Corporate Governance & Voting Guidelines (developed with input from Surrey) |

The following table sets out several key investment risks and opportunities for institutional investors such as the Fund, in the context of identifying and managing RI issues:

| Issue | Why Investment Risk? | Why Investment Opportunity? |
| --- | --- | --- |
| Absence of explicit ESG / RI references in any of BCPP's investment manager management agreements | By not explicitly raising these issues, they could be unintentionally left out of the investment process | Adding the consideration of these topics to investment management agreements may help asset managers focus on, and then better understand, these issues |
| Insufficient detail/rigour in the asset manager selection, appointment and monitoring process on RI/ESG by BCPP (and by the Fund for any investments held outside the pool) | The market is rife with greenwash and grade inflation, while there is still a large spread in the quality and sincerity of approaches by asset managers. Failure to uphold a high standard could indulge lacklustre approaches by managers and expose the pool and the partner funds to the investment and reputational risk of being 'absentee' | Having a well-considered process for assessing asset managers' approaches to sustainability has the potential to result in more risk aware managers being appointed, investing in better run companies who should deliver better long-term investment returns |
| Historic drivers of equity performance, at the asset class level, may no longer be relevant | Any investment strategy modelling based on historic performance drivers is, by construction, unlikely to address recently emerging risks such as climate change | By incorporating sustainability and climate change factors into the investment strategy modelling process, the potential outcomes are more likely to reflect more closely the actual reality. |
| Opportunity to implement new benchmarks aligned to ESG/RI factors | Methodology for benchmark construction needs to be demonstrably 'competent', in terms of helping deliver targeted/required investment return | Incorporating RI issues formally into investment strategy can help to overcome "ethical subjectivity" often associated with ESG investing; new investment opportunities becoming available with pivot towards low carbon transition |
| 'New' investment opportunities appear that are different from traditional investment choices | By moving into the relative 'unknown', there is a risk that the investments do not live up to expectations in terms of their investment performance and their diversifying potential | Yield is increasingly hard to find, with some traditional asset classes such as Government Bonds no longer being relatively attractive. Investing in new areas such as clean energy provide the potential to generate diversified investment returns away from historically core asset classes |
| Increased pressure on 'Governance Budgets' in terms of training and monitoring | There is a danger that by focussing on parts of the investment spectrum (e.g., 5% allocation to clean energy infrastructure) that a fund's 'Governance Budget' for considering all assets is put under unhelpful pressure | With a greater focus on RI matters, this presents a fine opportunity for asset stewards to review their Governance Budgets, and how they spend them |

# Section 3: Implementation

## 3.1 RI Perspective

### 3.1.1 Surrey's Approach to Implementing the RI Beliefs

There are a number of paths through which Surrey's RI beliefs can be implemented:

(i) At the fundamental level of the investment process, by its investment managers

(ii) Through active stewardship by the Fund and BCPP voting at listed company meetings, following their respective Voting policies

(iii) Through the Fund's investment managers engaging with companies and entities associated with the investments they hold on behalf of Surrey

(iv) Through collective action between Surrey, BCPP, other LGPS pools and other third parties with common stewardship interests.

The expectation is that the approach to the implementation of RI beliefs will not be static and is expected to change over time as good practice develops. Surrey does not expect one path to dominate the implementation approach; rather it expects a combination of the routes shown to be used.

### 3.1.2 Delivering RI Objectives in the Short / Medium / Long-term

RI considerations are important across all time horizons, but especially in the medium and long-term. This is true not just in terms of protecting and enhancing long-term investment return, but also increasingly in terms of the interests expressed by the Fund's stakeholders.

Maintaining a strategic RI commitment includes the setting of objectives against which to measure progress. This means that it is appropriate to set RI objectives which are defined in the short, medium, and long-term.

**Short-term objectives** - one to three years - may be more likely to be activity-related (for example, committing to a defined number of engagements, or a defined number or percentage of successful engagements). Output-related targets are not irrelevant (for example - annual reporting of climate risk related metrics such as asset-generated Green House Gas (GHG) emissions attributable to the investments) but are more likely to become significant when viewed over the longer term. Voting-related measures lend themselves particularly well to short-term objectives setting, such as the proportion of meetings voted, and alignment of voting with RI strategic engagement priorities. Additionally, there are a number of regulatory and market initiatives which themselves bring annual reporting requirements, such as the Stewardship Code, TCFD and the PRI, all of which also provide a framework for reporting of metrics which can be included in short term objective setting.

**Medium-term objectives** – three to five years – will include output or impact-related metrics which should aim to demonstrate a positive trend over multiple years. In terms of climate risk, positive trends in terms of portfolio progress towards Paris Agreement alignment and climate scenario analysis might be reasonable to expect.

**Long-term objectives** – over 5 years - may include fixed long-term strategic targets such as a commitment to 'Net Zero', achievement of Paris Agreement /COP26 alignment.

The Fund notes the position of Surrey County Council and a number of the Fund's scheduled and admitted bodies who have declared a 'climate emergency'. Climate risk is the most prominent thematic concern. As the regulatory environment evolves towards requiring the reporting of climate risk strategy and management by LGPS pension funds, short, medium, and long-term metrics are equally significant. In the short term, activity-related metrics such as annual asset-related GHG emissions, investment manager reviews (including policy as well as performance review) and strategic engagement progress targets all contribute towards a consistent approach to medium and long-term objective delivery.

Medium term objectives should include positive progress towards long-term targets, using Paris Alignment and scenario analysis as metrics.

### 3.1.3 Implementation Roles in Surrey's Governance Structure

The Pension Fund Committee is the official decision-making body for the Fund that has been created by Surrey County Council under its duty as the Administering Authority, and as such will have the ultimate say on the Fund's RI Policy, and general RI approach. The Pension Fund Committee is assisted in its management of the Fund by the Local Pension Board made up from representatives of members and employers of the scheme.

The fulfilment of statutory duties ultimately lies with the Pension Fund Committee, who are responsible for the management and oversight of the Fund, including the following activities:

- Determining the Fund's investment beliefs
- Setting the Fund's strategic asset allocation
- Producing the Fund's stewardship policies, including this RI Policy
- Arrangements for holding its agents (including BCPP) to account
- Requesting specific investment options from BCPP
- The timing of any transition of assets to BCPP

## 3.2 RI Expectations & Agents

### 3.2.1 Surrey's RI Beliefs and Agents

Investment manager selection, investment activity and ongoing monitoring processes are central to the effective implementation of the Fund's RI Policy. Surrey expects its appointed agents to clearly demonstrate how the identification, consideration and management of ESG factors and RI issues is embedded into their respective processes, and how those processes support the Fund's RI Policy. They must be prepared to enable Surrey to monitor and report on any RI-related objectives.

### 3.2.2 Surrey's Main Agents

**Border to Coast Pensions Partnership:** BCPP plays a central role in the investment arrangements of the Fund. This includes the investment management and monitoring of RI-specific elements of mandate delivery (for example, ensuring on-going strategic alignment between the BCPP-managed investments and the partner funds' RI Policies), with which BCPP can track progress towards RI objectives. BCPP also ensure that any external investment managers' procurement and selection processes contain ESG and RI considerations, including the request for proposal (RFP) criteria and scoring and the investment management agreements.

**Non-pooled Investment Managers:** Our directly appointed managers must be able to clearly demonstrate how the topic of ESG is embedded into their investment processes and are expected to fully support the Fund in monitoring and reporting on any RI-related objectives.

**Custodian:** The custodian of both the Fund and BCPP, Northern Trust, is expected to support our service providers in carrying out their respective roles in the execution of the Fund's RI Policy, as well as in relation to services provided by Northern Trust themselves which are relevant (for example securities lending and reporting).

**Advisors:** The Fund's advisors are expected to support and, where relevant to their engagement, help Surrey with the implementation and further development of the RI Policy.

### 3.2.3 Surrey's RI Expectations of Agents

Surrey expects all of its service providers to have a verifiable public commitment to Responsible Investment (for example, being a PRI signatory). We also expect all service providers to have their own standards regarding sustainable business practices which are also in alignment with the Fund's RI Policy, including socially responsible business practices and commitments in relation to environmental standards including, but not limited to, TCFD reporting.

Surrey expects its investment managers to manage assets in alignment with the Fund's RI Policy. Investment manager RI policies may be directly or independently reviewed to verify on-going alignment with the Fund's existing Policy and any applicable regulatory or best practice standards (including, but not limited to, the UK Stewardship Code 2020 and TCFD).

The Fund's investment managers are expected to provide reporting at least annually in terms of RI-related activity associated with their mandate, and more frequently where their mandates require them to do so (for example with quarterly reporting of voting and engagement activity). Investment managers are required to provide a robust explanation of any positions they have adopted which are not in alignment with either the Fund's RI Policy or any RI-related performance objectives set out in their mandate. Surrey also expects its investment managers to be signatories to/comply with any local 'sustainable stewardship' initiatives such as the Stewardship Code in the UK.

When it comes to engagement, the investment managers are expected to engage in constructive dialogue on behalf of the Fund, and to use their influence to encourage companies to adopt best practice in key ESG areas. Any engagements undertaken on investments held by the Fund should be reported, along with an assessment of the effectiveness of the engagement, and whether the engagement issue has been resolved or is ongoing.

Surrey expects its investment managers – including BCPP - to develop and provide adequate and appropriate reporting across all mandates for the Fund to use in its own stakeholder reporting. This might include information to support the Fund becoming a signatory to the UK Stewardship Code 2020, TCFD-aligned reporting, carbon footprinting, climate scenario analysis and Paris Alignment information.

### 3.2.4 Codifying and Monitoring RI Expectations

Agent Service Level Agreements (SLAs) will include provisions relating to supporting RI activity, resourcing, strategy, performance, progress towards objectives and reporting. Certain objectives will be contract-specific, reflecting the nature of the service (for example, in relation to the asset class in question for an investment manager, the range of ancillary services provided by a custodian, or the specialist services provided by a third party outsourced service provider).

New Investment Management Agreements (IMAs) will set out specific expectations regarding resourcing, deliverables, targets and/or objectives. Monitoring of these will be carried out and are expected to form a part of the routine investment manager engagement meetings, feeding into the existing investment manager reporting and review processes.

Changes required for existing IMAs to reflect the Fund's RI expectations will be discussed with the Fund's incumbent investment managers, and then properly incorporated into the existing contractual arrangements via a side letter or addendum.

## 3.3 RI Collaboration

### 3.3.1 Surrey's Approach to Collaboration

Surrey believes that collaborative action on ESG and RI matters is of fundamental importance to achieving change. Through working with like-minded investors, the expectation is that more can be achieved by having a 'louder' voice. To that end, one of the RI priorities for the coming year is to explore the options available to Surrey in terms of collaborating with other institutional investors on ESG and RI matters. The intention is to assess such options and present the findings to the Pension Fund Committee for their consideration and ultimate decision as to the collaboration approach(es) and partner(s) taken by the Fund.

### 3.3.2 Furthering RI Objectives Through Collaboration

To date, Surrey's main approach to collaborative action has been as a member of the **Local Authority Pension Fund Forum (LAPFF)**. This new RI Policy, however, set out the importance of collaboration in terms of helping deliver the Fund's RI beliefs and expectations, and so are part of the ESG 'implementation process' which is formed of:

- Voting at listed company meetings
- Engaging with investee companies at fund manager level
- Collaborating with other institutional investors on matters of prioritised importance.

### 3.3.3 Key Aims of Any Partnerships or Affiliations

The key aims of any partnerships or affiliations are to ensure that:

- The Fund's RI beliefs and concerns are addressed as efficiently and effectively as possible
- The long-term investment performance of the underlying investments is maximised through the identification and minimisation of ESG & RI risks
- The Funds' views are amplified with likeminded investors to increase the chance of bringing about meaningful change
- That scheme members' invested monies continue to be managed in a sustainable manner.

# Section 4: Stewardship

## 4.1 Surrey's Approach to Stewardship

### 4.1.1 Overview of Surrey's Approach

Stewardship is the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries, leading to sustainable benefits for the economy, the environment and society.

Surrey endorse the **UK Stewardship Code 2020** which set high standards for those investing money on behalf of UK savers and pension scheme members. As a global investor, the partner Fund seeks to apply good stewardship standards globally, whilst recognising local markets specificities.

The Fund believes in making long-term sustainable investments, whilst integrating ESG risk considerations into the investment process and promoting good governance and 'sustainable stewardship'. They believe that good stewardship practices can have a material impact, in terms of:

- Avoiding value destructions
- Identifying significant risks
- Locating investment opportunities

### 4.1.2 Surreys' Stewardship Policy

By being a founding partner of BCPP and being responsible for the appointment of non-pooled asset managers, Surrey is able to set expectations of both, and also set expectations of BCPP when it comes to manager appointment, monitoring and termination.

Surrey have set certain stewardship expectations of their agents in terms of ESG factor and RI issue implementation – and the feedback from these agents will be used on an ongoing basis to ensure clarity of purpose and shared direction of travel.

### 4.1.3 Combining Surrey's Approach with its Agents

In creating a formal RI Policy, the intention is to set out Surrey's approach as a 'sustainable steward' of the Fund's assets. This policy reflects current 'good practice' and will be updated periodically as good practice continues to develop. However, the Fund recognizes that its agents may already have in place their own RI policies that reflect current responsible stewardship good practice. The intention is not to completely override any existing well considered RI approaches, but for any perceived gaps to be filled with the appropriate content of the Fund's RI Policy.

#### 4.1.4 Stewardship Monitoring

Surrey's stewardship activity takes place through 4 main routes:

1. Through the activities of its investment managers (such as voting at company meetings and undertaking direct engagements with investee companies
2. Through the discretionary activities of the BCPP partner funds (such as collaborating on voting actions on specific shareholder resolutions at company meetings)
3. Through any activities directed by BCPP itself on behalf of the pool's asset owners (such as any prioritised engagement activity)
4. Through working collaboratively with other investors (such as working with other LGPS pools on issues such as TCFD reporting from investee companies or asset managers).

The stewardship activities of the Fund's investment managers are regularly reported back to the Fund. Some of this information is publicly reported via the Council's website through reports submitted for consideration by the Pension Fund Committee, for example, the quarterly voting activity undertaken.

### 4.2 Voting

#### 4.2.1 Surrey's Approach to Voting

Surrey aims to be an informed and responsible long-term investor of the companies in which it invests, directly or indirectly. The Fund has a commitment to encourage responsible corporate behaviour, which is based upon the belief that active oversight and stewardship of companies encourages good long-term value creation and performance. The Fund has a duty to protect and enhance the value of its investments, thereby acting in the best interests of the Fund's beneficiaries. To that end, the Fund has a Voting Policy in place which sets out its stewardship views and expectations of investee company managements. For the assets held by BCPP, the pool also has a Voting Policy which seeks to uphold high standards of corporate governance for the pooled listed assets.

#### 4.2.2 Surrey's Voting Policy

Surrey has long had a Voting Policy, which sets out the principles of good corporate governance, and how Surrey seeks to exercise its influence on investee companies. The Fund takes seriously its responsibility to ensure that its voting rights are exercised in an informed, constructive and considered manner. The Fund aims to vote its shares in all markets wherever practicable. However, due to the relative size of its holdings, it will focus attention on the major asset holdings, i.e., UK, EU, US, Far East and Emerging Markets assets.

The Fund takes seriously its responsibility to ensure that its voting rights are exercised in an informed, constructive and considered manner. To that end, it has created **a bespoke Voting Policy**. In general, the Fund aims to support corporate management in their stewardship role, but for instances where the Fund cannot support management it either vote against company management or abstain.

The main areas of corporate governance covered by the Fund's Voting Policy are as follows:

- Audit & Accountability
- The Board & Committees
- Executive Remuneration
- Shareholders' Rights & Capital Structures
- Mergers & Acquisitions
- Article Changes
- Political & Charitable Donations
- Shareholder Resolutions
- Environmental Issues

Surrey periodically reviews its Voting Policy, taking current or developing stewardship issues into account, and incorporating any feedback received from the ongoing discussions with the investment managers.

### 4.2.3 Surrey's Investment Managers & Voting

Surrey's Voting Policy originally related to all the Fund's listed equity managers, but as more of the Fund's assets were transitioned into the Border to Coast pool over the last few years, the direct stewardship responsibility for these assets moved to BCPP. **BCPP have created their own Voting Policy**, which is applied to the assets under their management.

As at February 2022, there remained only one non-pooled manager whose listed equity investments are currently covered by the Fund's own Voting Policy:

- Newton (Global Equities)

The expectation is that over time all these assets will either be transferred to BCPP, or the monies invested reallocated to other asset classes. In the meantime, the Fund's Voting Policy is still applicable to the proper stewardship oversight of these assets.

Surrey receives a report on all voting activity, including details of any votes which have not been cast and explanations where votes have not been cast in line with the Voting Policy, on a regular basis. This information is regularly submitted to the Pension Fund Committee for its consideration.

### 4.2.4 Use of Agents in Voting Activity

Surrey has contracted with Minerva Analytics since 2013 to provide consultancy advice on share voting and the whole spectrum of company corporate governance. Minerva has assisted the Fund in ensuring that its stewardship approach reflects the most up-to-date standards. This helps Officers and the Pension Fund Committee learn of the latest stewardship developments that can then be reflected in the Fund's Investment Strategy Statement (ISS).

Surrey expects that its UK-based investment managers will be signatories to, and comply with, the Financial Reporting Council's Stewardship Code (the Code). Surrey also expects its non UK-based investments managers to provide a formal statement on their approach to stewardship of client assets.

### 4.2.5 Voting and Securities Lending

Securities lending is an activity where assets are borrowed by a third party, in return for a fee. Collateral is provided at the point of the asset being borrowed, which is held until the asset is returned. One aspect of securities lending is that the legal title of the asset is transferred to the borrower, which means that any votes attached to the asset transfer to the borrower.

Surrey is of the view that, as responsible asset stewards, they should vote at all company meetings for the assets they own. Accordingly, Surrey expects that any assets that are out on loan should be recalled with sufficient time to permit votes to be cast.

## 4.3 Engagement

### 4.3.1 Surrey's Approach to Engagement

As long-term asset stewards, Surrey seeks to positively influence companies' ESG approaches through the use of voting rights and by formal shareholder engagement.

Surrey expects its investment managers to follow this model of responsible asset stewardship, but the services of other third-party providers may be sought when necessary to help identify issues of concern and engage with investee companies.

Surrey believes that the best way to influence companies on RI matters is through an ongoing process of responsible ownership:

**1) Assess:** the identification and consideration of all material issues and risk factors associated with any given investment (including ESG & RI factors)

**2) Invest / Divest:** having assessed the appropriateness of an investment opportunity, the active decision is made to buy (or sell) the asset

**3) Steward:** responsible oversight of the asset involves engaging with the investee company, voting at listed company meetings and engaging with company management on issues of concern

**4) Report:** providing the results of the stewardship back to the client, so that they are informed on how the asset is being managed, and whether there are any current concerns.

This process is circular and ongoing; however, it may be the case that after several attempts at constructive engagement with an investee company that the initial concerns expressed have not been addressed satisfactorily, and so either legal action (by way of a **Class Action** process with other investors) or divestment/sale of the asset is appropriate next steps in the Fund's 'Engagement with Consequences' approach.

### 4.3.2 Engagement Responsibilities

The responsibility for undertaking engagements is shared between the Fund, BCPP and the investment managers insomuch as:

- Individual investment managers follow their own approaches towards engaging with investee companies on all matters that have the potential to affect investment performance.
- BCPP currently uses the services of Robeco, to report on engagements undertaken by its managers.
- Surrey is able to set any engagement priorities for the investment managers – both those within BCPP, and the non-pooled managers.
- Either Surrey or BCPP – working on their own or with other investors – are able to take legal action against investee companies through participating in a Class Action, where deemed appropriate.

### 4.3.3 Engagement & RI Themes

Whilst the Fund has not currently explicitly set any engagement or RI-themed priorities, it supports those that have been set by Border to Coast. These are:

| Environmental | Social | Governance |
|---|---|---|
| • Low carbon transition<br>• Waste and water management | • Social inclusion through labour management | • Diversity of thought |

The Pension Fund Committee has the right to determine any specific engagement or RI-themed priorities and will look to its agents to help with their monitoring and delivery.

### 4.3.4 Position on Divestment and a 'Just Transition'

Surrey believes in an 'Engagement with Consequences' approach towards its investments - constructively engaging with investee companies on any identified ESG & RI issues, rather than immediate divestment. As Surrey is externally managed, the actual implementation of the 'engagement with consequences' approach in relation to individual investments falls to its investment managers. Engagement is a legitimate step by our managers in an escalation process where issues are identified, communicated to company management and their responses are assessed. However, Surrey does not believe that engagement should be an open-ended process without resolution. It is important that the materiality of each engagement is analysed, and that the response is carefully considered, so a conclusion can be reached as to whether the original issue has been resolved, has a reasonable expectation of being resolved, or is not likely to be resolved at all.

If initial engagement does not lead to the desired results, escalation by the managers may be necessary. Options for this escalation include collaborating with other investors, supporting shareholder resolutions, voting against directors or other relevant meeting agenda items, attending Annual General Meetings (AGMs) in person to raise concerns, publicly expressing concerns and co-filing shareholder resolutions.

If, after the escalation process, the investment case is still seen as fundamentally weakened, the decision may be taken by the manager to sell the company's shares. Regulatory, legal, reputational, environmental, social and governance issues are all risks that may be considered.

Surrey believes its investment managers should seek to first engage with investee companies on issues that they perceive to present a material financial risk. However, the reporting of these engagements, their materiality, the engagement outcomes and their implications have not always been clearly communicated. Surrey commits to work with its investment managers to improve the disclosure and reporting of engagement activities undertaken on its behalf. Surrey will ask its investment managers to justify specific investments where it feels that engagement is not being effective or where financial risk may not be reflected in valuations. Where engagement fails to mitigate perceived material financial risks then Surrey expects its investment managers to consider stronger measures including collaborative engagement and/ or investment action.

Surrey supports the objectives of the Paris Agreement, specifically Article 2, 1(a), which is:

“Holding the increase in the global average temperature to well below 2°C above pre-industrial levels and pursuing efforts to limit the temperature increase to 1.5°C above pre-industrial levels, recognizing that this would significantly reduce the risks and impacts of climate change.” Accordingly, the Fund expects its investment managers to make climate risk a key component of any engagement process on Surrey’s investments.

Surrey also believes in a ‘Just Transition’ to a low carbon economy that ensures fair treatment for employees and communities that would otherwise bear the brunt of rapid, wholesale industrial change.

The investment exclusions currently in place for the Fund are listed below.

Russian restrictions

All managers are abiding by governmental sanctions against Russia and Belarus and new investments into the region are prohibited. The Fund’s position is to review existing investments with a view to exiting in due course as and when markets permit, as long as the current circumstances prevail. The statement by the Surrey Pension Fund can be found on our website.

Equity restrictions currently in place, by fund manager:

BCPP

BCPP have exclusions related to two areas - thermal coal & oil sands and cluster munitions.

BCPP will not invest in public companies where more than 70% of revenue is derived from thermal coal and/or oil sands. For illiquid investments in private markets, the threshold is reduced to 25%.

There will also be no investment in companies contravening the Convention on Cluster Munitions (2008). This excludes from investment companies where there is evidence of manufacturing cluster munition whole weapons systems and those manufacturing components that were developed or are significantly modified for exclusive use in cluster munitions.

LGIM

There are no exclusions relating to their market capitalisation linked index funds.

The Future World product range does execute exclusions. Future World products apply the Future World Protection List and the Climate Impact Pledge.

The Future World Protection List is a set of exclusions based on companies which fail to meet either globally accepted principles of business practice, or whose business is incompatible with a low-carbon transition. No company with over 20% of revenue derived from thermal coal mining and extraction and/or thermal coal power generation and/or oil sands can be considered for investment. Neither are manufacturers of controversial weapons or companies in perennial breach of the UN Global Compact, an initiative to encourage businesses worldwide to adopt sustainable and socially responsible policies. More details can be found on LGIM's Future World Protection List Methodology.

The Climate Impact Pledge is LGIM's engagement with consequences approach related to climate engagement. Using a set of metrics for assessment, companies that remain consisted laggards generate votes against the Chair for all products and divestment from the Future World funds. More details can be found on LGIM's website.

Newton

The Fund has not imposed any explicit exclusions related to the Newton mandate, other than those relating to Russia and Belarus. However, for their pooled range, the manager does have exclusions in companies involved in cluster munitions and this policy is taken into account when investment decisions are made for the Surrey Pension Fund.

### 4.3.5 Engagement Across Asset Classes

Surrey believes that engagement is a key part of being a responsible asset owner; however, some assets are easier than others, in terms of undertaking engagement activity. Set out in the following table are some high-level views on how engagement is, and could be, carried out by Surrey or its agents – either individually, or collectively with other like-minded investors - across the asset classes in which the Fund is invested:

| Asset Class | Engagement Options |
|---|---|
| **Equities – Index** | • Implementation of a bespoke Voting Policy for non-pooled assets that codifies Surrey's approach into specific voting actions<br>• Implementation of a bespoke Voting Policy for pooled assets that codifies BCPP's approach into specific voting actions<br>• Direct engagement by Robeco or by asset managers with companies held on an index-driven basis linked to engagements undertaken for any actively held holdings. |
| **Equities - Active** | • Implementation of a bespoke Voting Policy for non-pooled assets that codifies Surrey's approach into specific voting actions<br>• Implementation of a bespoke Voting Policy for pooled assets that codifies BCPP's approach into specific voting actions<br>• Direct engagement by Robeco or by asset managers with companies held on an active basis – via direct meeting / letter / email / call / attendance at investor events. |
| **Fixed Interest – Government Bonds, Government Index Linked Bonds** | • Limited direct engagement options – consideration of RI issues affecting national Governments and their responses to them typically sits at the investment appraisal stage, prior to investing. |
| **Fixed Interest – Multi Asset Credit, Corporate Index Linked Bonds** | • Direct engagement is possible for Surrey's asset managers or Robeco on listed companies that also issue debt owned by the Fund<br>• Engagement with companies issuing debt – via direct meeting / letter / email / call / attendance at investor events. |
| **Real Estate - Pooled** | • Investment via collective vehicles means that engagement activity has to be at investment manager level, particularly if a fund of funds is the chosen vehicle of investment. |
| **Infrastructure - Pooled** | • Investment via collective vehicles means that engagement activity has to be at investment manager level, particularly if a fund of funds is the chosen vehicle of investment. |
| **Private Debt / Equity / Venture Capital- Direct** | • Direct ownership of private companies, or loans to private companies means that RI considerations and expectations can be established from the outset, and influence can be exerted directly on these investments as a relatively small group of investors are the owners. |
| **Private Debt / Equity / Venture Capital - Indirect** | • Investment via collective vehicles means that engagement activity has to be at investment manager level, particularly if a fund of funds is the chosen vehicle of investment. |
| **Cash** | • For banks holding cash deposits that are listed entities, engagement can take place in the same manner as for Equities, if the bank shares are held as part of an existing investment. Where money market funds are used, engagement would again be possible at a secondary level, engaging with the investment managers of the funds involved. |

# Section 5: Monitoring and Reporting

## 5.1 RI Monitoring

### 5.1.1 Surrey's Approach to RI Monitoring

Surrey believes that monitoring RI activities and outputs is vital in ensuring alignment of RI performance with the Fund's stated approach. Surrey will monitor RI activities undertaken on its behalf in relation to the short, medium and long-term objectives set out in the RI Policy and in any individual Investment Management Agreements.

### 5.1.2 Reporting Expectations of Surrey's' Asset Managers

Individual Investment Management Agreements (IMAs) or Service Level Agreements (SLAs) with investment managers should set out the information transparency requirements necessary for monitoring alignment between the RI performance of any mandate and the RI expectations set by the Fund.

Whilst specific asset classes bring their own specific requirements, all investment managers are expected to support the Fund in reporting on ESG factors together with climate risk mitigation objectives in alignment with TCFD, and other stewardship activity for the purposes of reporting under the UK Stewardship Code 2020.

Investment manager reporting should include some elements on their specific business which are universally applicable, including:

- Any material updates to the firm's own RI policy during the year
- RI governance developments
- Any developments in their RI process

Additionally, Surrey expects the investment managers to disclose some fund level information which is also universally applicable to all asset classes, including:

- Details on alignment with any key RI objectives set by the Fund, and what measures (if any) remain to be carried out
- Use of ESG data (e.g., details of data sources and tools used, verification, scope of portfolio coverage of the data)
- ESG Risk Management (e.g., updates or changes to ESG risk management processes, positive and negative examples of how ESG factors have impacted investment decisions)
- Current key ESG risks and opportunities associated with the Fund's investments

- Any material RI 'incidents' (details of incident, and explanation of any investment actions taken as a result)
- Performance Targets (e.g., material developments in progress towards targets; disclose whether assets are on target, exceeding or underperforming their ESG target; any RI related changes made to the performance benchmark)
- Asset class level reporting requirements are asset specific in nature: listed equity, fixed income, and private equity manager reporting should include, but not be limited to:
    - Portfolio composition
    - ESG factor incorporation
    - ESG performance and action plans
- Additionally, Private Equity should also include:
    - Monitoring and Incident Response
    - Exit strategy
- Infrastructure, Real Estate and Forestry are expected to report on all of the above, save for ESG incorporation.

Surrey expects the following to be reflected in the stewardship reporting of its investment managers:

- Explaining the implementation of their stewardship policies
- How ownership rights have been exercised
- Any changes to the manager's engagement processes
- Examples of engagement and how they relate to monitoring and investment decisions
- Details on measurement of engagement success
- Details on whether engagements have been concluded successfully, concluded unsuccessfully, or are ongoing
- Information on how portfolio managers have been involved in active ownership activities

Additionally, listed equity and fixed income investment managers should include details of any collaborative engagements and how they have contributed to their stewardship and engagement strategy.

Any listed equity voting reporting should cover:

- Any changes in voting policy

- Specific results of voting activities and decisions, including summary statistics, policy alignment as well as case studies
- Stock-on-loan related voting issues (where investment managers are responsible for their own securities lending programme)
- Outcomes of voting audits
- Examples of results of resolutions voted
- Proportion of shares voted in the period
- Breakdown and rationale of votes cast against management

Surrey also expects its investment managers to provide climate change reporting in line with TCFD recommendations. This is to include:

- Climate Change: Governance
    - Engagement with companies regarding addressing climate change
    - Positive/negative changes in investee companies' oversight of climate issues
    - Describing management's role in assessing and managing risks and opportunities
- Climate Change: Strategy
    - Describe risks and opportunities over the short, medium and long-term (according to reporting horizon)
    - How these risk and opportunities are factored into strategies
    - Describe strategy resilience in the face of climate scenarios, including a +2 degrees Celsius or lower scenario
- Climate Change: Risk Management
    - Any changes in processes for integration of these risks into the overall risk management process
- Metrics and Targets
    - Disclose the metrics used and how these have changed over time
    - Scopes 1, 2 and (where currently possible) 3 GHG emissions, weighted average carbon intensity
    - Describe the targets used to manage climate related risks, opportunities and performance against targets

### 5.1.3 RI Reporting Standards and Agents

Where specialist agents (such as, for example, RI consultancy, third party ESG portfolio reporting, proxy voting services, engagement services or securities litigation specialists) are appointed to provide services to Surrey which contribute to the implementation of the Fund's RI Policy, reporting requirements will be set out in their contractual arrangements, reflecting by reference to the elements of this RI Policy to which the services relate.

### 5.1.4 RI Monitoring & Reporting

It is key to ensure that the scope and nature of the RI monitoring requirements placed upon the Fund's agents are proportionate and aligned with the Fund's RI Policy. It is Surrey's view that the reporting expectations placed on the Fund's agents, as set out in this RI Policy, should not be onerous. Surrey believes that they reflect what should reasonably be expected of a professional asset management firm, either because of regulatory requirement or from client interest and demand.

### 5.1.5 Monitoring Expectations of Border to Coast

As Surrey's primary source as the provider (or procurer) of investment management services, it is essential that Border to Coast is able to undertake appropriate monitoring of the Fund's investments and investment managers. Explicit monitoring expectations will be defined in due course during the process of implementing the Fund's RI Policy, but Surrey's position is that the pool should undertake comprehensive and ongoing monitoring of the Fund's investments and investment managers, which includes assessing how ESG factors are identified, incorporated into the investment process and managed. Investment and manager monitoring requirements are likely to grow over time, and so Surrey will work with Border to Coast and the other partner funds to ensure the pool is able to meet client monitoring requirements.

## 5.2 RI Reporting

### 5.2.1 Surrey's Approach to RI Reporting

Any reporting arrangements put in place need to be able to meet the varied reporting requirements of the Fund, now and in the near future. Whereas historic investment reporting has predominantly focussed on asset holdings, valuation and performance, future reporting requirements are likely to place a greater emphasis on stewardship matters, such as:

- More detailed information on voting activity, and variances from the Fund's and BCPP's Voting Policies
- Engagement activity, along with outcomes achieved
- Clearer information on asset sales/divestments, with a particular emphasis on asset disposals made primarily in relation to unacceptable ESG factor risks
- Carbon intensity of specific investments and portfolios
- Content to enable the Fund to complete their own Stewardship Code 2020 and TCFD reporting.

### 5.2.2 RI Reporting Commitments

There is likely to be considerable overlap in terms of the content needed from the Fund's agents for the different reports produced by Surrey - such as those covering the Fund's Annual Report & Accounts, Stewardship Code 2020 Compliance, TCFD Reporting, Voting and Engagement Activity and scheme member communications.

Surrey expects that, whatever the reporting requirements - existing, regulatory-driven or aspirational - its agents work closely in cooperation with the Fund to help it meet these requirements through the provision of timely stewardship information.

### 5.2.3 RI Reporting Delivery Methods

Surrey will ensure that RI reporting is accessible to its stakeholders. The Fund's core expectations are that key RI information will be communicated with its stakeholders via a number of routes:

- On the Surrey Pension Fund website
- In the Fund's Annual Report & Accounts
- Through regular reports submitted to the Pension Fund Committee and Local Pensions Board

Over time, the information disclosed is expected to expand to include more RI-related information, such as climate scenario modelling. Stakeholders will be kept up to date on progress to expand reporting requirements via the Fund's and Council's websites. Contact details will also be provided for stakeholders who have specific requirements in terms of reporting accessibility, to ensure that the information available can be accessed by all relevant parties.

### 5.2.4 Key Reporting Expectations of Agents

Surrey expects their agents to support them in the delivery of, and reporting against, these RI Guidelines and the RI expectations, in addition to their normal investment-related reporting. Set out in the table below is a short description of the information that Surrey expects its agents to provide, split across the three main current agents – BCPP, the Fund's master custodian Northern Trust and the non-pooled investment managers:

| Agent | Reporting Expectations |
|---|---|
| **BCPP** | • Monitoring of the external investment managers, covering their ongoing appropriateness to manage assets on behalf of the Pool and the partner funds<br>• Any other existing reporting that Surrey currently receives from BCPP. |
| **Northern Trust** | • Investment accounting & valuation information relating to the investment arrangements managed by the non-pooled investment managers<br>• Performance information relating to the investment arrangements managed by the non-pooled investment managers<br>• Custody safekeeping reconciliations relating to the assets, derivates and cash associated with the investment arrangements of the non-pooled investment managers<br>• Securities lending activity, including information covering the recall of assets on loan for voting<br>• Confirmation of the successful submission of votes cast on behalf of the Fund through its agents<br>• Any other existing reporting that Surrey currently receives from NT. |
| **Non-pooled Investment Managers (including LGIM)** | • Investment performance information relating to the investment arrangements managed by each investment manager<br>• Details of their specific ESG / RI policies<br>• Details of their approach towards TCFD reporting<br>• Details of their approach to climate modelling of their specific investments<br>• Details of any engagements undertaken in relation to the investments they manage on behalf of the Fund<br>• Any other existing reporting that Surrey currently receives from the non-pooled investment managers. |

### 5.2.5 Reporting Expectations of Border to Coast

Reporting expectations of Border to Coast are determined collectively by the pool's partner funds. As a result, Surrey is able to have direct input in ensuring its reporting requirements are met. And whilst it is recognized that different partner funds are likely to have slightly different reporting requirements, there are likely to be common pieces of information that each fund needs. Explicit reporting requirements will be defined in due course during the process of implementing the Fund's RI Policy, but in general Surrey expects the RI reporting from Border to Coast to cover areas such as voting, engagement, portfolio carbon intensity measurement and any other ESG reporting requirements as identified by the Fund. Surrey also expects Border to Coast to undertake regular reporting on the investment, stewardship and ESG-associated activities undertaken by any external investment managers appointed by the pool.

## 5.3 Stakeholder RI Communications

### 5.3.1 Reporting RI Issues to Stakeholders

In terms of stakeholder reporting requirements associated with RI, due consideration will be given to the reporting requirements of all key stakeholders, including:

- Surrey Pension Fund Committee and Local Pensions Board
- Scheme members and employers
- Interested third parties

The current expectation is that RI issues will be reported to stakeholders via several channels, including the Fund's websites, Pension Fund Committee papers, Annual Reports, and also by other avenues such as Stewardship Code 2020 reporting.

### 5.3.2 RI Reporting Content, Access, and Frequency

Surrey aims to report its RI activities in a manner which is deemed to be in line with best practice. This includes regular disclosures that demonstrate to stakeholders how Surrey oversees the implementation of the Fund's RI approach. From content prepared for the Fund's Annual Report & Accounts, member communications and for the Fund's own website, the intention is to provide RI information that is accurate, engaging, accessible and timely.

## Glossary

| Term | Definition |
|---|---|
| **Administering Authority** | An Administering Authority is responsible for maintaining and investing its own fund for the **LGPS**. This means the Administering Authority is responsible for making all decisions relating to the operation of the Fund. |
| **Agent** | Any third party working on behalf of the Fund. This covers **BCPP**, non-pooled investment managers, custodians and other third parties providing investment-related services. |
| **BCPP** | **Border to Coast Pensions Partners Limited –** the **LGPS** pool of which Surrey is one of the founding partner funds. Responsible for some of the investment arrangements of the Fund. |
| **Class Action** | A Class Action is a type of lawsuit where one of the parties is a group of people or investors who are represented collectively by a member or members of that group. **LGPS** funds typically participate in class actions to seek financial redress from investee companies over destruction of shareholder value caused by company management actions. |
| **COP26** | The UK hosted the 26th UN Climate Change Conference of the Parties **(COP26)** in Glasgow on 31 October – 12 November 2021. The COP26 summit brought parties together to accelerate action towards the goals of the **Paris Agreement** and the UN Framework Convention on Climate Change. |
| **Custodian** | An entity – usually a bank – that provides custody of assets, along with associated services such as investment accounting, cash management, dividend collection and repatriation, proxy voting, securities lending and investment performance measurement & reporting. |
| **ESG** | **Environmental, Social and Governance** – usually used in reference to ESG ‘factors’ or ‘characteristics’, in the content of a Fund’s, portfolio’s or investee company’s approach to sustainability issues or risks |

| Term | Definition |
|---|---|
| **IMA** | **Investment Management Agreement** – the formal contract between the procurer of investment management services and the firm providing them. Contains specific details of the nature of the investment services required, along with other details such as any benchmark to be used, risk controls, fees paid and client reporting requirements. |
| **Investee Company** | Relates to an underlying investment in a listed equity, corporate bond or private equity in which an investment manager has made an investment on behalf of the pool |
| **LAPFF** | The **Local Authority Pension Fund Forum** is a voluntary association of 85 public sector pension funds and seven pool companies based in the UK with combined assets of over £300 billion. It exists to 'promote the long-term investment interests of local authority pension funds, and to maximise their influence as shareholders to promote corporate responsibility and high standards of corporate governance amongst the companies in which they invest'. |
| **LGPS** | The **Local Government Pension Scheme** is a statutory pension scheme for employees of local authorities. |
| **Paris Agreement** | The Paris Agreement is a legally binding international treaty on climate change. It was adopted by 196 Parties at COP 21 in Paris, on 12 December 2015 and entered into force on 4 November 2016. Its goal is to limit global warming to well below 2, preferably to 1.5 degrees Celsius, compared to pre-industrial levels. |
| **PRI** | **Principles for Responsible Investment** – initially a United Nations-backed organisation but is now a freestanding commercial entity. Asset owners and asset managers can subscribe to have their responsible investment approaches assessed and graded by PRI. |
| **RI** | **Responsible Investment** – a broad term used to cover sustainability issues in investment management |

| Term | Definition |
|---|---|
| **SDGs** | **United Nations Sustainable Development Goals** - a collection of 17 interlinked global goals designed to be a "blueprint to achieve a better and more sustainable future for all". The SDGs were set up in 2015 by the United Nations General Assembly and are intended to be achieved by the year 2030. |
| **SLA** | **Service Level Agreement** – a document put in place between the procurer and provider of services to establish certain aspects of the service delivery, usually around service standards, timeliness, deliverables and reporting |
| **Stakeholder** | Relates to parties that have an interest in the investment arrangements of the partner funds – this covers **LGPS** scheme members, employers and other bodies in the scheme, but also includes local taxpayers |
| **TCFD** | **Task Force on Climate-related Financial Disclosures** - created by the Financial Stability Board in 2015 to improve and increase reporting of climate-related financial information. |
| **UK Stewardship Code 2020** | Established by the Financial Reporting Council, The UK Stewardship Code 2020 sets high stewardship standards for those investing money on behalf of UK savers and pensioners, and those that support them. |

| | |
|---|---|
| Effective date of policy | 16 June 2023 |
| Approved date | 16 June 2023 |
| Next review | 31 March 2024 |

# Funding Strategy Statement

## Contents



### Appendices



### Policies

## Welcome to Surrey Pension Fund's Funding Strategy Statement

This document sets out the Funding Strategy Statement (FSS) for Surrey Pension Fund (the Fund).

The Fund is administered by Surrey County Council, known as the Administering Authority. Surrey County Council worked with the Fund's Actuary, Hymans Robertson, to prepare this FSS which is effective from 1 April 2023.

There is a regulatory requirement for Surrey County Council to prepare an FSS. You can find out more about the regulatory framework in Appendix A. If you have any queries about the FSS, contact crtpensions@surreycc.gov.uk

### What is the Surrey Pension Fund?

The Fund is part of the Local Government Pension Scheme (LGPS). You can find more information about the LGPS on the LGPS website. The Administering Authority runs the Fund on behalf of participating employers, their employees and current and future pensioners. You can find out more about roles and responsibilities in Appendix B.

### What are the funding strategy objectives?

The funding strategy objectives are to:

- Take a prudent long-term view to secure the regulatory requirement for long-term solvency, with sufficient funds to pay benefits to members and their dependants
- Use a balanced investment strategy to minimise long-term cash contributions from employers and meet the regulatory requirement for long-term cost efficiency
- Where appropriate, ensure stable employer contribution rates
- Reflect different employers' characteristics to set their contribution rates, using a transparent funding strategy
- Use reasonable measures to reduce the risk of an employer defaulting on its pension obligations.

### Who is the FSS for?

The FSS is mainly for employers participating in the Fund because it sets out how money will be collected from them to meet the Fund's obligations to pay members' benefits.

Different types of employers participate in the Fund:

### Scheduled bodies

Employers who are specified in a schedule to the LGPS regulations, including councils and employers like academies and further education establishments. Scheduled bodies must give employees access to the LGPS if they can't accrue benefits in another pension scheme, such as another public service pension scheme.

### Designating employers

Employers like town and parish councils can join the LGPS through a resolution. If a resolution is passed, the Fund cannot refuse entry. The employer then decides which employees can join the scheme.

### Admission bodies

Other employers can join through an admission agreement. The Fund can set participation criteria for them and can refuse entry if the requirements aren't met. This type of employer includes contractors providing outsourced services like cleaning or catering to a scheduled body.

Some existing employers may be referred to as **Community Admission Bodies** (CABs). CABs are employers with a community of interest with another scheme employer. Others may be called **Transferee Admission Bodies** (TABs), that provide services for scheme employers. These terms are not defined under current regulations but remain in common use from previous regulations.

### How does the funding strategy link to the investment strategy?

The funding strategy sets out how money will be collected from employers to meet the Fund's obligations. Contributions, assets, and other income are then invested according to an investment strategy set by the Administering Authority.

The funding and investment strategies are closely linked. The Fund must be able to pay benefits when they are due – those payments are met from a combination of contributions (through the funding strategy) and asset returns and income (through the investment strategy). If investment returns or income fall short the Fund won't be able to pay benefits, so higher contributions would be required from employers.

### Does the funding strategy reflect the investment strategy?

The funding strategy is consistent with the investment strategy. Future investment return expectations are set with reference to the investment strategy, including a margin for prudence which is consistent with the regulatory requirement that funds take a 'prudent longer-term view' of funding liabilities (see Appendix A).

### How is the funding strategy specific to the Surrey Pension Fund?

The funding strategy reflects the specific characteristics of the Fund employers and its own investment strategy.

## How does the Fund calculate employer contributions?

### Calculating contribution rates

Employee contribution rates are set by the LGPS regulations.

Employer contributions are made up of two elements:

- **The primary contribution rate** – contributions payable towards future benefits
- **The secondary contribution rate** – the difference between the primary rate and the total employer contribution.

The primary rate also includes an allowance for the Fund's expenses.

The Fund actuary uses a model to project each employer's asset share over a range of future economic scenarios. The contribution rate takes each employer's assets into account as well as the projected benefits due to their members. The value of the projected benefits is worked out using employer membership data and the assumptions in Appendix D.

The total contribution rate for each employer is then based on:

- **The funding target** – how much money the Fund aims to hold for each employer
- **The time horizon** – the time over which the employer aims to achieve the funding target
- **The likelihood of success** – the proportion of modelled scenarios where the funding target is met.

This approach takes into account the maturing profile of the membership when setting employer contribution rates.

## The contribution rate calculation

### Table 1: contribution rate calculation for individual or pooled employers

| Employer Type | Scheduled Bodies - Local Authorities, and Police | Scheduled Bodies - Colleges & universities | Scheduled Bodies - Academies | CABs & designating employers - Open to new entrants | CABs & designating employers - Closed to new entrants | TABs |
|---|---|---|---|---|---|---|
| **Funding target*** | Ongoing | Ongoing | Ongoing | Ongoing / Low risk exit basis | Low risk exit basis | Contractor exit basis, assuming fixed-term contract in the fund |
| **Minimum likelihood of success** | 70% | 75% / 80% depending on covenant security | 70% | 75% if form of security provided. 80% otherwise | 75% if form of security provided. 80% otherwise | 70% |
| **Maximum time horizon** | 20 years | 17 years | 20 years | 15 years | 15 years | 17 years |
| **Primary rate approach** | The contributions must be sufficient to meet the cost of benefits earned in the future with the required likelihood of success at the end of the time horizon | | | | | |
| **Secondary rate** | Monetary amount | % of payroll | % of payroll | Monetary amount/ % of payroll | Monetary amount | Monetary amount / % of payroll |
| **Stabilised contribution rate?** | Yes | No | No | No | No | No |
| **Treatment of surplus** | Covered by stabilisation arrangement | Preferred approach: contributions kept at primary rate. Reductions may be permitted by the administering authority in specific situations | | | | Preferred approach: contributions kept at primary rate. However, may permit spreading of surplus over the remaining contract term |
| **Phasing of contribution changes** | Covered by stabilisation arrangement | At the discretion of the administering authority | | None | None | None |

*See Appendix D for further information on funding targets.

### Making contribution rates stable

Making employer contribution rates reasonably stable is an important funding objective. The Fund may adopt a stabilised approach to setting contributions for individual employers, which keeps contribution variations within a pre-determined range from year-to-year.

After taking advice from the Fund actuary, the Administering Authority believes a stabilised approach is a prudent longer-term strategy.

**Table 2: current stabilisation approach**

| Type of employer | Surrey County Council | District and Borough Councils | Surrey Police Authority |
|---|---|---|---|
| **Maximum contribution increase per year** | +1% of pay | +1% of pay | +1% of pay |
| **Maximum contribution decrease per year** | -1% of pay | -1% of pay | -1% of pay |

Stabilisation criteria and limits are reviewed during the valuation process. The Administering Authority may review them between valuations to respond to membership or employer changes.

### Reviewing contributions between valuations

The Fund may amend contribution rates between formal valuations, in line with its policy on contribution reviews. The Fund’s policy is available in Appendix H. The purpose of any review is to establish the most appropriate contributions. A review may lead to an increase or decrease in contributions.

### What is pooling?

The Administering Authority can consider setting up pools for employers with very similar characteristics. This will always be in line with its broader funding strategy. With the advice of the Actuary, the Administering Authority may allow smaller employers of similar types to pool their contributions in order to smooth out the effects of costly events, e.g., ill-health retirements or deaths in service.

CABs that are deemed by the Administering Authority to have closed to new entrants are not usually permitted to participate in a pool. TABs are usually also ineligible for pooling. Smaller admitted bodies may be pooled with the letting employer, provided all parties (particularly the letting employer) agree.

Academies who belong to a Multi Academy Trust (MAT) are permitted to pool for contribution rate purposes.  New academies have the option to elect to pay contributions initially in line with the MAT that they are joining.

This Town and Parish Council Pool allows the sharing of experience and smoothing out the effects of costly rare events such as death in service for these small employers. It also provides some mitigation against the cliff-edge gilts exit basis calculation at cessation.  Full details of the operation of this pool are set out in Appendix K.

Those employers which have been pooled are identified in the Rates and Adjustments Certificate.

### Administering Authority discretion

Individual employers may be affected by circumstances not easily managed within the FSS rules and policies. If this happens, the Administering Authority may adopt alternative funding approaches on a case-by-case basis.

Additionally, the Administering Authority may allow greater flexibility to the employer's contributions if added security is provided. Flexibility could include things like a reduced contribution rate, extended time horizon, a change of employer risk category or permission to join a pool. Added security may include a suitable bond, a legally binding guarantee from an appropriate third party, or security over an asset.

## What additional contributions may be payable?

### Pension costs – awarding additional pension and early retirement on non-ill-health grounds

If an employer awards additional pension as an annual benefit amount, they pay an additional contribution to the Fund as a single lump sum. The amount is set by guidance issued by the Government Actuary's Department and updated from time to time.

If an employee retires before their normal retirement age on unreduced benefits, employers may be asked to pay additional contributions called strain payments.

### Pension costs – early retirement on ill-health grounds

In the event of a member's early retirement on the grounds of ill-health, a funding strain will usually arise, which can be very large. Such strain costs are the responsibility of the member's employer to pay.

However, these strains are currently met by a Fund-operated ill health risk management solution. Further detail is set out in the Fund's ill health risk management policy detailed in Appendix J.

## How does the Fund calculate assets and liabilities?

### How are employer asset shares calculated?

The Fund adopts a cashflow approach to track individual employer assets.

The Fund uses Hymans Robertson's HEAT system to track employer assets monthly. Each employer's assets from the previous month end are added to monthly cashflows paid in/out and investment returns to give a new month-end asset value.

If an employee moves one from one employer to another within the Fund, assets equal to the cash equivalent transfer value (CETV) will move from the original employer to the receiving employer's asset share. Alternatively, if employees move when a new academy is formed or an outsourced contract begins, the Fund actuary will calculate assets linked to the value of the liabilities transferring (see section 5).

### How are employer liabilities calculated?

The Fund holds membership data for all active, deferred and pensioner members. Based on this data and the assumptions in Appendix D, the Fund actuary projects the expected benefits for all members into the future. This is expressed as a single value – the liabilities – by allowing for expected future investment returns.

Each employer's liabilities reflect the experience of their own employees and ex-employees.

### What is a funding level?

An employer's funding level is the ratio of the market value of asset share against liabilities. If this is less than 100%, the employer has a shortfall: the employer's deficit. If it is more than 100%, the employer is in surplus. The amount of deficit or surplus is the difference between the asset value and the liabilities value.

Funding levels and deficit/surplus values measure a particular point in time, based on a particular set of future assumptions. While this measure is of interest, for most employers the main issue is the level of contributions payable. The funding level does not directly drive contribution rates. See section 2 for further information on rates.

## What happens when an employer joins the fund?

### When can an employer join the Fund?

Employers can join the Fund if they are a new scheduled body or a new admission body. New designated employers may also join the Fund if they pass a designation to do so.

On joining, the Fund will determine the assets and liabilities for that employer within the Fund. The calculation will depend on the type of employer and the circumstances of joining.

A contribution rate will also be set. This will be set in accordance with the calculation set out in Section 2, unless alternative arrangements apply (for example, the employer has agreed a pass-through arrangement). More details on this are in Section 5.4 below.

### New academies

New academies (including free schools) join the Fund as separate scheduled employers. Only active members of former council schools transfer to new academies. Free schools do not transfer active members from a converting school but must allow new active members to transfer in any eligible service.

Liabilities for transferring active members will be calculated (on the ongoing basis) by the Fund actuary on the day before conversion to an academy. Liabilities relating to the converting school's former employees (i.e. members with deferred or pensioner status) remain with the ceding council.

New academies will be allocated an asset share based on the estimated funding level of the ceding Council's active members, having first allocated the Council's assets to fully fund their deferred and pensioner members. This funding level will then be applied to the transferring liabilities to calculate the academy's initial asset share, capped at a maximum of 100%.

The Council's estimated funding level will be based on market conditions on the day before conversion. The Fund treats new academies as separate employers in their own right, who are responsible for their allocated assets and liabilities.

The new academies' contribution rate is based on the current funding strategy (set out in section 2) and the transferring membership.

If an academy leaves one MAT and joins another, all active, deferred and pensioner members transfer to the new MAT.

If two MATs merge during the inter-valuation period, the merged MAT will pay the higher of the certified rates for the individual MAT's.

The Fund's policies on academies may change based on updates to guidance from the Department for Levelling Up, Housing and Communities or the Department for Education. Any changes will be communicated and reflected in future funding strategy statements.

### New admission bodies as a results of outsourcing services

New admission bodies usually join the Fund because an existing employer (usually a scheduled body like a council or academy) outsources a service to another organisation (a contractor). This involves TUPE transfers of staff from the letting employer to the contractor. The contractor becomes a new participating fund employer for the duration of the contract and transferring employees remain eligible for LGPS membership. At the end of the contract, employees typically revert to the letting employer or a replacement contractor.

Liabilities for transferring active members will be calculated by the Fund actuary on the day before the outsourcing occurs.

New contractors will be allocated an asset share equal to the value of the transferring liabilities. The admission agreement may set a different initial asset allocation, depending on contract-specific circumstances.

There is flexibility for outsourcing employers when it comes to pension risk potentially taken on by the contractor.  You can find more details on outsourcing options from the administering authority.

### Other new employers

There may be other circumstances that lead to a new admission body entering the Fund, e.g. set up of a wholly owned subsidiary company by a Local Authority. Calculation of assets and liabilities on joining and a contribution rate will be carried out allowing for the circumstances of the new employer.

New designated employers may also join the Fund. These are usually town and parish councils.  Contribution rates will be set using the same approach as other designated employers in the Fund.

### Risk assessment for new admission bodies

Under the LGPS regulations, a new admission body must assess the risks it poses to the Fund if the admission agreement ends early, for example if the admission body becomes insolvent or goes out of business. In practice, the Fund actuary assesses this because the assessment must be carried out to the Administering Authority’s satisfaction.

After considering the assessment, the Administering Authority may decide the admission body must provide security, such as a guarantee from the letting employer, an indemnity, or a bond.

This must cover some or all of the:

- Strain costs of any early retirements if employees are made redundant when a contract ends prematurely
- Allowance for the risk of assets performing less well than expected
- Allowance for the risk of liabilities being greater than expected
- Allowance for the possible non-payment of employer and member contributions
- Admission body's existing deficit.

The Fund's admissions policy is detailed in Appendix E.

### What happens if an employer has a bulk transfer of staff?

Cases will be looked at individually, but generally:

- The Fund will not pay bulk transfers greater in value than either the asset share of the transferring employer in the fund, or the value of the liabilities of the transferring members, whichever is lower.
- The Fund will not grant added benefits to members bringing in entitlements from another fund, unless the asset transfer is enough to meet the added liabilities.
- The Fund may permit shortfalls on bulk transfers if the employer has a suitable covenant and commits to meeting the shortfall in an appropriate period, which may require increased contributions between valuations.

The bulk transfer policy is in Appendix G.

## What happens when an employer leaves the fund?

### What is a cessation event?

Triggers for considering cessation from the Fund are:

- The last active member stops participation in the Fund. The Administering Authority, at their discretion, can defer acting for up to three years by issuing a suspension notice. That means cessation will not be triggered if the employer takes on one or more active members during the agreed time.
- Insolvency, winding up or liquidation of the admission body
- A breach of the agreement obligations that is not remedied to the Fund's satisfaction
- Failure to pay any sums due within the period required

- Failure to renew or adjust the level of a bond or indemnity, or to confirm an appropriate alternative guarantor
- Termination of a Deferred Debt Arrangement (DDA).

If no DDA exists, the Administering Authority will instruct the Fund actuary to carry out a cessation valuation to calculate if there is a surplus or a deficit when the Fund leaves the scheme.

### What happens on cessation?

The Administering Authority must protect the interests of the remaining fund employers when an employer leaves the scheme. The actuary aims to protect remaining employers from the risk of future loss. The funding target adopted for the cessation calculation is below. These are defined in Appendix D.

(i) Where there is no guarantor, cessation liabilities and a final surplus/deficit will usually be calculated using a low-risk basis, which is more prudent than the ongoing participation basis.  The low-risk exit basis is defined in Appendix D.

(ii) Where there is a guarantor, the guarantee will be considered before the cessation valuation. Where the guarantor is a guarantor of last resort, this will have no effect on the cessation valuation. If this isn't the case, cessation may be calculated using the same basis that was used to calculate liabilities (and the corresponding asset share) on joining the Fund.

(iii) Depending on the guarantee, it may be possible to transfer the employer's liabilities and assets to the guarantor without crystallising deficits or surplus. This may happen if an employer can't pay the contributions due and the approach is within guaranteed terms.

If the Fund cannot recover the required payment in full, unpaid amounts will be paid by the related letting authority (in the case of a ceased admission body) or shared between the other fund employers. This may require an immediate revision to the rates and adjustments certificate or be reflected in the contribution rates set at the next formal valuation.

The Fund actuary charges a fee for cessation valuations and there may be other cessation expenses. Fees and expenses are at the employer's expense and are deducted from the cessation surplus or added to the cessation deficit. This improves efficiency by reducing transactions between employer and fund.

The cessation policy is in Appendix F.

### What happens if there is a surplus?

If the cessation valuation shows the exiting employer has more assets than liabilities – an exit credit – the Administering Authority can decide how much will be paid back to the employer based on:

- The surplus amount
- The proportion of the surplus due to the employer's contributions
- Any representations (like risk sharing agreements or guarantees) made by the exiting employer and any employer providing a guarantee or some other form of employer assistance/support
- Any other relevant factors.

The Fund's policy on exit credits is included in the cessation policy document in Appendix F. How do employers repay cessation debts?

If there is a deficit, full payment will usually be expected in a single lump sum or:

- Spread over an agreed period, if the employer enters into a deferred spreading agreement
- If an exiting employer enters into a deferred debt agreement, it stays in the fund and pays contributions until the cessation debt is repaid. Payments are reassessed at each formal valuation.

The Fund's policy on employer flexibilities is included in the cessation policy document in Appendix F.

### What if an employer has no active members?

When employers leave the Fund because their last active member has left, they may pay a cessation debt, receive an exit credit or enter a DDA or a Deferred Spreading Arrangement (DSA). Beyond the DDA/DSA they have no further obligation to the Fund and either:

(i) Their asset share runs out before all ex-employees' benefits have been paid. The other fund employers will be required to contribute to the remaining benefits. The Fund actuary will portion the liabilities on a pro-rata basis.

(ii) The last ex-employee or dependant dies before the employer's asset share is fully run down. The Fund actuary will apportion the remaining assets to the other fund employers.

Consideration may be given to investing the assets allocated to such employers in line with a different investment strategy. For further details, see the Investment Strategy Statement.

## What are the statutory reporting requirements?

### Reporting regulations

The Public Service Pensions Act 2013 requires the Government Actuary's Department to report on LGPS funds in England and Wales after every three-year valuation, in what's usually called a section 13 report. The report should include confirmation that employer contributions are set at the right level to ensure the Fund's solvency and long-term cost efficiency.

### Solvency

Employer contributions are set at an appropriate solvency level if the rate of contribution targets a funding level of 100% over an appropriate time, using appropriate assumptions compared to other funds. Either:

(i) Employers collectively can increase their contributions, or the fund can realise contingencies to target a 100% funding level, or

(ii) There is an appropriate plan in place if there is, or is expected to be, a reduction in employers' ability to increase contributions as needed.

### Long-term cost efficiency

Employer contributions are set at an appropriate long-term cost efficiency level if the contribution rate makes provision for the cost of current benefit accrual, with an appropriate adjustment for any surplus or deficit.

To assess this, the Administering Authority may consider absolute and relative factors.

Relative factors include:

(i) Comparing LGPS funds with each other

(ii) The implied deficit recovery period

(iii) The investment return required to achieve full funding after 20 years

Absolute factors include:

(i) Comparing funds with an objective benchmark

(ii) The extent to which contributions will cover the cost of current benefit accrual and interest on any deficit

(iii) How the required investment return under relative considerations compares to the estimated future return targeted by the investment strategy

(iv) The extent to which contributions paid are in line with expected contributions, based on the rates and adjustment certificate

(v) How any new deficit recovery plan reconciles with, and can be a continuation of, any previous deficit recovery plan, allowing for fund experience.

These metrics may be assessed by GAD on a standardised market-related basis where the fund's actuarial bases don't offer straightforward comparisons.

| | |
|---|---|
| Effective date of policy | 31 March 2023 |
| Approved date | 16 December 2022 |
| Next review | 31 March 2024 |

# Appendix A – The regulatory framework

## A1 Why do funds need a funding strategy statement?

The Local Government Pension Scheme (LGPS) regulations require funds to maintain and publish a Funding Strategy Statement (FSS). According to the Department for Levelling Up, Housing and Communities (DLUHC) the purpose of the FSS is to document the processes the Administering Authority uses to:

- Establish a **clear and transparent fund-specific strategy** identifying how employers' pension liabilities are best met going forward
- Support the regulatory framework to maintain **as nearly constant employer contribution rates as possible**
- Ensure the fund meets its **solvency and long-term cost efficiency** objectives
- Take a **prudent longer-term view** of funding those liabilities.

To prepare this FSS, the Administering Authority has used guidance by the Chartered Institute of Public Finance and Accountancy (CIPFA).

## A2 Consultation

Both the LGPS regulations and most recent CIPFA guidance state the FSS should be prepared in consultation with "persons the authority considers appropriate". This should include 'meaningful dialogue… with council tax raising authorities and representatives of other participating employers'.

The consultation process included:

- A draft version of the FSS was issued to all participating employers on 30/01/2023 for comment
- The draft FSS was accompanied with a statement setting out the impact of variations from the previous funding strategy
- There was a consultation period, during which questions regarding the FSS could be raised and answered. The consultation period ended on 17th February 2023
- Following the end of the consultation period the FSS was updated where required and then published on 01/04/2023.

## A3 How is the FSS published?

The FSS is made available through the following routes:

- Publishing on the fund website
- A copy is sent by email to each participating employer in the Fund
- A copy is included in the Fund annual report and accounts
- Copies can be sent to independent advisors
- Copies are available on request

The FSS is published on our website.

### A4 How often is the FSS reviewed?

The FSS is reviewed in detail at least every three years as part of the valuation. Amendments may be made before then if there are regulatory or operational changes. Any amendments will be consulted on, agreed by the Pensions Committee, and included in the Committee meeting minutes.

### A5 How does the FSS fit into the overall fund documentation?

The FSS is a summary of the Fund's approach to funding liabilities. It is not exhaustive – the Fund publishes other statements like the statement of investment principles, investment strategy statement, governance strategy and communications strategy. The Fund's annual report and accounts also includes up-to-date fund information.

The Fund's Investment Strategy Statement (ISS) includes full details of the employer investment strategies that apply.

You can search for any fund documentation on our website.

## Appendix B – Roles and responsibilities

### B1 The Administering Authority:

(i) Operates the fund and follows all Local Government Pension Scheme (LGPS) regulations

(ii) Manages any conflicts of interest from its dual role as Administering Authority and a fund employer

(iii) Collects employer and employee contributions, investment income and other amounts due

(iv) Ensures cash is available to meet benefit payments when due

(v) Pays all benefits and entitlements

(vi) Invests surplus money like contributions and income which isn't needed to pay immediate benefits, in line with regulation and the investment strategy

(vii) Communicates with employers so they understand their obligations

(viii) Safeguards the Fund against employer default

(ix) Works with the Fund actuary to manage the valuation process

(x) Provides information to the Government Actuary's Department so they can carry out their statutory obligations

(xi) Consults on, prepares and maintains the funding and investment strategy statements

(xii) Tells the actuary about changes which could affect funding

(xiii) Monitors the Fund's performance and funding, amending the strategy statements as necessary

(xiv) Enables the Local Pension Board to review the valuation process.

### B2 Individual employers:

(i) Deduct the correct contributions from employees' pay

(ii) Pay all contributions by the due date

(iii) Have appropriate policies in place to work within the regulatory framework

(iv) Make additional contributions as agreed, for example to augment scheme benefits or early retirement strain

(v) Tell the Administering Authority promptly about any changes to circumstances, prospects or membership which could affect future funding

(vi) Make any required exit payments when leaving the Fund.

### B3 The Fund actuary:

(i) Prepares valuations, including setting employers' contribution rates, agreeing assumptions, working within FSS and LGPS regulations and appropriately targeting fund solvency and long-term cost efficiency

(ii) Provides information to the Government Actuary Department so they can carry out their statutory obligations

(iii) Advises on fund employers, including giving advice about and monitoring bonds or other security

(iv) Prepares advice and calculations around bulk transfers and individual benefits

(v) Assists the Administering Authority to consider changes to employer contributions between formal valuations

(vi) Advises on terminating employers' participation in the Fund

(vii) Fully reflects actuarial professional guidance and requirements in all advice.

### B4 Other parties:

(i) Internal and external investment advisers ensure the Investment Strategy Statement (ISS) is consistent with the Funding Strategy Statement

(ii) Investment managers, custodians and bankers play their part in the effective investment and dis-investment of fund assets in line with the ISS

(iii) Auditors comply with standards, ensure fund compliance with requirements, monitor and advise on fraud detection, and sign-off annual reports and financial statements

(iv) Governance advisers may be asked to advise the Administering Authority on processes and working methods

(v) Internal and external legal advisers ensure the Fund complies with all regulations and broader local government requirements, including the Administering Authority's own procedures

(vi) The Department for Levelling Up, Housing and Communities, assisted by the Government Actuary's Department and the Scheme Advisory Board, work with LGPS funds to meet Section 13 requirements.

# Appendix C – Risks and controls

## C1 Managing risks

The Administering Authority has a risk management programme to identify and control financial, demographic, regulatory and governance risks.

The role of the Local Pension Board is set out in the terms of reference available through the SCC website.

Details of the key fund-specific risks and controls are below.

## C2 Financial risks

| Risk Ref | Risk | Risk Register No. | Summary of Control Mechanisms |
|---|---|---|---|
| F1 | Fund assets fail to deliver returns in line with the anticipated returns underpinning the valuation of liabilities and contribution rates over the long-term. | 6 | Only anticipate long-term returns on a relatively prudent basis to reduce risk of under-performing.<br><br>Assets invested based on specialist advice, in a suitably diversified manner across asset classes, geographies, managers, etc.<br><br>Analyse progress at three yearly valuations for all employers.<br><br>Follow a dynamic discount rate setting approach to reflect investment return expectations.<br><br>Inter-valuation monitoring of liabilities between valuations at whole fund level. |
| F2 | Inappropriate long-term investment strategy. | 5A | Overall investment strategy options considered as an integral part of the funding strategy, as per asset liability modelling exercise carried out at the 2022 valuation.<br><br>Chosen option considered to provide the best balance.<br><br>Operation of three investment strategies to meet needs of a diverse employer group, including closed and exited CAB employers.<br><br>Setting of fund specific benchmark relevant to current position of fund liabilities. |

| Risk Ref | Risk | Risk Register No. | Summary of Control Mechanisms |
|---|---|---|---|
| F3 | Investment manager under-performance relative to benchmark. | 7A | Quarterly investment monitoring analyses market performance and active managers relative to their index benchmark.<br>Quarterly review of investment manager performance, and reliance on adequate contract management activity.<br>The Fund's investment management structure is highly diversified, which lessens the impact of manager risk compared with less diversified structures. |
| F4 | Pay and price inflation significantly more than anticipated. | 3A / 3C | Inter-valuation monitoring, as above, gives early warning.<br>Some investment in bonds also helps to mitigate this risk, to a limited degree, specifically for those employers in the closed and exited strategies.<br>Employers pay for their own salary awards and should be mindful of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer-serving employees. |
| F5 | Effect of possible increase in employer's contribution rate on service delivery and admission/scheduled bodies. | 3D | An explicit stabilisation mechanism has been agreed as part of the funding strategy. Other measures are also in place to limit sudden increases in contributions. |
| F6 | Orphaned employers give rise to added costs for the Fund. | 1B | The Fund seeks a cessation debt (or security/guarantor) to minimise the risk of this happening in the future.<br>If added costs arise, the actuary calculates the added cost spread pro-rata among all employers.<br>Orphaned employers are allocated to the lower risk exited employers' investment strategy. |

### C3 Demographic risks

| Risk Ref | Risk | Risk Register No. | Summary of Control Mechanisms |
|---|---|---|---|
| D1 | Pensioners living longer, thus increasing cost to Fund. | 3B | Set mortality assumptions with some allowance for future increases in life expectancy.<br><br>The Fund actuary has direct access to the experience of over 50 LGPS funds which allows early identification of changes in life expectancy that might in turn affect the assumptions underpinning the valuation. |
| D2 | Maturing Fund – i.e., proportion of actively contributing employees' declines relative to retired employees and reductions in payroll causing insufficient deficit recovery payments. | 3E | Continue to monitor at each valuation, consider seeking monetary amounts rather than % of pay and consider alternative investment strategies.<br><br>In many cases this may not be sufficient cause for concern and will in effect be caught at the next formal valuation. However, there are protections where there is concern, as follows:<br><br>Employers in the stabilisation mechanism may be brought out of that mechanism to permit appropriate contribution increases.<br><br>For other employers, review of contributions is permitted in general between valuations and may require a move in secondary contributions from a percentage of payroll to fixed monetary amounts depending on the employer type. For academy employers, a percentage of payroll is more appropriate, and for closed CABs, a monetary amount would be required. |
| D3 | Deteriorating patterns of early retirements. | 2B | From 1 April 2019 the Fund has operated a form of internal insurance whereby any ill-health early retirement strain costs are in effect spread among all employers.<br><br>Frequent monitoring of ill health insurance awards. |

## C4 Regulatory risks

| Risk Ref | Risk | Risk Register No. | Summary of Control Mechanisms |
|---|---|---|---|
| R1 | Changes to national pension requirements and/or HMRC rules e.g., changes arising from public sector pensions reform. | 13A / 13E | The Administering Authority considers all consultation papers issued by the Government and comments where appropriate. |
| R2 | Time, cost and/or reputational risks associated with any DLUHC intervention triggered by the Section 13 analysis. | 3F | Take advice from Fund actuary on position of the Fund as at prior valuation, and consideration of proposed valuation approach relative to anticipated Section 13 analysis. |
| R3 | Changes by Government to employer participation in LGPS funds, leading to impacts on funding and/or investment strategies. | 13E | The Administering Authority considers all consultation papers issued by the Government and comments where appropriate.<br>Take advice from the Fund actuary on impact of changes on the Fund and amend strategy as appropriate. |

## C5 Governance risks

| Risk Ref | Risk | Risk Register No. | Summary of Control Mechanisms |
|---|---|---|---|
| G1 | Administering Authority unaware of structural changes in an employer's membership (e.g., large fall in employee members, large number of retirements) or not advised of an employer closing to new entrants. | 1A | The Administering Authority has a close relationship with employing bodies and communicates required standards e.g., for submission of data.<br>The actuary may revise the Rates and Adjustments certificate to increase an employer's contributions between triennial valuations.<br>Secondary contributions may be expressed as monetary amounts.<br>Inter-valuation monitoring of liabilities between valuations at whole fund level.<br>Regular analysis of covenant and security arrangements. |

| Risk Ref | Risk | Risk Register No. | Summary of Control Mechanisms |
|---|---|---|---|
| G2 | Actuarial or investment advice is not sought, or is not heeded, or proves to be insufficient in some way. | 7E | The Administering Authority maintains close contact with its specialist advisers.<br>Advice is delivered via formal meetings involving Elected Members and recorded appropriately.<br>Actuarial advice is subject to professional requirements such as peer review. |
| G3 | Administering Authority failing follow up on outstanding issues. | 11B | The Administering Authority requires employers with Best Value contractors to inform it of forthcoming changes.<br>Community Admission Bodies' memberships are monitored and, if active membership decreases, steps will be taken.<br>Accurate recording and tracking of backlog cases, with management board closely monitoring. |
| G4 | An employer ceasing to exist with insufficient funding or adequacy of a bond. | 1A | The Administering Authority believes that it would normally be too late to address the position if it was left to the time of departure.<br><br>The risk is mitigated by:<br>• Seeking a funding guarantee from another scheme employer, or external body, where-ever possible<br>• Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice<br>• Vetting prospective employers before admission<br>• Where permitted under the regulations requiring a bond to protect the Fund from various risks<br>• Requiring new Community Admission Bodies to have a guarantor<br>• Reviewing bond or guarantor arrangements at regular intervals |

| Risk Ref | Risk | Risk Register No. | Summary of Control Mechanisms |
|---|---|---|---|
| | | | • Reviewing contributions well ahead of cessation if thought appropriate<br>• Where appropriate, establish deferred debt arrangement and debt spreading arrangements as per cessations policy. |
| G5 | An employer ceasing to exist resulting in an exit credit being payable. | 8A | The Administering Authority regularly monitors admission bodies coming up to cessation.<br>The Administering Authority invests in liquid assets to ensure that exit credits can be paid when required. |

### C6 Employer covenant assessment and monitoring

Many of the employers participating in the Fund, such as admitted bodies (including TABs and CABs), have no local tax-raising powers. The Fund assesses and monitors the long-term financial health of these employers to assess an appropriate level of risk for each employer's funding strategy.

| Type of employer | Assessment | Monitoring |
|---|---|---|
| Local Authorities, Police, Fire | Tax-raising or government-backed, no individual assessment required | N/A |
| Colleges & Universities | No change since 2019 valuation | Regular ongoing dialogue<br><br>Monitoring of DfE* developments with regards to provision of a guarantee for colleges |
| Academies | Government-backed, covered by DfE guarantee in event of MAT failure | Check that DfE guarantee continues, after regular scheduled DfE review |
| Admission bodies (including TABs & CABs) | No change since 2019 valuation | Regular ongoing dialogue |
| Designating employers | No change since 2019 valuation | Regular ongoing dialogue |

*Department for Education

### C7 Climate risk and TCFD reporting

The Fund has considered climate-related risks when setting the funding strategy. The Fund included climate scenario stress testing in the contribution modelling exercise for the local authority employers at the 2022 valuation. The modelling results under the stress tests were slightly worse than the core results but were still within risk tolerance levels, particularly given the severity of the stresses applied. The results provide assurance that the modelling approach does not significantly underestimate the potential impact of climate change and that the funding strategy is resilient to climate risks. The results of these stress tests may be used in future to assist with disclosures prepared in line with Task Force on Climate-Related Financial Disclosures (TCFD) principles.

The same stress tests were not applied to the funding strategy modelling for smaller employers. However, given that the same underlying model is used for all employers and that the local authority employers make up the vast majority of the Fund's assets and liabilities, applying the stress tests to all employers was not deemed proportionate at this stage and would not be expected to result in any changes to the agreed contribution plans.

## Appendix D – Actuarial assumptions

The Fund's actuary uses a set of assumptions to determine the strategy, and so assumptions are a fundamental part of the funding strategy statement.

### D1 What are assumptions?

Assumptions are used to estimate the benefits due to be paid to members. Financial assumptions determine the amount of benefit to be paid to each member, and the expected investment return on the assets held to meet those benefits. Demographic assumptions are used to work out when benefit payments are made and for how long.

The funding target is the money the Fund aims to hold to meet the benefits earned to date.

Any change in the assumptions will affect the funding target and contribution rate, but different assumptions don't affect the actual benefits the fund will pay in future.

### D2 What assumptions are used to set the contribution rate?

The Fund doesn't rely on a single set of assumptions when setting contribution rates, instead using Hymans Robertson's Economic Scenario Service (ESS) to project each employer's assets, benefits and cashflows to the end of the funding time horizon.

ESS projects future benefit payments, contributions and investment returns under 5,000 possible economic scenarios, using variables for future inflation and investment returns for each asset class, rather than a single fixed value.

For any projection, the Fund actuary can assess if the funding target is satisfied at the end of the time horizon.

## Table: Summary of assumptions underlying the ESS (31 March 2022)

### Annualised Total Returns

| Years | Percentile | Cash | Index Linked Gilts (medium) | Fixed Interest Gilts (medium) | UK Equity | Developed World ex UK Equity | Private Equity | Property | Emerging Markets Equity | Unlisted Infrastructure Equity | Multi Asset Credit (sub inv grade) | Global High Yield Debt |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **10 years** | **16th** | 0.8% | -1.9% | -0.3% | -0.4% | -0.7% | -1.2% | -0.6% | -2.5% | 0.7% | 1.7% | 0.6% |
| **10 years** | **50th** | 1.8% | 0.2% | 1.1% | 5.7% | 5.6% | 9.4% | 4.4% | 5.8% | 5.9% | 2.5% | 3.4% |
| **10 years** | **84th** | 2.9% | 2.4% | 2.% | 11.6% | 11.7% | 20.1% | 9.5% | 14.4% | 11.2% | 5.2% | 5.8% |
| **20 years** | **16th** | 1.0% | -1.5% | 0.7% | 1.7% | 1.5% | 2.4% | 1.4% | 0.1% | 2.6% | 2.8% | 2.1% |
| **20 years** | **50th** | 2.4% | 0.1% | 1.5% | 6.2% | 6.1% | 10.0% | 5.0% | .6.3% | 6.5% | 4.4% | 4.2% |
| **20 years** | **84th** | 4.0% | 1.9% | 2.2% | 10.6% | 10.8% | 17.6% | 8.9% | 12.7% | 10.6% | 6.0% | 6.4% |
| **40 years** | **16th** | 1.2% | -0.3% | 1.5% | 3.2% | 3.1% | 4.7% | 2.6% | 2.1% | 3.9% | 3.6% | 3.1% |
| **40 years** | **50th** | 2.9% | 1.2% | 2.3% | 6.7% | 6.5% | 10.3% | 5.5% | 6.8% | 7.0% | 5.3% | 5.1% |
| **40 years** | **84th** | 4.9% | 3.1% | 3.5% | 10.2% | 10.2” | 16.1% | 8.8% | 11.7% | 10.3% | 7.1% | 7.2% |

| Years | Percentile | Inflation (RPI) | Inflation (CPI) | 17 year real yield (CPI) | 17 year yield |
|---|---|---|---|---|---|
| **10 years** | **16th** | 2.4% | 1.6% | -1.7% | 1.1% |
| **10 years** | **50th** | 4.1% | 3.3% | -0.5% | 2.5% |
| **10 years** | **84th** | 5.7% | 4.9% | 0.7% | 4.3% |
| **20 years** | **16th** | 1.6% | 1.2% | -0.7% | 1.3% |
| **20 years** | **50th** | 3.1% | 2.7% | 1.1% | 3.2% |
| **20 years** | **84th** | 4.7% | 4.3% | 2.7% | 5.7% |
| **40 years** | **16th** | 1.1% | 0.9% | -0.6% | 1.1% |
| **40 years** | **50th** | 2.4% | 2.2% | 1.3% | 3.3% |
| **40 years** | **84th** | 3.9% | 3.7% | 3.2% | 6.1% |

The current calibration of the model indicates that a period of outward yield movement is expected. For example, over the next 40 years our model expected the 17-year maturity annualised real (nominal) interest rate to rise from -2.2% (1.9%) to 1.3% (3.3%).

## D3 What financial assumptions were used?

### Future investment returns and discount rate

The Fund uses a risk-based approach to generate assumptions about future investment returns over the funding time horizon, based on the investment strategy.

The discount rate is the annual rate of future investment return assumed to be earned on assets after the end of the funding time horizon. The discount rate assumption is set as a margin above the risk-free rate.

Assumptions for future investment returns depend on the funding objective.

| Basis | Employer type | Margin above risk-free rate |
|---|---|---|
| **Ongoing basis** | All employers except Transferee Admission Bodies and closed Community Admission Bodies | 2.2% |
| **Low-risk exit basis** | Community Admission Bodies closed to new entrants | 0.0% |
| **Contractor exit basis** | Transferee Admission Bodies | Equal to the margin used to allocate assets to the employer on joining the Fund |

### Discount rate (for funding level calculation as at 31 March 2022 only)

For the purpose of calculating a funding level at the 2022 valuation, a discount rate of 4.4% applies.  This is based on a prudent estimate of investment returns, specifically, that there is an 70% likelihood that the Fund's assets will future investment returns of 4.4% over the 20 years following the 2022 valuation date.

### Pension increases and CARE revaluation

Deferment and payment increases to pensions and revaluation of CARE benefits are in line with the Consumer Price Index (CPI) and determined by the regulations.

The CPI assumption is based on Hymans Robertson's ESS model. The median value of CPI inflation from the ESS was 2.7% p.a. on 31 March 2022.

### Salary growth

The salary increase assumption at the latest valuation has been set to 1.0% above CPI p.a. plus a promotional salary scale.

## D4 What demographic assumptions were used?

Demographic assumptions are best estimates of future experience. The Fund uses advice from Club Vita to set demographic assumptions, as well as analysis and judgement based on the Fund's experience.

Demographic assumptions vary by type of member, so each employer's own membership profile is reflected in their results.

## Life expectancy

The longevity assumptions are a bespoke set of VitaCurves produced by detailed analysis and tailored to fit the Fund's membership profile.

Allowance has been made for future improvements to mortality, in line with the 2021 version of the continuous mortality investigation (CMI) published by the actuarial profession. The starting point has been adjusted by +0.25% to reflect the difference between the population-wide data used in the CMI and LGPS membership. A long-term rate of mortality improvements of 1.5% p.a. applies.

The smoothing parameter used in the CMI model is 7.0. There is little evidence currently available on the long-term effect of COVID-19 on life expectancies. To avoid an undue impact from recently mortality experience on long-term assumptions, no weighting has been placed on data from 2020 and 2021 in the CMI.

## Other demographic assumptions

| | |
|---|---|
| Retirement in normal health | Members are assumed to retire at the earliest age possible with no pension reduction |
| Promotional salary increases | Sample increases below |
| Death in service | Sample rates below |
| Withdrawals | Sample rates below |
| Retirement in ill health | Sample rates below |
| Family details | A varying proportion of members are assumed to have a dependant partner at retirement or on earlier death. For example, at age 60 this is assumed to be 90% for males and 85% for females. Males are assumed to be 3 years older than females, and partner dependants are assumed to be opposite sex to members |
| Commutation | 55% of future retirements elect to exchange pension for<br>additional tax-free cash up to HMRC limits |
| 50:50 option | 0% of members will choose the 50:50 option |

D4 Rates for demographic assumptions.

### Males (incidence per 1000 active members per year)

| Age | Salary Scale | Death Before Retirement | Withdrawals | | Ill Health Tier 1 | | Ill Health Tier 2 | |
|---|---|---|---|---|---|---|---|---|
| | | FT & PT | FT | PT | FT | PT | FT | PT |
| 20 | 105 | 0.17 | 404.31 | 813.01 | 0 | 0 | 0 | 0 |
| 25 | 117 | 0.17 | 267.06 | 537.03 | 0 | 0 | 0 | 0 |
| 30 | 131 | 0.2 | 189.49 | 380.97 | 0 | 0 | 0 | 0 |
| 35 | 144 | 0.24 | 148.05 | 297.63 | 0.1 | 0.07 | 0.02 | 0.01 |
| 40 | 150 | 0.41 | 119.2 | 239.55 | 0.16 | 0.12 | 0.03 | 0.02 |
| 45 | 157 | 0.68 | 111.96 | 224.96 | 0.35 | 0.27 | 0.07 | 0.05 |
| 50 | 162 | 1.09 | 92.29 | 185.23 | 0.9 | 0.68 | 0.23 | 0.17 |
| 55 | 162 | 1.7 | 72.68 | 145.94 | 3.54 | 2.65 | 0.51 | 0.38 |
| 60 | 162 | 3.06 | 64.78 | 130.02 | 6.23 | 4.67 | 0.44 | 0.33 |
| 65 | 162 | 5.1 | 0 | 0 | 11.83 | 8.87 | 0 | 0 |

### Females (incidence per 1000 active members per year).

| Age | Salary Scale | Death Before Retirement | Withdrawals | | Ill Health Tier 1 | | Ill Health Tier 2 | |
|---|---|---|---|---|---|---|---|---|
| | | FT & PT | FT | PT | FT | PT | FT | PT |
| 20 | 105 | 0.1 | 352.42 | 467.37 | 0 | 0 | 0 | 0 |
| 25 | 117 | 0.1 | 237.14 | 314.44 | 0.1 | 0.07 | 0.02 | 0.01 |
| 30 | 131 | 0.14 | 198.78 | 263.54 | 0.13 | 0.1 | 0.03 | 0.02 |
| 35 | 144 | 0.24 | 171.57 | 227.38 | 0.26 | 0.19 | 0.05 | 0.04 |
| 40 | 150 | 0.38 | 142.79 | 189.18 | 0.39 | 0.29 | 0.08 | 0.06 |
| 45 | 157 | 0.62 | 133.25 | 176.51 | 0.52 | 0.39 | 0.1 | 0.08 |
| 50 | 162 | 0.9 | 112.34 | 148.65 | 0.97 | 0.73 | 0.24 | 0.18 |
| 55 | 162 | 1.19 | 83.83 | 111.03 | 3.59 | 2.69 | 0.52 | 0.39 |
| 60 | 162 | 1.52 | 67.55 | 89.37 | 5.71 | 4.28 | 0.54 | 0.4 |
| 65 | 162 | 1.95 | 0 | 0 | 10.26 | 7.69 | 0 | 0 |

## D5 What assumptions apply in a cessation valuation following an employer's exit from the fund?

### Low risk exit basis

Where there is no guarantor, the low-risk exit basis will apply.

The financial and demographic assumptions underlying the low-risk exit basis are explained below:

- The discount rate is set equal to the annualised yield on long dated government bonds at the cessation date, with a 0% margin.  This was 1.7% p.a. on 31 March 2022.
- The CPI assumption is based on Hymans Robertson's ESS model. The median value of CPI inflation from the ESS was 2.7% p.a. on 31 March 2022.
- Life expectancy assumptions are those used to set contribution rates, with one adjustment.  A higher long-term rate of mortality improvements of 1.75% p.a. is assumed.

### Contractor exit basis

Where there is a guarantor (e.g. in the case of contractors where the local authority guarantees the contractor's admission in the Fund), the contractor exit basis will apply.

The financial and demographic assumptions underlying the contractor exit basis are equal to those set for calculating contributions rates.  Specifically, the discount rate is set equal to the risk-free rate at the cessation date, plus a margin equal to that set to allocate assets to the employer on joining the fund.

# Appendix E - Admissions Policy

## Introduction

The purpose of this policy is to set out the Administering Authority's approach to admitting new employers into the Fund.

While it is possible for a prospective new employer to request alternatives, any deviation from the stated position would have to ensure no risk to other scheme employers and will be at the discretion of the Fund to agree to.

## Aims and objectives

The Administering Authority's aims and objectives related to this policy are as follows:

- Set out how the Fund ensures that only appropriate bodies are admitted to the Fund and that the financial risk to the fund and to other employers in the Fund is identified, minimised, and managed accordingly
- Set out the Fund's position in relation to the admission of new employers
- To outline the process for admitting new employers into the Fund.

## Background

It is essential for the Administering Authority to establish its fundamental approach to the risks involved in the admission of new employers to the Fund.

The regulatory framework relating to the different types of employer that may join the Fund is set out in the next section.

## Guidance and regulatory framework

The Local Government Pension Scheme Regulations 2013 (as amended) set out the various types of employer that can participated in the Fund and the different requirements that apply to each. These can be summarised as:

**Scheduled Bodies** listed in Part 1 to Schedule 2 - the councils, further education colleges, academies, police and fire services.  These bodies must provide access to the LGPS to their employees (assuming they are not eligible to be members of other pension schemes).

**Designating employers** listed in Part 2 to Schedule 2 - have the right to decide who of their employees are eligible to join the scheme.  Includes town and parish councils, as well as entities connected to bodies in Part 1 above. If a relevant designation is made the Administering Authority cannot refuse entry into the scheme in respect of that employer.

**Admission bodies listed in part 3 to schedule 2** - who can apply to participate in the scheme. Admission bodies can encompass a variety of different types of employer. These are:

- A body which provides a public service in the United Kingdom which operates otherwise than for the purposes of gain and has sufficient links with a scheme employer for the body and the scheme employer to be regarded as having a community of interest (whether because the operations of the body are dependent on the operations of the scheme employer or otherwise)
- A body, to the funds of which a scheme employer contributes
- A body representative of any scheme employers, or local authorities or officers of local authorities
- A body that is providing or will provide a service or assets in connection with the exercise of a function of a scheme employer as a result of:
    - The transfer of the service or assets by means of a contract or other arrangement (i.e. outsourcing)
    - A direction made under section 15 of the Local Government Act 1999
    - Directions made under section 497A of the Education Act 1996
- A body which provides a public service in the United Kingdom and is approved in writing by the Secretary of State for the purpose of admission to the scheme.

When an Administering Authority is considering permitting a body to become an admission body, the LGPS Regulations include some discretions relating to the creation and management of admission agreements. These discretions are considered within this policy. The discretionary areas are:

- Part 3 of Schedule 2 (para 1) - Whether or not to proceed with admission agreements
- Part 3 of Schedule 2 (para 9(d)) - Whether to terminate the admission agreement
- Regulation 54(1) - If the Fund will set up separate pension funds in respect of admission agreements

Further, the regulations contain requirements around the determination of employer contributions, and the relevant provisions regarding the payment of these, specifically:

- Regulation 67 - which sets out the requirement for employers to pay contributions in line with the Rates and Adjustments (R&A) certificate

- Regulation 64 - covers the requirements for a cessation valuation following the exit of a participating employer from the Fund

Employees outsourced from local authorities, police and fire authorities or from independent schools (generally academies, regulated by the Department for Education) must be offered pension benefits that are the same, better than, or count as being broadly comparable to, the Local Government Pension Scheme (as per the Best Value Authorities Staff Transfer (Pensions) Direction 2007). This is typically achieved by employees remaining in the LGPS and the new employer becoming an admitted body to the Fund and making the requisite employer contributions.

## Statement of principles

### General

The Administering Authority's policy is drafted on the basis of the following key principles:

- To ensure the long-term solvency of the Fund as a whole and the solvency of each of the notional sub-funds allocated to the individual employers
- To ensure that sufficient funds are available to meet all benefits as they fall due for payment
- Not to restrain unnecessarily the investment strategy of the Fund so that the Administering Authority can seek to maximise investment returns (and hence minimise the cost of the benefits) for an appropriate level of risk
- To set clear principles and ensure there is a consistency of requirement for employers in respect of all admissions and cessations to and from the Fund
- To ensure employers recognise the impact of their participation in the LGPS, helping them manage their pension liabilities as they accrue and understanding the effect of those liabilities on the ongoing operation of their business
- To use reasonable measures to reduce the risk to other employers and ultimately to the council taxpayer from an employer ceasing participation or defaulting on its pension obligations
- To address the different characteristics of the disparate employers or groups of employers to the extent that this is practical and cost-effective
- To maintain the affordability of the Fund to employers as far as is reasonable over the longer term.

There is also an overriding objective to ensure that the LGPS Regulations and any supplementary guidance (in particular the Best Value Authorities Staff Transfer

(Pensions) Direction 2007 and Fair Deal guidance) as they pertain to admission agreements are adhered to.

## Policy and process – all employers

### Entry conditions

The following entry conditions apply:

- **Scheduled bodies** must ensure that the Fund is aware of their creation.
- **Designating employers** must ensure that the Fund is aware of their creation and provide the Fund with a copy of its resolution, confirming who is eligible for membership of the Fund.
- **Admission bodies**. The Fund will consider applications from bodies:
    - With links to a scheme employer, or
    - That provides services or assets on behalf of a scheme employer.

Agreements can be open or closed so long as necessary protections are in place.

### Security

The security requirements (i.e. via a bond, indemnity and/or guarantor) are as follows:

- The are no security requirements for **scheduled bodies** and **designating employers**.
- **Admission bodies**. For all admission bodies:
    - The admission body is required to undertake risk assessment to the satisfaction of the Administering Authority (and scheme employer where seeking admission as a body under Para 1(d) to Part 3 of Schedule 2).
    - The admission body is required to put in place a secure and financially durable bond to the satisfaction of the Administering Authority or agree an alternative guarantor (generally with a scheme employer and/or government department).
    - Documentary evidence of the bond or guarantee must be provided to the Administering Authority by the admission body.
    - The level of risk must be reviewed and any associated security renewed on an annual basis.

## Approval

The process for approving the participation of a new employer in the Fund is as follows:

- **Scheduled bodies**. The Fund has no power to refuse participation of any new employer set up under Part 1 of schedule 2 and where the Fund is designated as the appropriate Fund for that employer.
- **Designating employers.** The Fund has no power to refuse participation of an employer under Part 2 of schedule 2, although it will require sight of a signed copy of the relevant resolution to confirm the employees eligible for participation in the scheme.
- **Admission bodies**. Fund officers to be responsible for ensuring prospective admission bodies meet the necessary criteria. Admission agreement template will generally be standard and non-negotiable.

All new employers will be reported to the Pensions Regulator and the Local Pension Board for information only.

## Asset allocation

The starting asset allocation for new employers will be determined in the following way:

- **Scheduled bodies and designating employers.** Assets for any new employer will be calculated using the Fund's ongoing funding basis, as set out in the Funding Strategy Statement (FSS).
- Academies may be pooled with other academies as part of a Multi Academy Trust (MAT).
- Where a new employer is created from an existing scheme employer, the initial asset allocation will be based on a share of the ceding employer's assets, with consideration taken of the ceding employer's estimated deficit as at the date of transfer.
- **Admission bodies**. The asset allocation will be agreed on a case-by-case basis.

## Contributions

Contribution rates will be set in accordance with the FSS.

### Costs

Employer being admitted to the Fund will be required to meet the cost of this, which includes (but is not limited to) the actuarial fees incurred by the Administering Authority.

### Related Policies

This admissions policy supplements the general policy of the Fund as set out in the FSS and should be read in conjunction with that document, together with its associated funding policies.

| | |
|---|---|
| Effective date of policy | 1 April 2023 |
| Approved date | 31 March 2023 |
| Next review | 31 March 2024 |

# Appendix F - Cessation Policy

## Introduction

The purpose of this policy is to set out the Administering Authority's approach to dealing with circumstances where a scheme employer leaves the Fund and becomes an exiting employer (a cessation event).

It should be noted that this policy is not exhaustive. Each cessation will be treated on a case-by-case basis, however certain principles will apply as governed by the regulatory framework (see below) and the Fund's discretionary policies (as described later in this policy).

The Fund takes a holistic approach to managing funding risk and it will work with its partners to achieve the best possible outcome for all stakeholders impacted by a cessation event. The Fund's primary aim is to protect the remaining active employers, however it will consider a flexible approach in instances where the employer covenant is strong enough to justify doing so.

## Aims and Objectives

The Administering Authority's aims and objectives related to this policy are as follows:

- To confirm the approach for the treatment and valuation of liabilities for employers leaving the Fund
- To provide information about how the Fund may apply its discretionary powers when managing employer cessations
- To outline the responsibilities of (and flexibilities for) exiting employers, the Administering Authority, the actuary and, where relevant, the original ceding scheme employer (usually a letting authority).

## Background

As described in the Funding Strategy Statement (FSS), a scheme employer may become an exiting employer when a cessation event is triggered e.g. when the last active member stops participating in the Fund.  On cessation from the Fund, the Administering Authority will instruct the Fund actuary to carry out a valuation of assets and liabilities for the exiting employer to determine whether a deficit or surplus exists. The Fund has full discretion over the repayment terms of any deficit, and the extent to which any surplus results in the payment of an exit credit.

## Guidance and regulatory framework

The Local Government Pension Scheme Regulations 2013 (as amended) contain relevant provisions regarding employers leaving the Fund (Regulation 64) and include the following:

- Regulation 64(1) - this regulation states that, where an employing authority ceases to be a scheme employer, the Administering Authority is required to obtain an actuarial valuation of the liabilities of current and former employees as at the termination date. Further, it requires the Rates & Adjustments Certificate to be amended to show the revised contributions due from the exiting employer.

- Regulation 64(2) - where an employing authority ceases to be a scheme employer, the Administering Authority is required to obtain an actuarial valuation of the liabilities of current and former employees as at the exit date. Further, it requires the Rates & Adjustments Certificate to be amended to show the exit payment due from the exiting employer or the excess of assets over the liabilities in the Fund.

- Regulation 64(2ZAB) - the Administering Authority must determine the amount of an exit credit, which may be zero, taking into account the factors specified in paragraph (2ZC) and must:

  (i) Notify its intention to make a determination to:

    - The exiting employer and any other body that has provided a guarantee to the exiting employer

    - The scheme employer, where the exiting employer is a body that participated in the scheme as a result of an admission agreement.

  (ii) Pay the amount determined to that exiting employer within six months of the exit date, or such longer time as the Administering Authority and the exiting employer agree.

- Regulation(2ZC) - In exercising its discretion to determine the amount of any exit credit, the Administering Authority must have regard to the following factors:

  (i) The extent to which there is an excess of assets in the Fund relating to that employer in paragraph (2)(a)

  (ii) The proportion of this excess of assets which has arisen because of the value of the employer’s contributions

  (iii) Any representations to the Administering Authority made by the exiting employer and, where that employer participates in the scheme by virtue of an admission agreement, any body listed in paragraphs (8)(a) to (d)(iii) of Part 3 to Schedule 2 of the Regulations: and

(iv) Any other relevant factors.

- Regulation 64(2A) & (2B)– the Administering Authority, at its discretion, may issue a suspension notice to suspend payment of an exit amount for up to three years, where it reasonably believes the exiting employer is to have one or more active members contributing to the Fund within the period specified in the suspension notice.

- Regulation 64(3) – in instances where it is not possible to obtain additional contributions from the employer leaving the Fund or from the bond/indemnity or guarantor, the contribution rate(s) for the appropriate scheme employer or remaining fund employers may be amended.

- Regulation 64(4) – where it is believed a scheme employer may cease at some point in the future, the Administering Authority may obtain a certificate from the Fund actuary revising the contributions for that employer, with a view to ensuring that the assets are expected to be broadly equivalent to the exit payment that will be due.

- Regulation 64(5) – following the payment of an exit payment to the Fund, no further payments are due to the fund from the exiting employer.

- Regulation 64(7A-7G) – the Administering Authority may enter into a written deferred debt agreement, allowing the employer to have deferred employer status and to delay crystallisation of debt despite having no active members.

- Regulation 64B(1) – the Administering Authority may set out a policy on spreading exit payments.

In addition to the 2013 Regulations summarised above, Regulation 25A of the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 ("the Transitional Regulations") give the Fund the ability to levy a cessation debt on employers who have ceased participation in the Fund (under the previous regulations) but for whom a cessation valuation was not carried out at the time. This policy document describes how the Fund expects to deal with any such cases.

This policy also reflects statutory guidance from the Department for Levelling Up, Housing and Communities on preparing and maintaining policies relating to employer exits. Interested parties may want to refer to an accompanying guide that has been produced by the Scheme Advisory Board.

These regulations relate to all employers in the Fund.

## Statement of Principles

This Statement of Principles covers the Fund's approach to exiting employers. Each case will be treated on its own merits but in general:

- It is the Fund's policy that the determination of any surplus or deficit on exit should aim to minimise, as far as is practicable, the risk that the remaining, unconnected employers in the Fund have to make contributions in future towards meeting the past service liabilities of current and former employees of employers leaving the Fund.

- The Fund's preferred approach is to request the full payment of any exit debt (an exit payment), which is calculated by the actuary on the appropriate basis (as per the FSS and the section below). This would extinguish any liability to the fund by the exiting employer.

- The Fund's key objective is to protect the interests of the Fund, which is aligned to protecting the interests of the remaining employers. A secondary objective is to consider the circumstances of the exiting employer in determining arrangements for the recovery of the exit debt.

- The Fund may review contribution rates payable by employers who anticipate leaving the Fund in the short term, with a view to meeting the potential liabilities at the point of exit. The Fund's policy on contribution reviews refers.

## Policies

On cessation, the Administering Authority will instruct the Fund actuary to carry out a cessation valuation to determine whether there is any deficit or surplus as defined in the FSS.

Where there is a deficit, payment of this amount in full would normally be sought from the exiting employer. The Fund's normal policy is that this cessation debt is paid in full in a single lump sum within 28 days of the employer being notified.

However, the Fund will consider written requests from employers to spread the payment over an agreed period, in the exceptional circumstance where payment of the debt in a single immediate lump sum could be shown by the employer to be materially detrimental to the employer's financial situation (see repayment flexibility on exit payments, below).

In circumstances where there is a surplus, the Administering Authority will determine, at its sole discretion, the amount of exit credit (if any) to be paid to the exiting employer (see exit credits, below).

### Approach to cessation calculations

Cessation valuations are carried out on a case-by-case basis at the sole discretion of the Fund depending on the exiting employer's circumstances. However, in general the following broad principles and assumptions may apply, as described in Section 7.2 of the FSS and summarised below:

| Type of employer | Cessation exit basis | Responsible parties for unpaid or future deficit emerging |
|---|---|---|
| Local Authorities, Police, Fire | Low risk basis[1] | Shared between other fund employers |
| Colleges & Universities | Low risk basis | Shared between other fund employers |
| Academies | Low risk basis | DfE guarantee may apply, otherwise see below |
| Admission bodies (TABs) | Contractor exit basis[2] | Letting authority (where applicable), otherwise shared between other fund employers |
| Admission bodies (CABs) | Low risk basis | Shared between other fund employers (if no guarantor exists) |
| Designating employers | Low risk basis | Shared between other fund employers (if no guarantor exists) |

[1]Cessation is assumed not to be generally possible, as Scheduled Bodies are legally obliged to participate in the LGPS. In the rare event of cessation occurring (e.g. machinery of Government changes), these cessation principles would apply.

[2]Where a TAB has taken, in the view of the Administering Authority, action that has been deliberately designed to bring about a cessation event (e.g. stopping future accrual of LGPS benefits), then the cessation valuation will be carried out on a low-risk basis.

### Cessation of academies and multi-academy trusts (MATs)

A cessation event will occur if a current academy or MAT ceases to exist as an entity or an employer in the Fund.

The cessation treatment will depend on the circumstances:

- If the cessation event occurs due to an academy or MAT merging with another academy or MAT within the Fund, all assets and liabilities from each of the merging entities will be combined and will become the responsibility of the new merged entity.

- If the MAT is split into more than one new or existing employers within the Fund, the actuary will calculate a split of the assets and liabilities to be transferred from the exiting employer to the new employers. The actuary will use their professional judgement to determine an appropriate and fair methodology for this calculation in consultation with the Administering Authority.

In all other circumstances, and following payment of any cessation debt, see section “What if an employer has no active members?” of the FSS.

### Repayment flexibility on exit payments

#### Deferred spreading arrangement (DSA)

The Fund will consider written requests from exiting employers to spread an exit payment over an agreed period, in the exceptional circumstance where payment of the debt in a single immediate lump sum could be shown by the employer to be materially detrimental to the employer’s financial situation.

In this exceptional case, the Fund’s policy is:

- The agreed spread period is no more than five years, but the Fund could use its discretion to extend this period in extreme circumstances.

- The Fund may consider factors such as the size of the exit payment and the financial covenant of the exiting employer in determining an appropriate spreading period.

- The exiting employer may be asked to provide the Administering Authority with relevant financial information such as a copy of its latest accounts, sources of funding, budget forecasts, credit rating (if any) etc. to help in this determination.

- Payments due under the DSA may be subject to an interest charge.

- The Fund will only consider written requests within six months of the employer receiving the formal cessation valuation. The exiting employer would be required to provide the Fund with detailed financial information to support its request.

- The Fund would consider the amount of any security offered and seek actuarial, covenant and legal advice in all cases. Suitable security will include, but is not restricted to, first charge on an unencumbered asset, an agreed sum held in an escrow account or a bond.

- The Fund proposes a legal document, setting out the terms of the exit payment agreement, would be prepared by the fund and signed by all relevant parties prior to the payment agreement commencing.

- The terms of the legal document should include reference to the spreading period, the annual payments due, interest rates applicable, other costs payable and the responsibilities of the exiting employer during the exit spreading period.

- Any breach of the agreed payment plan would require payment of the outstanding cessation amount immediately.

- Regular monitoring of the security requirements. This will usually be performed (at least) annually.

- Where appropriate, cases may be referred to the Pension Fund Committee for consideration and considered on its individual merit. Decisions may be made by the Chair in consultation with officers if an urgent decision is required between Committee meetings.

- A scheme employer asking to spread an exit payment must agree to pay any professional costs incurred by the Administering Authority in connection with the request.

Without exception, the Fund will discuss any application for a spreading arrangement with the exiting employer and any other scheme employers who have provided guarantees.

The spreading arrangement must be scrupulously adhered to and if any payment or request for information is delayed by more than 30 days, the outstanding balance may fall due immediately.

If the Fund believes that the exiting employer’s covenant is likely to weaken materially it may approach the employer to vary the quantum or duration of the payments due under the agreement. If it is reasonably satisfied that the employer’s ability to meet the contributions has, or is likely, to materially weaken in the next twelve months it may serve a notice to recover any outstanding liabilities.

### Deferred debt agreement (DDA)

The Fund's preferred policy is for the spreading of payments, as detailed above, to be followed in the exceptional circumstances where an exiting employer is unable to pay the required cessation payment as a lump sum in full. However, in the event that spreading of payments will create a high risk of bankruptcy for the exiting employer, the Fund may exercise its discretion to set up a deferred debt agreement as described in Regulation 64 (7A)).

The employer must meet all requirements on Scheme employers and pay the secondary rate of contributions as determined by the Fund actuary until the termination of the DDA.

The Administering Authority may consider a DDA in the following circumstances:

- The employer requests the Fund consider a DDA
- The employer is expected to have a deficit if a cessation valuation was carried out
- The employer is expected to be a going concern
- The covenant of the employer is considered sufficient by the administering authority.

The Administering Authority will normally require:

- A legal document to be prepared, setting out the terms of the DDA and signed by all relevant parties prior to the arrangement commencing, including details of the time period of the DDA, the annual payments due, the frequency of review and the responsibilities of the employer during the period.
- Relevant financial information for the employer such as a copy of its latest accounts, sources of funding, budget forecasts, credit rating (if any) to support its covenant assessment.
- Security be put in place covering the employer's deficit on their cessation basis and the Fund will seek actuarial, covenant and legal advice in all cases. Suitable security will include, but is not restricted to, first charge on an unencumbered asset, an agreed sum held in an escrow account or a bond.
- Regular monitoring of the contribution requirements and security requirements. This will usually be performed (at least) annually.
- All costs of the arrangement are met by the employer, such as the cost of advice to the Fund, ongoing monitoring or the arrangement and correspondence on any ongoing contribution and security requirements.

Without exception, the Fund will discuss any application for a DDA with the exiting employer and any other scheme employers who have provided guarantees.

The DDA must be scrupulously adhered to and if any payment or request for information is delayed by more than 30 days, the outstanding balance may fall due immediately.

If the Fund believes that the exiting employer's covenant is likely to weaken materially it may approach the employer to vary the quantum or duration of the payments due under the agreement. If it is reasonably satisfied that the employer's ability to meet the contributions has, or is likely, to materially weaken in the next twelve months it may serve a notice to recover any outstanding liabilities.

A DDA will normally terminate on the first date on which one of the following events occurs:

- The employer enrols new active fund members
- The period specified, or as varied, under the DDA elapses
- The take-over, amalgamation, insolvency, winding up or liquidation of the employer
- The Administering Authority serves a notice on the employer that the Administering Authority is reasonably satisfied that the employer's ability to meet the contributions payable under the DDA has weakened materially or is likely to weaken materially in the next 12 months
- The Fund actuary assesses that the employer has paid sufficient secondary contributions to cover all (or almost all) of the exit payment due if the employer becomes an exiting employer on the calculation date (i.e. employer is now largely fully funded on their low risk basis)
- The Fund actuary assesses that the employer's value of liabilities has fallen below an agreed de minimis level and the employer becomes an exiting employer on the calculation date
- The employer requests early termination of the agreement and settles the exit payment in full as calculated by the fund actuary on the calculation date (i.e. the employer pays their outstanding cessation debt on their cessation basis).

On the termination of a DDA, the employer will become an exiting employer and a cessation valuation will be completed in line with this policy.

### Exit credits

The Administering Authority's entitlement to determine whether exit credits are payable in accordance with these provisions shall apply to all employers ceasing their participation in the fund after 14 May 2018.  This provision therefore is retrospectively effective to the same extent as provisions of the Local Government Pension Scheme (Amendment) Regulations 2020.

The Administering Authority may determine the amount of exit credit payable to be zero. However, in making a determination, the Administering Authority will take into account the following factors:

(i) The extent to which there is an excess of assets in the Fund relating to the employer over and above the liabilities specified

(ii) The proportion of the excess of assets which has arisen because of the value of the employer’s contributions

(iii) Any representations to the Administering Authority made by the exiting employer, guarantor, ceding Scheme Employer (usually the Letting Authority) or by a body which owns, funds or controls the exiting employer; or in some cases, the Secretary of State

(iv) Any other relevant factors.

### Admitted bodies

(i) No exit credit will be payable in respect of admissions who joined the Fund before 14 May 2018 unless it is subject to a risk sharing arrangement as per paragraph iii) below. Prior to this date, the payment of an exit credit was not permitted under the Regulations and this will have been reflected in the commercial terms agreed between the admission body and the letting authority/awarding authority/ceding employer. This will also apply to any pre-14 May 2018 admission which has been extended or ‘rolled over’ beyond the initial expiry date and on the same terms that applied on joining the Fund.

(ii) No exit credit will be payable to any admission body who participates in the Fund via the mandated pass-through approach. For the avoidance of doubt, whether an exit credit is payable to any admission body who participates in the Fund via the “Letting employer retains pre-contract risks” route is subject to its risk sharing arrangement, as per paragraph iii) below.

(iii) The Fund will make an exit credit payment in line with any contractual or risk sharing agreements which specifically covers the ownership of exit credits/cessation surpluses or if the admission body and letting authority have agreed any alternative approach (which is consistent with the Regulations and any other legal obligations). This information, which will include which party is responsible for which funding risk, must be presented to the Fund in a clear and unambiguous document with the agreement of both the admission body and the letting authority/awarding authority/ceding employer and within one month (or such longer time as may be agreed with the Administering Authority) of the admission body ceasing participation in the Fund.

(iv) In the absence of this information or if there is any dispute from either party with regards interpretation of contractual or risk sharing agreements as outlined in Exit credits (iii) above, the Fund will withhold payment of the exit credit until such disputes are resolved and the information is provided to the Administering Authority.

(v) Where a guarantor arrangement is in place, but no formal risk-sharing arrangement exists, the Fund will consider how the approach to setting contribution rates payable by the admission body during its participation in the Fund reflects which party is responsible for funding risks. This decision will inform the determination of the value of any exit credit payment.

(vi) If the admission agreement ends early, the Fund will consider the reason for the early termination, and whether that should have any relevance on the fund's determination of the value of any exit credit payment. In these cases, the Fund will consider the differential between employers' contributions paid (including investment returns earned on these monies) and the size of any cessation surplus.

(vii) If an admitted body leaves on a low risk basis (because no guarantor is in place), then any exit credit will normally be paid in full to the employer.

(viii) The decision of the Fund is final in interpreting how any arrangement described under (iii), (v), (vi) and (vii) applies to the value of an exit credit payment.

### Scheduled bodies and designating bodies

(i) Where a guarantor arrangement is in place, but no formal risk-sharing arrangement exists, the Fund will consider how the approach to setting contribution rates payable by the employer during its participation in the Fund reflects which party is responsible for funding risks. This decision will inform the determination of the value of any exit credit payment.

(ii) Where no formal guarantor or risk-sharing arrangement exists, the Fund will consider how the approach to setting contribution rates payable by the employer during its participation in the Fund reflects the extent to which it is responsible for funding risks. This decision will inform the determination of the value of any exit credit payment.

(iii) The decision of the Fund is final in interpreting how any arrangement described under (i) and (ii) applies to the value of an exit credit payment.

(iv) If a scheduled body or designating body becomes an exiting employer due to a reorganisation, merger or take-over, then no exit credit will be paid.

(v) If a scheduled body or resolution body leaves on a low-risk basis (because no guarantor is in place), then any exit credit will normally be paid in full to the employer.

### General

(i) The Fund will advise the exiting employer as well as the letting authority and/or other relevant scheme employers of its decision to make an exit credit determination under Regulation 64.

(ii) Subject to any risk sharing or other arrangements and factors discussed above, when determining the cessation funding position, the Fund will generally make an assessment based on the value of contributions paid by the employer during their participation, the assets allocated when they joined the Fund and the respective investment returns earned on both.

(iii) The Fund will also factor in if any contributions due or monies owed to the Fund remain unpaid by the employer at the cessation date. If this is the case, the Fund's default position will be to deduct these from any exit credit payment.

(iv) The final decision will be made by the pension manager, in conjunction with advice from the Fund's actuary and/or legal advisors where necessary, in consideration of the points held within this policy.

(v) The Fund accepts that there may be some situations that are bespoke in nature and do not fall into any of the categories above. In these situations the Fund will discuss its approach to determining an exit credit with all affected parties. The decision of the Fund in these instances is final.

(vi) The guidelines above at point (v) in the 'Admitted bodies' section, and at points (i) and (ii) in the 'Scheduled bodies and designating bodies' section, make reference to the Fund 'considering the approach to setting contribution rates during the employer's participation'. The different funding approaches, including the parameters used and how these can vary based on employer type, are covered in detail in Table 1 in the FSS. Considering the approach taken when setting contribution rates of the exiting employer may help the Fund to understand the extent to which the employer is responsible for funding the underlying liabilities on exit. For example, if contribution rates have always been based on ongoing assumptions then this may suggest that these are also appropriate assumptions for exit credit purposes (subject to the other considerations outlined within this policy). Equally, a shorter than usual funding time horizon or lower than usual probability of success parameter may reflect underlying commercial terms about how responsibility for pension risks is split between the employer and its guarantor. For the avoidance of doubt, each exiting employer will be considered in the round alongside the other factors mentioned above.

### Disputes

In the event of any dispute or disagreement on the amount of any exit credit paid and the process by which that has been considered, the appeals and adjudication provisions contained in Regulations 74-78 of the LGPS Regulations 2013 would apply.

## Practicalities and process

### Responsibilities of ceasing employers

An employer which is aware that its participation in the Fund is likely to come to an end must:

- Advise the Fund, in writing, of the likely ending of its participation (either within the terms of the admission agreement in respect of an admission body (typically a 3 month notice period is required) or otherwise as required by the Regulations for all other scheme employers). It should be noted that this includes closed employers where the last employee member is leaving (whether due to retirement, death or otherwise leaving employment)

- Provide any relevant information on the reason for leaving the Fund and, where appropriate, contact information in the case of a take-over, merger or insolvency

- Provide all other information and data requirements as requested by the Administering Authority which are relevant, including in particular any changes to the membership which could affect the liabilities (e.g. salary increases and early retirements) and an indication of what will happen to current employee members on cessation (e.g. will they transfer to another fund employer, will they cease to accrue benefits within the Fund, etc.).

### Responsibilities of Administering Authority

The Administering Authority will:

- Gather information as required, including, but not limited to, the following:

    - Details of the cessation - the reason the employer is leaving the Fund (i.e. end of contract, insolvency, merger, machinery of government changes, etc.) and any supporting documentation that may have an effect on the cessation

    - Complete membership data for the outgoing employer and identify changes since the previous formal valuation

    - The likely outcome for any remaining employee members (e.g. will they be transferred to a new employer, or will they cease to accrue liabilities in the Fund).

- Identify the party that will be responsible for the employer's deficit on cessation (i.e. the employer itself, an insurance company, a receiver, another fund employer, guarantor, etc.)

- Commission the Fund actuary to carry out a cessation valuation under the appropriate regulation

- Where applicable, discuss with the employer the possibility of paying adjusted contribution rates that target a 100% funding level by the date of cessation through increased contributions in the case of a deficit on the cessation basis or reduced contributions in respect of a surplus

- Where applicable, liaise with the original ceding employer or guarantor and ensure it is aware of its responsibilities, in particular for any residual liabilities or risk associated with the outgoing employer's membership

- Having taken actuarial advice, notify the employer and other relevant parties in writing of the payment required in respect of any deficit on cessation and pursue payment.

### Payment of an exit credit

- If the actuary determines that there is an excess of assets over the liabilities at the cessation date, the Administering Authority will act in accordance with the exit credit policy above. If payment is required, the Administering Authority will advise the exiting employer of the amount due to be repaid and seek to make payment within six months of the exit date. However, in order to meet the six month timeframe, the Administering Authority requires prompt notification of an employers' exit and all data requested to be provided in a timely manner. The Administering Authority is unable to make any exit credit payment until it has received all data requested.

- At the time this policy was produced, the Fund has been informed by HMRC that exit credits are not subject to tax, however all exiting employers must seek their own advice on the tax and accounting treatment of any exit credit.

### Responsibilities of the actuary

Following commission of a cessation valuation by the Administering Authority, the Fund actuary will:

- Calculate the surplus or deficit attributable to the outgoing employer on an appropriate basis, taking into account the principles set out in this policy
- Provide actuarial advice to the Administering Authority on how any cessation deficit should be recovered, giving consideration to the circumstances of the employer and any information collected to date in respect to the cessation
- Where appropriate, advise on the implications of the employer leaving on the remaining fund employers, including any residual effects to be considered as part of triennial valuations.

### Related Policies

The fund's approach to exiting employers is set out in the FSS, specifically section "What happens when an employer leaves the Fund?"

The approach taken to set the actuarial assumptions for cessation valuations is set out in Appendix D of the FSS.

| | |
|---|---|
| Effective date of policy | 1 April 2023 |
| Approved date | 31 March 2023 |
| Next review | 1 April 2024 |

## Appendix G - Bulk transfers

### Introduction

The purpose of this policy is to set out the Administering Authority's approach to dealing with the bulk transfer of scheme member pension rights into and out of the fund in prescribed circumstances.

### Aims and Objectives

The Administering Authority's aims and objectives related to this policy are as follows:

- Bulk transfers out of the Fund do not allow a deficit to remain behind unless a scheme employer is committed to repairing this; and

- Bulk transfers received by the Fund must be sufficient to pay for the added benefits being awarded to the members, again with the scheme employer making good any shortfall where necessary.

Bulk transfer requests will be considered on a case-by-case basis.

### Background

Bulk transfers into and out of the Fund can occur for a variety of reasons, such as:

- Where an outsourcing arrangement is entered into and active fund members join another LGPS fund, or leave the LGPS to join a broadly comparable scheme

- Where an outsourcing arrangement ceases, and active scheme members re-join the fund from another LGPS fund or a broadly comparable scheme

- Where there is a reorganisation of central government operations (transfers in from, or out to, other government sponsored schemes)

- Where there is a reorganisation or consolidation of local operations (brought about by, for example, local government shared services, college mergers or multi-academy trust consolidations)

- A national restructuring resulting in the admission of an employer whose employees have LGPS service in another LGPS fund, or vice versa.

Unlike bulk transfers out of the LGPS, there is no specific provision to allow for bulk transfers into the LGPS.  As a result, any transfer value received into the LGPS, whether on the voluntary movement of an individual or the compulsory transfer of a number of employees, must be treated the same way as individual transfers.

## Guidance and regulatory framework

### Local Government Pension Scheme Regulations

When considering any circumstances involving bulk transfer provisions, the Administering Authority will always ensure adherence to any overriding requirements set out in the Local Government Pension Scheme Regulations 2013 (as amended), including:

- Regulation 98 – applies on transfer out to non-LGPS schemes. It allows for the payment of a bulk transfer value where at least two active members of the LGPS cease scheme membership and join another approved pension arrangement

- Regulation 99 - gives the LGPS actuary discretion as to the choice of method of calculation used to calculate the bulk transfer value

- Regulation 100 – allows an individual who holds relevant pension rights under a previous employer to request to be admitted for past service into the LGPS. Members wishing to transfer in accrued rights from a Club scheme (that is schemes with benefits broadly similar to those of the LGPS), who request to do so within 12 months of joining their new LGPS employment, must be granted their request. For members with "non-Club" accrued rights the LGPS fund does not have to grant the request. Any request must be received in writing from the individual within 12 months of active employment commencing or longer at the discretion of the employer and the Administering Authority

- Regulation 103 - states that any transfer between one LGPS fund and another LGPS fund (in England and Wales) where 10 or more members elect to transfer will trigger bulk transfer negotiations between fund actuaries.

### Best Value authorities

The Best Value Authorities Staff Transfers (Pensions) Direction 2007, which came into force on 1 October 2007, applies to all "Best Value Authorities" in England. Best Value Authorities include all county, district and borough councils in England, together with police and fire and rescue authorities, National Park Authorities and waste disposal authorities. The Direction:

- Requires the contractor to secure pension protection for each transferring employee through the provision of pension rights that are the same as or are broadly comparable to or better than those they had as an employee of the authority, and

- Provides that the provision of pension protection is enforceable by the employee.

The Direction also requires similar pension protection in relation to those former employees of an authority, who were transferred under TUPE to a contractor, in respect of any re-tendering of a contract for the provision of services (i.e. second and subsequent rounds of outsourcing).

### Academies and multi-academy trusts

New Fair Deal guidance, introduced in October 2013, applies to academies and multi-academy trusts. It requires that, where they outsource services, they ensure pension protection for non-teaching staff transferred is achieved via continued access to the LGPS. As a result, the Fund would not expect to have any bulk transfers out of the LGPS in respect of outsourcings from academies or multi-academy trusts.

### Other employers

For all scheme employers that do not fall under the definition of a Best Value Authority or are not an academy (i.e. town and parish councils, arms-length organisations, further and higher education establishments, charities and other admitted bodies), and who are not subject to the requirements of Best Value Direction or new Fair Deal guidance, there is no explicit requirement to provide pension protection on the outsourcing or insourcing of services. However, any successful contractor is free to seek admission body status in the Fund, subject to complying with the Administering Authority's requirements (e.g. having a bond or guarantor in place).

The old Fair Deal guidance may still apply to a specific staff transfer if permitted by the new Fair Deal guidance or if outside the coverage of the new Fair Deal guidance. (If the individual remains in their original scheme then their past service rights are automatically protected). In the absence of a bulk transfer agreement the Administering Authority would not expect to pay out more than individual Cash Equivalent Transfer Value amounts, in accordance with appropriate Government Actuary's Department (GAD) guidance.

### Statement of principles

This statement of principles covers bulk transfer payments into and out of the Fund. Each case will be treated on its own merits alongside appropriate actuarial advice, but in general:

- Where a group of active scheme members joins (or leaves) the Fund, the Administering Authority's objective is to ensure that sufficient assets are received (or paid out) to meet the cost of providing those benefits.

- Ordinarily the Administering Authority's default approach for bulk transfers out (or in) will be to propose (or accept) that the transfer value is calculated using ongoing assumptions based on the employer's share of fund assets (capped at 100% of the value of the liabilities). The Fund will retain the discretion to amend the bulk transfer basis to reflect the specific circumstances of each transfer - including (but not restricted to):

    - The use of cessation assumptions where unsecured liabilities are being left behind

    - Where a subset of an employer's membership is transferring (in or out), the Fund may consider an approach of calculating the bulk transfer payment as the sum of CETVs for the members concerned; or

    - Where transfer terms are subject to commercial factors.

- Where an entire employer is transferring in or out of the Fund, the bulk transfer should equal the asset share of the employer in the transferring fund regardless of whether this is greater or lesser than the value of past service liabilities for members.

- There may be situations where the Fund accepts a transfer in amount which is less than required to fully fund the transferred in benefits on the Fund's ongoing basis (e.g. where the employer has suitable strength of covenant and commits to meeting that shortfall over an appropriate period). In such cases the Administering Authority reserves the right to require the receiving employer to fund this shortfall (either by lump sum or by increasing in ongoing employer contributions) ahead of the next formal valuation.

- Any shortfall between the bulk transfer payable by the Fund and that which the receiving scheme is prepared to accept must be dealt with outside of the Fund, for example by a top up from the employer to the receiving scheme or through higher ongoing contributions to that scheme.

- The Fund will not grant added benefits to members bringing in entitlements from another scheme unless the asset transfer is sufficient to meet the added liabilities.

- Service credits granted to transferring members should fully reflect the value of the benefits being transferred, irrespective of the size of the transfer value paid or received.

## Policy

The following summarises the various scenarios for bulk transfers in or out of the Fund, together with the Administering Authority's associated policies.

### Inter-fund transfer (transfer between the fund and another LGPS fund)

| Bulk transfer in mechanism | Policy | Methodology |
|---|---|---|
| < 10 members –<br><br>GAD guidance | Cash equivalent transfer values (CETVs) in accordance with GAD guidance. | On receipt of a transfer value (calculated in line with the CETV transfer out formulae), the Fund will award the member a pension credit on a day-for-day basis. |
| 10 or more members –<br><br>Regulation 103 of the Local<br><br>Government<br><br>Pension Scheme<br><br>Regulations 2013 | Where agreement can be reached, the Fund and the transferring fund (and their two actuaries) may agree to a negotiated bulk transfer arrangement. However, where agreement cannot be reached:<br><br>**Actives only transferring (i.e. remaining members left behind):**<br><br>CETVs in accordance with GAD guidance using transferring fund's actual fund returns for roll up to date of payment (rather than the interest applied for standard CETV's).<br><br>**All members transferring (i.e. all actives, deferred and pensioners):**<br>Receive all assets attributable to the membership within the transferring scheme. | The Fund's preferred approach is to receive a transfer payment equal to the fully funded value of the transferring liabilities.<br><br>Where a negotiated arrangement is sought, the Fund's policy is to accept a transfer value that is at least equal to the total of the individual CETVs calculated using the Club transfer-out formulae.<br><br>The Fund will consult with the scheme employer whose funding position will be impacted by the transfer before agreeing to a negotiated bulk transfer arrangement.<br><br>Pension credits will be awarded to the transferring members on a day-for-day basis. |

| Bulk transfer out mechanism | Policy | Methodology |
|---|---|---|
| < 10 members – GAD guidance | CETVs in accordance with GAD guidance. | The transfer value paid to the receiving fund will be calculated in line with the CETV transfer-out formulae. |
| 10 or more members –<br><br>Regulation 103 of the Local Government Pension Scheme Regulations 2013 | Where agreement can be reached, the Fund and the receiving fund (and their two actuaries) may agree to a negotiated bulk transfer arrangement. However, where agreement cannot be reached:<br><br>**Actives only transferring (i.e. remaining members left behind):**<br><br>CETV in accordance with GAD guidance using transferring fund's actual fund returns for roll-up to date of payment (rather than the interest applied for standard CETV's).<br><br>**All members transferring (i.e. all actives, deferred and pensioners):**<br>Transfer all assets attributable to the membership to the receiving scheme. | The Fund's default policy is to offer a transfer value that is equal to the total of the individual CETV calculated using the Club transfer-out formulae. The Fund will consult with the scheme employer whose funding position will be impacted by the transfer before agreeing to a negotiated bulk transfer arrangement.<br><br>Discretion exists to amend this to reflect specific circumstances of the situation. |

## Club Scheme

| Scenario | Bulk transfer mechanism | Policy | Methodology |
|---|---|---|---|
| **Transfer In** | Club Memorandum | The Club mechanism ensures the pension credit in the fund provides actuarially equivalent benefits. | The pension credit awarded to members transferring in will be calculated in line with the Club transfer-in formulae. |
| **Transfer Out** | Regulation 98 of the Local<br><br>Government Pension Scheme Regulations 2013<br><br>or<br><br>Club Memorandum | Where agreement can be reached, the Fund and the receiving scheme (and their two actuaries) may agree to a negotiated bulk transfer arrangement.<br><br>Or<br><br>Where agreement cannot be reached, revert to the Club transfer out formulae in accordance with GAD guidance. | The Fund's default policy is to offer the receiving scheme transfers out calculated using ongoing assumptions based on the ceding employer's share of fund assets (capped at 100% of the liability value).<br><br>Discretion exists to amend this to reflect specific circumstances of the situation. |

## Broadly Comparable Scheme or non-Club scheme

| Bulk transfer in mechanism | Policy | Methodology |
|---|---|---|
| GAD guidance | Non-Club transfer in formulae in accordance with GAD guidance | The pension credit awarded to members transferring in will be calculated in line with the non-Club transfer in formulae. |

| Bulk transfer out mechanism | Policy | Methodology |
|---|---|---|
| 1 member only – GAD guidance | CETV in accordance with GAD guidance | The transfer value paid to the receiving scheme will be calculated in line with the CETV transfer-out formulae. |
| 2 or more members –<br><br>Regulation 98 of the Local<br><br>Government Pension Scheme Regulations 2013 | Where agreement can be reached, the Fund and the receiving scheme (and their two actuaries) may agree to a negotiated bulk transfer arrangement.<br><br>Or<br><br>Where agreement cannot be reached, revert to cash equivalent transfer values under GAD guidance | The Fund's default policy is to offer the receiving scheme transfers out calculated in line with the CETV transfer-out formulae.<br><br>Discretion exists to amend this to reflect specific circumstances of the situation. |

## Practicalities and process

### Format of transfer payment

Ordinarily payment will be in cash.

A deduction from the bulk transfer will be made for any administration, legal and transaction costs incurred by the fund as a result of having to disinvest any assets to meet the form of payment that suits the receiving scheme.

### Costs

All professional fees incurred in respect of the provision of advice relating to bulk transfers will be met in full by the employer concerned. These include, (but are not limited to) the actuarial fees incurred by the Administering Authority.

Staff time involved on the fund side will be charged at the rate defined within the Administration Strategy Statement.

### Impact on transferring employer

Any transfer out or in of pension rights may have an effect on the valuation position of the employer and consequently their individual contribution rate.

The Fund will agree with the transferring employer how this change is dealt with. Though it is likely this will be through adjustments to its employer contribution rate, the Fund may require a lump sum payment or instalments of lump sums to cover any relative deterioration in deficit, for example where the deterioration in deficit is a large proportion of its total notional assets and liabilities. Where the transfer is small relative to the employer's share of the fund, any adjustment may be deferred to the next valuation.

### Consent

Where required within the Regulations, for any bulk transfer the Administering Authority will ensure the necessary consent is obtained from each individual eligible to be part of the transfer.

### Approval process

The Fund will normally agree to bulk transfers into or out of the fund where this policy is adhered to.

### Non-negotiable

It should be noted that, as far as possible, the Fund's preferred terms on bulk transfers are non-negotiable. Any differences between the value the Fund is prepared to pay (or receive) and that which the other scheme involved is prepared to accept (or pay) should be dealt with by the employers concerned outside the Fund.

### Related Policies

See specifically section "What happens if an employer has a bulk transfer of staff?" of the Fund's Funding Strategy Statement.

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|---|---|
| Effective date of policy | 1 April 2023 |
| Approved date | 31 March 2023 |
| Next review | 1 April 2024 |

# Appendix H - Review of contributions between valuations

## Introduction

The purpose of this policy is to set out the Administering Authority's approach to reviewing contribution rates between triennial valuations.

It should be noted that this statement is not exhaustive and individual circumstances may be taken into consideration where appropriate.

## Aims and objectives

The Administering Authority's aims and objectives related to this policy are as follows:

- To provide employers with clarity around the circumstances where contribution rates may be reviewed between valuations
- To outline specific circumstances where contribution rates will not be reviewed.

## Background

The Fund may amend contribution rates between valuations for 'significant change' to the liabilities or covenant of an employer.

Such reviews may be instigated by the fund or at the request of a participating employer.

Any review may require increased contributions from the employer.

## Guidance and regulatory framework

The Local Government Pension Scheme Regulations 2013 (as amended) set out the way in which LGPS funds should determine employer contributions, including the following:

- Regulation 64(4) - allows the Administrating Authority to review the contribution rate if it becomes likely that an employer will cease participation in the Fund, with a view to ensuring that the employer is fully funded at the expected exit date
- Regulation 64A - sets out specific circumstances where the Administering Authority may revise contributions between valuations.

This policy also reflects statutory guidance from the Department for Levelling Up, Housing and Communities on preparing and maintaining policies relating to the review of employer contributions. Interested parties may want to refer to an accompanying guide that has been produced by the Scheme Advisory Board.

## Statement of principles

This Statement of Principles covers review of contributions between valuations. Each case will be treated on its own merits, but in general:

- The Administering Authority reserve the right to review contributions in line with the provisions set out in the LGPS Regulations
- Employers will be consulted during the review period
- Full justification for any change in contributions rates will be provided to employers
- Advice will be taken from the Fund actuary in respect of any review of contribution rates
- Any revision to contribution rates will be reflected in the Rates & Adjustment certificate.

## Policy

### Circumstances for review

The Fund would consider the following circumstances as a potential trigger for review:

- In the opinion of an Administering Authority there are circumstances which make it likely that an employer (including an admission body) will become an exiting employer sooner than anticipated at the last valuation
- An employer is approaching exit from the scheme within the next two years and before completion of the next valuation
- There are changes to the benefit structure set out in the LGPS Regulations which have not been allowed for at the last valuation
- It appears likely to the Administering Authority that the amount of the liabilities arising or likely to arise for an employer or employers has changed significantly since the last valuation
- It appears likely to the Administering Authority that there has been a significant change in the ability of an employer or employers to meet their obligations (ie a material change in employer covenant)

- It appears to the Administering Authority that the membership of the employer has changed materially such as bulk transfers, significant reductions to payroll or large-scale restructuring

- Where an employer has failed to pay contributions or has not arranged appropriate security as required by the Administering Authority.

### Employer requests

The Administering Authority will also consider a request from any employer to review contributions where the employer has undertaken to meet the costs of that review and sets out the reasoning for the review. These would be expected to fall into one of the above categories, such as a belief that their covenant has changed materially, or they are going through a significant restructuring impacting their membership.

The Administering Authority will require additional information to support a contribution review made at the employer’s request.  The specific requirements will be confirmed following any request and this is likely to include the following:

- A copy of the latest accounts

- Details of any additional security being offered (which may include insurance certificates)

- Budget forecasts, and/or

- Information relating to sources of funding.

The costs incurred by the Administering Authority in carrying out a contribution review (at the employer’s request) will be met by the employer. These will be confirmed upfront to the employer prior to the review taking place.

### Other employers

When undertaking any review of contributions, the Administering Authority will also consider the impact of a change to contribution rates on other fund employers. This will include the following factors:

- The existence of a guarantor

- The amount of any other security held

- The size of the employer’s liabilities relative to the whole fund.

The Administering Authority will consult with other fund employers as necessary.

### Effect of market volatility

Except in circumstances such as an employer nearing cessation, the Administering Authority will not consider market volatility or changes to asset values as a basis for a change in contributions outside a formal valuation.

### Documentation

Where revisions to contribution rates are necessary, the Fund will provide the employer with a note of the information used to determine these, including:

- Explanation of the key factors leading to the need for a review of the contribution rates, including, if appropriate, the updated funding position
- A note of the new contribution rates and effective date of these
- Date of next review
- Details of any processes in place to monitor any change in the employer's circumstances (if appropriate), including information required by the Administering Authority to carry out this monitoring.

The Rates & Adjustments certificate will be updated to reflect the revised contribution rates.

### Related Policies

The Fund's approach to setting employer contribution rates is set out in the Funding Strategy Statement, specifically "Section 2 – How does the fund calculate employer contributions?".

| | |
|---|---|
| Effective date of policy | 1 April 2023 |
| Approved date | 31 March 2023 |
| Next review | 1 April 2024 |

# Appendix I - Pre payments policy

## Introduction

The purpose of this policy is to set out the Administering Authority's approach to the prepayment of regular contributions due by participating employers.

It should be noted that this statement is not exhaustive and individual circumstances may be taken into consideration where appropriate.

## Aims and objectives

The Administering Authority's aims and objectives related to this policy are as follows:

- To provide employers with clarity around the circumstances where prepayment of contributions will be permitted
- To outline the key principles followed when calculating prepayment amounts
- To outline the approach taken to assess the suitability of a prepayment as sufficient to meet the required contributions.

## Background

It is common practice in the LGPS for employers to pre-pay regular contributions that were otherwise due to be paid to the fund in future. Employer contributions include the 'Primary Rate' - which is expressed as a percentage of payroll and reflects the employer's share of the cost of future service benefits. And the 'Secondary Rate' - which can be expressed as a percentage of payroll or a monetary amount and is an additional contribution designed to ensure that the total contributions payable by the Employer meet the funding objective.

On 22 March 2022, following a request from the LGPS Scheme Advisory Board, James Goudie QC provided an Opinion on the legal status of prepayments. This Opinion found that the prepayment of employee and employer contributions was not illegal, subject to the basis for determining the prepayment amount being reasonable, proportionate and prudent. Further, the Opinion set out specific requirements around the presentation of prepayments.

## Guidance and regulatory framework

The Local Government Pension Scheme Regulations 2013 (as amended) set out the way in which LGPS funds should determine employer contributions and contain relevant provisions regarding the payment of these, including the following:

- Regulation 67 - sets out the requirement for employers to pay contributions in line with the Rates and Adjustments (R&A) certificate and specifies that primary contributions be expressed as a percentage of pensionable pay of active members.
- Regulation 62 - sets the requirement for an Administering Authority to prepare an R&A certificate.
- Regulation 9 - outlines the contribution rates payable by active members.

### Statement of principles

This statement of principles covers the prepayment of regular employer contributions to the Fund. Each case will be treated on its own merits, but in general:

- The Administering Authority will permit the prepayment of employer contributions.
- Prepaying contributions expressed as a percentage of pay introduces the risk that the prepayment amount will be insufficient to meet the scheduled contribution (as a result of differences between expected and actual payroll). Prepaying percentage of pay contributions is therefore not desirable may only be permissible in the case of secure, long-term employers (e.g. local authorities).
- The prepayment of employee contributions is not permitted.
- A discount will be applied where employer contributions are prepaid, to reflect the investment return that is assumed to be generated by the fund over the period of prepayment.
- The Fund actuary will determine the prepayment amount, which may require assumptions to be made about payroll over the period which the scheduled contribution is due.
- Where contributions expressed as a percentage of pay have been prepaid, the Administering Authority will carry out an annual check (and additional contributions may be required by the employer) to make sure that the actual amounts paid are sufficient to meet the contribution requirements set out in the R&A certificate.
- Prepayment agreements will be documented by way of correspondence between the Administering Authority and the employer.
- The R&A certificate will be updated on an annual basis to reflect any prepayment agreements in place.
- Employers are responsible for ensuring that any prepayment agreement is treated appropriately when accounting for pensions costs.

- Prepayment agreements can cover any annual period of the R&A (or a consecutive number of annual periods).

## Policy

### Eligibility and periods covered

The Fund expects all employers to pay contributions as and when these are required based on the Rates & Adjustments certificate and, to help manage emerging cashflow risks, has a clear preference that employers do not prepay contributions. The Fund will, however, consider requests from employers to pre-pay certified employer contributions.

Employer contributions over the period of the existing R&A certificate (and, where a draft R&A certificate is being prepared following the triennial valuation, the draft R&A certificate) may only be pre-paid by employers.

Prepayment of contributions due after the end of the existing (or draft) R&A certificate is not permitted, i.e. it would not be possible to prepay employer contributions due in the 2026/27 year until the results of the 2025 valuation are known and a draft R&A certificate covering the 2026 to 2029 period has been prepared.

### Request and timing

Prior to making any prepayment, employers are required to inform the Fund in writing of their wish to prepay employer contributions and to request details of the amount required by the Fund to meet the scheduled future contribution.

This request should be received by the Fund within 2 months of the start of the period for which the prepayment is in respect of.

The Fund will then provide the employer with a note of the prepayment amount and the date by which this should be paid. In general, the prepayment should be made prior to the beginning of the appropriate R&A period.

Failure to pay the prepayment amount by the specified date may lead to the need for an additional and immediate payment from the employer to ensure that the amount paid is sufficient to meet the certified amount set out in the R&A certificate.

### Calculation

The Fund actuary will determine the prepayment amount required.

Where the prepayment is in respect of contributions expressed as a percentage of pay:

- The Fund actuary will determine the discounted value of scheduled contributions based on an estimate of payroll over the period (using the information available and assumptions set at the previous valuation), and the discount rate set for the purpose of the previous actuarial valuation (as specified in the previous actuarial valuation report).
- A sufficiency check will be required at the end of the period.

Where the prepayment is in respect of contributions expressed as a monetary amount:

- The Fund actuary will determine the discounted value of scheduled contributions based on the discount rate set for the purpose of the previous actuarial valuation (as specified in the previous actuarial valuation report).
- No sufficiency check will be required.

Employers may pay more than the prepayment amount determined by the Fund actuary.

No allowance for expected outsourcing of services and/or expected academy conversions will be made in the Fund actuary's estimation of payroll for the prepayment period.

### Sufficiency check

Where required, the Fund actuary will carry out an annual assessment to check that sufficient contributions have been prepaid in respect of that period. Specifically, this will review the prepayment calculation based on actual payroll of active members over the period and this may lead to a top-up payment being required from the employer.

If this sufficiency check reveals that the prepayment amount was higher than that which would have been required based on actual payroll (i.e. if actual payroll over the period is less than was assumed), this will not lead to a refund of contributions to the employer.

The sufficiency check will not compare the assumed investment return (i.e. the discount rate) with actual returns generated over the period. i.e. the check considers payroll only. Any shortfall arising due to actual investment returns being lower than that assumed will form part of the regular contribution assessment at the next valuation (as per the normal course of events).

The Administering Authority will notify the employer of any top-up amount payable following this annual sufficiency check and the date by which any top-up payment should be made.

### Documentation and auditor approval

The Fund will provide the employer with a note of the information used to determine the prepayment amount, including:

- Discount rate used in the calculations
- The estimate of payroll (where applicable)
- The effective date of the calculation (and the date by which payment should be made)
- The scheduled regular payments which the prepayment amount covers

The prepayment agreement will be reflected in the R&A certificate as follows:

- The unadjusted employer regular contribution rate payable over the period of the certificate
- As a note to the contribution rate table, information relating to the prepayment amount and the discount applied, for each employer where a prepayment agreement exists.

The R&A certificate will be updated on an annual basis to reflect any prepayment agreements in place.

Employers should discuss the prepayment agreement with their auditor prior to making payment and agree the accounting treatment of this. The Fund will not accept any responsibility for the accounting implications of any prepayment agreement.

### Costs

Employers entering into a prepayment agreement will be required to meet the cost of this, which includes (but is not limited to) the actuarial fees incurred by the Administering Authority.

### Risks

Employers enter into prepayment agreements on the expectation that the Fund will be able to generate higher returns than they can over the prepayment period. Employers should be aware that future returns are not guaranteed, and it is possible that the returns generated on prepayment amounts may generate a lower return than that which can be generated by the employer.

It is also possible that negative returns will lead to the value of any prepayment being less than that which was scheduled to be paid. In such circumstances, a top-up payment would not be required (as the sufficiency check only considers the effect of actual payroll being different to that assumed in the prepayment calculation), however the employer's asset share would be lower than it would have been if contributions were paid as scheduled.  This would be considered by the Fund actuary at the next triennial valuation (as per the normal course of events).

Employers should be aware that the prepayment of employer contribution creates uncertainty for the Fund in terms of managing the cashflows required to pay pension benefits to members. Uncertain and volatile cashflow income (arising due to prepayments) will increase likelihood that the fund will need to take measures to ensure benefits can be paid that may dampen prospects for growing the fund assets. Such measures may include holding a large cash buffer, not reinvesting income from assets and, in extreme cases, having to sell assets to pay pension benefits.

## Related Policies

The Fund's approach to setting regular employer contribution rates is set out in the Funding Strategy Statement, specifically section "How does the fund calculate employer contributions?".

| | |
|---|---|
| Effective date of policy | 1 April 2023 |
| Approved date | 31 March 2023 |
| Next review | 1 April 2024 |

# Appendix J - Ill health policy

## Introduction

The purpose of this policy is to set out the Administering Authority's approach to managing the risk arising due to ill health retirements.

It should be noted that this statement is not exhaustive and individual circumstances may be taken into consideration where appropriate.

## Aims and objectives

The Administering Authority's aims and objectives related to this policy are as follows:

- To explain the approach taken to manage ill health risk
- To specify circumstances where a review of experience may lead to additional contributions
- To outline the key risks and benefits to this arrangement

## Background

Additional liabilities can arise following the retirement of members due to ill health. These additional liabilities can include the unreduced early payment of pension benefits and the award of additional service. The level of pension benefits paid on ill health depends on the severity of the member's condition.

The LGPS Regulations require the additional liabilities to be funded by way of payments from employers. Payment of large lump sums to meet strains as and when they arise can lead to unexpected payments and put significant strain on employers' budgets. LGPS funds are able to put arrangements in place which mitigate the risk of having to pay a large cash sum due to an ill health retirement strain payment.

To mitigate this risk to employers, and to evidence good governance and risk management, the Administering Authority operate a captive insurance arrangement within the Fund.

## Guidance and regulatory framework

The Local Government Pension Scheme Regulations 2013 (as amended) set out the benefits payable to members and the way in which additional benefits (such as those arising on ill health early retirement) should be funded. These include the following:

- Regulation 35 - permits the early retirement of pension on ill health grounds.

- Regulation 39 - sets out the calculation of the pension payable in the instance of ill health retirement.
- Regulation 68 - sets out the additional contributions payable by the employer to meet the liability strain caused by a member retiring through ill health.

### Statement of principles

This statement of principles covers the captive insurance arrangement in place to manage the risks created by ill health retirements. In general:

- This arrangement applies to all employers in the Fund.
- Employers are unable to opt out of this arrangement.
- The design of the captive insurance arrangement makes full use of the Hymans Robertson Employer Asset Tracker (HEAT) system.
- The cost of ill health retirement strains (as they arise) will be shared across all active employers.
- Employers will not be required to pay lump sum amounts to meet ill health retirement strains (in the normal course of events).
- Regular contribution rates payable by employers will include the expected cost of assumed ill health retirements.
- Both Tier 1 and Tier 2 ill health retirement strains will be covered by this arrangement.
- The Fund will look to protect employers against the risk of unusually high ill health retirement experience of other employers.

### Policy

#### Purpose

The purpose of this captive insurance arrangement is to share the cost of ill health retirement experience across all active employers. The mechanism for doing this is HEAT.

#### Eligibility

This arrangement applies to all employers in the fund and is effective from 1 April 2019.

All ill health experience since 1 April 2019 is therefore pooled as per the captive insurance arrangement.

### Operation

The captive arrangement works as follows:

- Assets shares for each employer are determined each month by Hymans Robertson, using the HEAT system and based on the monthly cashflows and asset information provided by the Fund.
    - As part of this data provision, the Fund determines the strain costs arising due to ill health retirements and this strain is allocated to each active employer in proportion to their asset share at the beginning of that month.
- Contribution rates are set by the Fund actuary every three years as part of the triennial valuation.
    - Primary contribution rates include allowance for the expected cost of assumed ill health retirements (expressed as a percentage of payroll)
    - This provides ongoing funding for the assumed level of ill health retirement strains.
- Where the actual level of ill health retirement strains exceeds the assumed level, this will lead to a shortfall arising at the next triennial valuation.
    - No immediate additional contributions will be required from employers to meet this shortfall, but this could increase the contribution requirement following the next triennial valuation.
- Similarly, where the actual level of ill health retirement strains is lower than the assumed level, this will lead to a surplus arising at the next triennial valuation.
    - No refund will be paid to employers as a result of this, but this surplus could lead to downwards pressures on contributions following the next triennial valuation.
- The ill health retirement experience across employers is likely to differ.
    - This introduces cross-subsidies, in particular where the experience of one employer is very high compared to that of another. This is a feature of the captive insurance arrangement in place and no asset recalibration will take place to address such cross subsidies.

### Review and additional contributions

The Administering Authority will review the level of ill health experience across all employers at each triennial valuation.

If an employer has an unusually high incidence of ill health retirement over the previous inter-valuation period, the Administering Authority will engage with the employer to understand the reasons for this.  In the event of concerns around the eligibility criteria applied by the employer in granting ill health retirements, this could lead to the need for the employer to pay additional contributions to the Fund.  These additional contributions would then be shared across all other employers as recompense for meeting this unusually high level of ill health retirement strains.

### Costs

The costs of operating the captive insurance arrangement will be met by the Fund.

### Related Policies

The Fund's approach to setting regular employer contribution rates is set out in the Funding Strategy Statement, specifically section "How does the fund calculate employer contributions?".

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|---|---|
| Effective date of policy | 1 April 2023 |
| Approved date | 31 March 2023 |
| Next review | 1 April 2024 |

# Appendix K - Town and Parish Council pool

## Introduction

The purpose of this policy is to set out the Administering Authority's approach to pooling contribution rates for Town and Parish Council employers (T&P Councils).

## Aims and objectives

The Administering Authority's aims and objectives related to this policy are as follows:

- To set out the approach taken by the Fund to pool the T&P Council employers
- To set out the benefits and risks of this approach

## Background

The Fund has set up the Town and Parish Council pool (the pool), which all T&P Councils will be entered in to.

The pool is intended to benefit the T&P Councils through the pooling of risks and stabilising of contribution rates.

The purpose of the pool is to stabilise the pension funding requirements of the T&P Councils who most often only have one or two participating members. By joining the pool, the T&P Councils benefit from:

- One common contribution rate payable by all employers in the pool. This should help maintain stability of contributions between formal valuations.
- Any cessation valuation will be calculated on an ongoing basis.

## Benefits and risks

The Administering Authority have evaluated the benefits and risks to the pooling approach, including the below.

### Benefits

- Pooling reduces the volatility of contribution rates arising because of experience. For example, pooling gives the T&P Councils' employers some protection against the higher cost of paying benefits to one or two individuals who enjoy a much longer than expected retirement.
- T&P Council employers may pay lower regular contributions by staying out of a pool (eg employers with young membership, better budgetary discipline and lower pay awards). If employers are small, however, they could still benefit

from the protection the pool gives from uncertain and unpredictable events such as unusually long periods in retirement.

- A further benefit will be that the cessation debt for employers participating in the pool is calculated on an ongoing basis rather than a more prudent cessation basis. This is possible due to the sharing of risks that the pool offers and the security that it offers the Fund.

### Drawbacks and risks

- Some employers may be adversely affected by pooling and end up paying higher contributions than they would pay if they were out of the pool because they are subsidising other members of the pool e.g. due to the effect of awarding lower than average pay increases.
- Employers should be aware that the balance may, however, swing in their favour at future valuations if their own experience over that time is poor. For example, at the actuarial valuation, an employer may find that its own individual experience would suggest a specific contribution rate. The contributions are, however, set lower than this theoretical rate because the employer benefits from the pooled rate. The average experience of all the employers in the pool has kept this employer’s rate down. The other employers in the pool are therefore subsidising the employers with poorer experience. Given that pooling is a way of averaging experience, there will always be winners and losers in the pool.
- Membership of a pool results in loss of control for individual employers. An employer with an individual contribution rate has more control over its pension contributions and can reduce them by, for example, exercising discipline in pay awards.

## Policy and documentation

### Policy

All Town and Parish Councils in the Fund will be automatically included in the pool unless they formally opt out in writing.

Any cessation debt payable by an employer in the pool, which is triggered when the last active member leaves the fund, will be calculated on an ongoing basis.

This is a full-risks pooling arrangement.

Individual asset shares will be calculated for each T&P Council employer in the pool at each triennial valuation.

Contribution rates payable by T&P Council employers who opt out of the pool will be set in the way described in the Funding Strategy Statement.

### Documentation

The Rates and Adjustments certificate will list the constituent employers of the pool.

T&P Council employers which are not part of the pool, will be listed as a separate (non-pooled) employer in the Rates and Adjustments certificate.

T&C Council employers who participate in the pool will be notified of the contribution rate payable following each triennial valuation.

### Related Policies

The Fund's approach to setting employer contribution rates is set out in the Funding Strategy Statement, specifically section "How does the Fund calculate employer contributions?".

The Fund's approach to carrying out cessation valuations is set out in the Fund's Cessation Policy.

| | |
|---|---|
| Effective date of policy | 1 April 2023 |
| Approved date | 31 March 2023 |
| Next review | 1 April 2024 |

# Governance Compliance Statement

The requirement to publish a governance compliance statement rests in Regulation 55 of the Local Government Pension Scheme Regulations 2013 (LGPS).

Under regulation 55, all Administering Authorities in England and Wales must prepare a written statement setting out:

- Whether the authority delegates its functions, or part of its functions under these Regulations to a committee, a sub-committee or an officer of the authority
- If the authority does so:
    - The terms, structure and operational procedures of the delegation
    - The frequency of any committee or sub-committee meetings
    - Whether such a committee or sub-committee includes representatives of Scheme employers or members, and if so, whether those representatives have voting rights.
- The extent to which a delegation, or the absence of a delegation, complies with guidance given by the Secretary of State and, to the extent that it does not so comply, the reasons for not complying
- Details of the terms, structure and operational procedures relating to the Local Pension Board established under regulation 106 (Local Pension Boards: establishment).

An Administering Authority must keep its statement under review, and make such revisions as are appropriate, following a material change to any of the matters mentioned.

Before preparing or revising a statement under this regulation, an Administering Authority must consult such persons as it considers appropriate.

An Administering Authority must publish its statement under this regulation, and any revised statement.

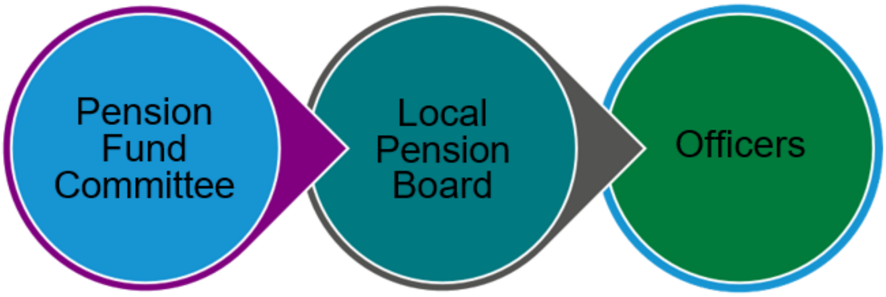
The Secretary of State guidance, referred to above, is supplemented by provisions in the Public Service Pension Schemes Act 2013.

# The Principles

## The Structure

Surrey County Council is both an Administering Authority and an employing authority under the scheme regulations, and each function is entirely separate. The Pension Fund Committee is the scheme manager for the Administering Authority under regulation 5(7) of the Public Sector Pension Scheme Regulations 2013.

The Pension Fund Committee is assisted by the Local Pension Board which is set up under regulation 7 of the Public Sector Pension Schemes Act 2013 and performs an advisory role.



# The Statement

## A - Structure

| Principle (DCLG Statutory Guidance) | Compliance |
|---|---|
| a. The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council. | Surrey County Council is an Administering Authority for the Local Government Pension Scheme (LGPS) and has established a Pension Fund Committee (PFC - formerly known as Surrey Pension Fund Board) with responsibility for the governance and administration of the Pension Fund.<br><br>The PFC undertakes statutory functions on behalf of the LGPS and ensures compliance with legislation and best practice. It determines policy for the investment, funding and administration of the pension fund and monitors administration performance and service delivery.<br><br>The PFC appoints and monitors all relevant external service providers including:<br><br>• Fund managers<br>• Custodians<br>• Corporate advisors<br>• Independent advisors<br>• Actuaries<br>• Governance advisors<br>• All other professional services associated with the pension fund |

| Principle (DCLG Statutory Guidance) | Compliance |
|---|---|
| b. That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee. | The Pension Fund Committee consists of 10 members:<br>• 6 County Councillors<br>• 2 District/Borough Councillors<br>• 1 Employer representative<br>• 1 Employee representative (an active, deferred or pensioner member). |
| c. That where a secondary committee or panel has been established, the structure ensures effective communication across both levels. | The Local Pension Board (LPB) assists the Pension Fund Committee and it consists of 8 members:<br>• 2 County Councillors<br>• 2 other employer representatives that come from nominations from other employers in the fund (e.g. District, Borough and Parish Councils, Academies, Police and other scheduled or admitted body employers in the Surrey Pension Fund)<br>• 1 GMB nominated representative<br>• 1 Unison nominated representative<br>• 2 other member representatives<br>There is an excellent working relationship and effective communication between the two bodies. |
| d. That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel. | The LPB reports are available to all Committee members and the Chair of the LPB presents a summary of the meeting to the PFC. |

## B – Representation

| Principle (DCLG Statutory Guidance) | Compliance |
|---|---|
| a. That all key stakeholders are afforded the opportunity to be represented. within the main or secondary committee structure. These include:<br>• Employing authorities (including non-scheme employers, e.g., admitted bodies)<br>• Scheme members (including deferred and pensioner scheme members)<br>• Where appropriate, independent professional observers<br>• Expert advisors (on an ad-hoc basis). | All the non-political/non-trades union seats on both bodies are widely advertised by e-mail, newsletters and on the website and appointments flow from an open competition.<br><br>All employers, (schedule 2 part 1, 2, 3 or 4) can nominate employer representatives for either body, but the appointment will be made solely on the basis of merit.<br><br>Active, deferred and pensioner members can compete for the member seats on either board on an equal footing.<br><br>The PFC appoints a range of contracted professional advisors (see A (a) above) supplemented by ad hoc specialist advisors as required.<br><br>All the members of both bodies have equal access to papers and resources. |

## C – Selection and Role of Lay members

| Principle (DCLG Statutory Guidance) | Compliance |
|---|---|
| a. That committee or panel members are made fully aware of the status, role, and function they are required to perform on either a main or secondary committee. | Officers ensure that those on the Committee/Board have the appropriate skills and knowledge.<br><br>The Fund has a comprehensive training plan ensuring that Committee/Board members are properly and effectively trained.<br><br>The effectiveness of the Board is monitored, improvements are made where necessary and risk assessments are undertaken on a regular basis.<br><br>There is a special requirement for board members to demonstrate knowledge and capacity. |
| b. That at the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda. | Members of both bodies are invited to declare any financial, pecuniary or conflict of interest relating to any of the matters on the agenda at the beginning of each meeting. |

## D -Voting

| Principle (DCLG Statutory Guidance) | Compliance |
|---|---|
| a. The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees. | All the members of the PFC and the LPB have equal voting rights on their respective bodies, except the independent Chair of the LPB. |

## E – Training, facility time and expenses

| Principle (DCLG Statutory Guidance) | Compliance |
|---|---|
| a. That in relation to the way in which statutory and related decisions are taken by the Administering Authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process. | Surrey County Council has a Members' Allowances Scheme policy and elected members' reasonable expenses are paid and the Chairs of the PFC and the LPB receive special responsibility allowances weighted to the demands of their roles. |
| b. That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels, or any other form of secondary forum. | Although there is not a formal policy on lay members reasonable additional expenses, for example attending external training, they would be reimbursed. |
| c. That the Administering Authority considers the adoption of annual training plans for committee members and maintains a log of all such training undertaken. | Surrey Pension Fund has a comprehensive training plan and it designs, monitors and finances the members' training. |

## F – Meetings, frequency and quorum

| Principle (DCLG Statutory Guidance) | Compliance |
|---|---|
| a. That an Administering Authority's main committee or committees meet at least quarterly. | The PFC meets (at least) quarterly. |
| b. That an Administering Authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits. | The LPB meets quarterly, and its meeting precedes the PFC's. |

| Principle (DCLG Statutory Guidance) | Compliance |
| --- | --- |
| c. That an Administering Authority who does not include lay members in their formal governance arrangements, must provide a forum outside of those arrangements by which the interests of key stakeholders can be represented. | Surrey Pension Fund's governance arrangements are fully inclusive. |

### G – Access

| Principle (DCLG Statutory Guidance) | Compliance |
| --- | --- |
| a. That subject to any rules in the council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee. | Every member of both bodies is provided with all the papers by encrypted e-mail, unless their e-mail account is on the host authority's server. Special arrangements are made for any members without an e-mail account or with specific disabilities. |

### H – Scope

| Principle (DCLG Statutory Guidance) | Compliance |
| --- | --- |
| a. That Administering Authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements. | The PFC and the LPB oversee all aspects of management and administration. This includes monitoring and analysing pension administration performance, approving the Administering Authority's discretions, its Pension Administration Strategy and a raft of other policies.<br><br>Both the PFC and the LPB are closely engaged with Environment and Social Governance (ESG), Task Force on Climate-related Financial Disclosure (TFCD) and Sustainable Development Goals (SDG) issues. |

## I – Publicity

| Principle (DCLG Statutory Guidance) | Compliance |
|---|---|
| a. That Administering Authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements. | All of Surrey Pension Fund's statutory and optional governance policies are published on our website and are replicated in part in this document.<br><br>The Pension Fund sends regular newsletters, bulletins, and updates to all of its stakeholders. |

# Governance Policy Statement

This Statement is prepared for the purposes of Regulation 55 of the Local Government Pension Scheme Regulations 2013 (LGPS). It sets out the policy of the Administering Authority in relation to its governance responsibilities for the Local Government Pension Scheme (LGPS).

**Contents**

## Overall Governance Framework

The Administering Authority with its advisors has identified the following key areas (the "five principles") to support its overall governance framework. The governance framework focuses on:

1) The effectiveness of the Pension Fund Committee and officers to which delegated function has been passed, including areas such as decision-making processes, knowledge and competencies
2) The establishment of policies and their implementation
3) Clarity of areas of responsibility between officers and Pension Fund Committee members
4) The ability of the Pension Fund Committee and officers to communicate clearly and regularly with all stakeholders
5) The ability of the Pension Fund Committee and officers to ask for the appropriate information and advice and to interpret that information in their supervision and monitoring of the Scheme in all areas
6) The management of risks and internal controls to underpin the framework.

**Overall responsibility for the governance of the Local Government Pension Scheme and for the approval of this document resides with the Pension Fund Committee.**

## Delegation of Functions

The following functions are delegated by the Administering Authority:

### Scheme Administration

**Governance Principles: Effective Committee delegation; appropriate accountability; rigorous supervision and monitoring.**

Including, but not exclusively or limited to, record keeping, calculation of and payment of benefits, reconciliation and investment of contributions, preparation of annual accounts, provision of membership data for actuarial valuation purposes.

The Administering Authority has responsibility for “Scheme Administrator” functions as required by HM Revenues and Customs (HMRC) under the Finance Act 2004.

**Delegated to:**

- Pension Fund Committee (monitoring)
- Deputy Chief Executive and Executive Director of Resources (Pension Fund administration implementation)

### Funding

**Governance Principles: Effective Committee delegation; appropriate accountability; written plan policies.**

Including, but not exclusively or limited to, setting of the appropriate funding target for the Local Government Pension Scheme. The Assistant Director – LGPS Senior Officer shall be responsible for maintaining the Funding Strategy Statement (FSS). The Pension Fund Committee shall be responsible for approving the FSS.

**Delegated to:**

- Pension Fund Committee (policy approval)
- Deputy Chief Executive and Executive Director of Resources (maintaining FSS and policy implementation)

### Investment

**Governance Principles: Effective Committee delegation; appropriate accountability; written plan policies.**

Including, but not exclusively or limited to, setting of an appropriate investment strategy or strategies, selection of investment managers, setting of performance benchmarks and regular monitoring of performance. The Pension Fund Committee shall be responsible for maintaining the Statement of Investment Principles.

**Delegated to:**

- Pension Fund Committee (strategy approval, manager selection, benchmarks, monitoring)
- Deputy Chief Executive and Executive Director of Resources (Pension Fund investment implementation)

## Communications

**Governance Principle: Effective Information Flow; written plan policies.**

Including setting of a communication strategy, issuing or arranging to be issued re benefit statements, annual newsletters and annual report. The Pension Fund Committee shall be responsible for maintaining the Communications Policy.

**Delegated to:**

- Pension Fund Committee (policy approval)
- Deputy Chief Executive and Executive Director of Resources (Pension Fund policy implementation)

## Risk Management

**Effective Committee delegation; appropriate accountability; written plan policies.**

Including the identification, evaluation and monitoring of risks inherent within the Local Government Pension Scheme. The Pension Fund Committee shall be responsible for approving the Risk Register. The Deputy Chief Executive and Executive Director of Resources shall be responsible for maintaining the risk register.

**Delegated to:**

- Pension Fund Committee (policy approval)
- Deputy Chief Executive and Executive Director of Resources (Pension Fund policy implementation)

# Terms of Reference and Decision Making

## Terms of Reference:

**Governance Principle: Effective Committee delegation; written plan policies.**

The Pension Fund Committee's Terms of Reference as approved by Full Council on 10 October 2023.

**Governance Principle: Administration, Funding, Investment, Communications and Risk Management.**

In line with the Council's Constitution, the Pension Fund Committee shall oversee Pension Fund investments, the overall management of the Fund, the governance surrounding the Fund, and the administration of the Pension Scheme.

## Structure of the Pension Fund Committee and representation:

**Governance Principle: Effective Committee delegation**

The Pension Fund Committee shall be made up of:

- 4 Conservative members
- 1 Liberal Democrat member
- 1 Independent member
- 2 Districts and Boroughs Members
- 1 Employer representative
- 1 Employee representative

## Decision Making:

**Governance Principle: Effective Committee delegation; rigorous supervision and monitoring.**

The Pension Fund Committee shall have full decision-making powers.

Each member of the Pension Fund Committee shall have full voting rights.

## Operational Procedures

### Frequency of Meetings:

**Governance Principle: Effective Committee delegation; effective information flow.**

The Pension Fund Committee shall convene no less frequently than four times per year. The Pension Fund Committee shall receive full reports upon all necessary matters as decided by the Deputy Chief Executive and Executive Director of Resources and any matters requested by members of the Pension Fund Committee.

Provision exists for the calling of special meetings if circumstances demand.

### Competencies, Knowledge and Understanding:

**Governance Principle: Effective Committee delegation; appropriate accountability.**

Officers and Members of the Pension Fund Committee shall undertake training to ensure that they have the appropriate knowledge, understanding and competency to carry out the delegated function. It is recommended that such knowledge, understanding and competency is evaluated on an annual basis to identify any training or educational needs of the Officers and the Pension Fund Committee.

### Reporting and Monitoring:

**Governance Principle: Rigorous supervision and monitoring; effective information flow.**

The Pension Fund Committee shall report to the Audit and Governance Committee on a frequency, and with such information as shall be agreed and documented, on a no less than annual basis, the minimum provision being the Pension Fund's annual report.

## Review of this policy statement

Responsibility for this document resides with the Deputy Chief Executive and Executive Director of Resources. It will be reviewed by the Deputy Chief Executive and Executive Director of Resources no less frequently than annually. This document will be reviewed if there are any material changes in the Administering Authority’s governance policy or if there are any changes in relevant legislation or regulation.

| | |
|---|---|
| Effective | 1 April 2023 |
| Reviewed | 8 September 2023 |
| Next review | 31 March 2024 |

## Appendix A - Pension Fund Committee Terms of Reference

(i) To undertake statutory functions on behalf of the Local Government Pension Scheme and ensure compliance with legislation and best practice

(ii) To determine policy for the investment, funding and administration of the pension fund

(iii) To consider issues arising and make decisions to secure efficient and effective performance and service delivery

(iv) To appoint and monitor all relevant external service providers:

- Fund managers
- Custodian
- Corporate advisors
- Independent advisors
- Actuaries
- Governance advisors
- All other professional services associated with the pension fund.

(v) To monitor performance across all aspects of the service

(vi) To ensure that arrangements are in place for consultation with stakeholders as necessary

(vii) To consider and approve the annual statement of pension fund accounts

(viii) To consider and approve the Surrey Pension Fund actuarial valuation and employer contributions

(ix) To receive minutes and consider recommendations from and ensure the effective performance of the Joint Committee of the Border to Coast Pensions Partnership and any other relevant bodies.

## Appendix B - Scheme of Delegation

Section 3, Part 3A Specific Delegation to Officers - April 2022

| Title of Post Holder | Function Delegated |
|---|---|
| • Deputy Chief Executive and Executive Director of Resources<br>• Director of Corporate Finance & Commercial<br>• Strategic Finance Business Partner (Pensions)*<br>• Strategic Finance Business Manager (Corporate) Reporting | Execute cash transfers to pension fund managers. |
| • Deputy Chief Executive and Executive Director of Resources<br>• Director of Corporate Finance & Commercial<br>• Strategic Finance Business Partner (Pensions)* | Borrowing, lending and investment of County Council Pension Fund moneys, in line with strategies agreed by the Pension Fund Board. Delegated authority to the S151 Finance Officer to take any urgent action as required between Board meetings but such action only to be taken in consultation with and by agreement with the Chair and/or Vice Chair of the Pension Fund Board and any relevant Consultant and/or Independent Advisor. |
| • Director of Corporate Finance & Commercial<br>• Strategic Finance Business Partner (Pensions)* | To exercise discretion in relation to the Local Government Pension Scheme except:<br><br>(1) Where a policy on the matter has been agreed by the Local Pension Board and included in the Discretionary Pension Policy Statement published by the Council,<br><br>(2) Decisions relating to “admitted body status” and<br><br>(3) Decisions relating to individual cases as provided for in the separate delegation to the Strategic Finance Manager (Pensions)*.<br><br>This delegation is subject to any limitations imposed and confirmed in writing from time to time by the Executive Director of Resources. |

| Title of Post Holder | Function Delegated |
|---|---|
| • Deputy Chief Executive and Executive Director of Resources<br>• Director of Corporate Finance & Commercial<br>• Strategic Finance Business Partner (Pensions)* | Hear stage one or stage two appeals relating to disputes involving the Local Government Pension Scheme, Compensation Benefits and Injury Allowances provided that an officer hearing an appeal will not have been involved at an earlier stage in the process. |
| • Director of Corporate Finance and Commercial<br>• Strategic Finance Manager (Pensions)* | To exercise discretion in relation to the Local Government Pension Scheme except:<br><br>(1) Where a policy on the matter has been agreed by the Local Pension Board and included in the Discretionary Pension Policy Statement published by the Council,<br><br>(2) Decisions relating to “admitted body status” and<br><br>(3) Decisions relating to individual cases as provided for in the separate delegation to the Strategic Finance Manager (Pensions)*.<br><br>This delegation is subject to any limitations imposed and confirmed in writing from time to time by the Deputy Chief Executive and Executive Director of Resources. |

*Change of post designation from Strategic Finance Manager (Pensions) to Assistant Director - LGPS Senior Officer.

# Summary of Employers

A summary of the number of active and ceased (with some current outstanding liability) analysed by scheduled, admitted, designating bodies, and academies is shown below.

| Employer | Active | Ceased | Total |
|---|---|---|---|
| Admin Authority | 1 | 0 | 1 |
| Scheduled Body | 48 | 0 | 48 |
| Admitted Body | 70 | 9 | 79 |
| Academy | 226 | 0 | 226 |
| Total | 345 | 9 | 354 |

# Employer and Employee Contributions

Details of the active employers, along with employer and employee contributions paid into the Pension Fund during the year is shown below.

| Employing Organisation | Type | Employer % Contribution Rate | Employees Contributions £000 | Employer Contributions £000 |
|---|---|---|---|---|
| A2 Dominion | Admitted Body | 33.3 | 8 | 26 |
| Ability Housing Association | Admitted Body | 35.1 | 5 | 30 |
| ABM Catering - (Saxon Primary School) | Admitted Body | 24.0 | 0 | 1 |
| ABM Catering - (Northmead Junior School) | Admitted Body | 27.2 | 2 | 10 |
| ABM Catering – (LLT Riverbridge) | Admitted Body | 24.0 | 0 | 0 |
| ABM Catering (LLT - Echelford School) | Admitted Body | 24.0 | 0 | 1 |
| ABM Catering (St Peters Catholic School) | Admitted Body | 27.7 | 1 | 3 |
| Academy of Contemporary Music | Academy | 15.4 | 2 | 5 |
| Achieve Lifestyle | Admitted Body | 32.2 | 12 | 51 |
| Activate learning Guildford College | Scheduled Bodies | 20.7 | 336 | 1110 |
| Ash Grange | Academy | 25.2 | 32 | 138 |
| Ash Parish Council | Scheduled Body | 18.4 | 11 | 35 |
| Ashley CofE Primary School | Academy | 21.3 | 33 | 129 |
| Aspens (Learning Partners Academy Trust) | Admitted Body | 19.6 | 1 | 5 |
| Aspens (Wishmore Cross Academy) | Admitted Body | 27.1 | 3 | 12 |
| Atalian Servest (Matthew Arnold School) | Admitted Body | 30.9 | 1 | 4 |
| Athena-GEP Trust | Academy | 18.6 | 62 | 166 |
| Auriol Junior School | Academy | 20.9 | 25 | 85 |
| Banstead Infant School | Academy | 20.0 | 16 | 58 |

| Employing Organisation | Type | Employer % Contribution Rate | Employees Contributions £000 | Employer Contributions £000 |
|---|---|---|---|---|
| Barnardos & SCC (Surrey Heath) | Admitted Body | 25.2 | 33 | 134 |
| Barnardos & SCC (Tandridge) | Admitted Body | 27.4 | 0 | 1 |
| Barnardos & SCC (Waverley) | Admitted Body | 28.5 | 37 | 176 |
| Barnsbury Primary School | Academy | 20.4 | 33 | 122 |
| Beaufort Primary School | Academy | 20.4 | 38 | 138 |
| Bishop David Brown School | Academy | 23.3 | 24 | 96 |
| Bisley Parish Council | Scheduled Body | 18.4 | 2 | 6 |
| Blenheim High School | Academy | 22.5 | 64 | 230 |
| Bletchingley Village Primary School | Academy | 20.8 | 29 | 106 |
| Boxgrove Primary School | Academy | 23.5 | 53 | 205 |
| Bramley Oak School | Academy | 25.0 | 41 | 166 |
| Bramley Parish Council | Scheduled Body | 18.4 | 1 | 4 |
| Broadmere Primary Academy | Academy | 20.9 | 27 | 96 |
| Broadwater School | Academy | 24.2 | 52 | 202 |
| Brooklands College | Scheduled Body | 25.6 | 151 | 633 |
| Brookwood Park Ltd | Admitted Body | 24.0 | 5 | 14 |
| Brookwood Primary School | Academy | 20.9 | 14 | 50 |
| Burstow Parish Council | Scheduled Body | 18.4 | 3 | 9 |
| Busbridge Infant School | Academy | 18.3 | 14 | 46 |
| Busy Bees (Tandridge Learning Trust) | Admitted Body | 26.2 | 1 | 5 |
| Byfleet Primary School | Academy | 19.8 | 15 | 54 |
| Cardinal Newman Catholic School | Academy | 20.6 | 25 | 92 |
| Carrington School | Academy | 22.0 | 50 | 182 |

| Employing Organisation | Type | Employer % Contribution Rate | Employees Contributions £000 | Employer Contributions £000 |
|---|---|---|---|---|
| Carwarden House Community School | Academy | 20.1 | 41 | 140 |
| Catalyst Support | Admitted Body | 27.3 | 14 | 55 |
| Caterlink (Therfield School) | Admitted Body | 28.3 | 2 | 11 |
| CH & Co (Pirbright School) | Admitted Body | 23.4 | 0 | 1 |
| Chertsey High School | Academy | 20.9 | 31 | 106 |
| Chiddingfold Parish Council | Scheduled Body | 18.4 | 1 | 2 |
| Childhood First | Admitted Body | 32.6 | 2 | 8 |
| Christ's College | Academy | 21.3 | 32 | 115 |
| Churt Parish Council | Scheduled Body | 18.4 | 1 | 4 |
| Clarion Housing Group | Admitted Body | 35.0 | 6 | 37 |
| Cleves Academy Trust | Academy | 20.9 | 41 | 142 |
| Cobham Free School | Academy | 18.6 | 47 | 149 |
| Collingwood College | Academy | 19.0 | 101 | 312 |
| Compass Contract Services | Admitted Body | 15.3 | 1 | 3 |
| Compass: GLF | Admitted Body | 18.3 | 1 | 3 |
| Compass: Salesians School | Admitted Body | 20.4 | 2 | 9 |
| Connaught Junior School | Academy | 21.7 | 22 | 87 |
| Cordwalles Junior School | Academy | 20.0 | 13 | 47 |
| Cranleigh Parish Council | Scheduled Body | 18.4 | 10 | 27 |
| Crawley Ridge Infant School | Academy | 21.7 | 11 | 44 |
| Crawley Ridge Junior School | Academy | 21.7 | 15 | 58 |
| Cross Farm Infant School | Academy | 21.9 | 8 | 30 |
| Crowhurst Parish Council | Scheduled Body | 18.4 | 0 | 1 |

| Employing Organisation | Type | Employer % Contribution Rate | Employees Contributions £000 | Employer Contributions £000 |
|---|---|---|---|---|
| Cuddington Primary Sch | Academy | 21.3 | 17 | 64 |
| Cuddington Croft School | Academy | 20.0 | 29 | 106 |
| Danetree Primary School | Academy | 20.0 | 54 | 191 |
| Darley Dene Primary School | Academy | 20.2 | 29 | 102 |
| De Stafford School | Academy | 20.0 | 38 | 134 |
| Dormansland Parish Council | Scheduled Body | 18.4 | 0 | 1 |
| Dovers Green School | Academy | 19.8 | 39 | 116 |
| Dunsfold Parish Council | Scheduled Body | 18.4 | 1 | 3 |
| East Horsley Parish Council | Scheduled Body | 18.4 | 2 | 9 |
| East Surrey College | Scheduled Body | 24.3 | 250 | 912 |
| East Surrey Rural Transport | Admitted Body | 23.0 | 4 | 12 |
| Eastwick Junior and Infant School | Academy | 21.3 | 44 | 168 |
| Edwards & Ward (Shawfield School) | Admitted Body | 14.3 | 0 | 0 |
| Edwards & Ward (St Joseph's) | Admitted Body | 26.9 | 1 | 4 |
| Effingham Parish Council | Scheduled Body | 18.4 | 2 | 5 |
| Elmbridge Building Control | Admitted Body | 12.7 | 10 | 15 |
| Elmbridge Council | Scheduled Body | 17.1 | 861 | 2024 |
| Elstead Parish Council | Scheduled Body | 18.4 | 1 | 5 |
| Engage Enrich Excel Academy | Academy | 19.8 | 10 | 21 |
| Epsom & Ewell Council | Scheduled Body | 17.4 | 593 | 1487 |
| Epsom and Ewell High School | Academy | 20.9 | 94 | 272 |
| Esher Church School | Academy | 21.7 | 19 | 73 |
| Esher CofE High School | Academy | 22.0 | 101 | 340 |

| Employing Organisation | Type | Employer % Contribution Rate | Employees Contributions £000 | Employer Contributions £000 |
|---|---|---|---|---|
| Esher College | Academy | 17.9 | 98 | 280 |
| Farnham Heath End School | Academy | 20.8 | 46 | 154 |
| Farnham Town Council | Scheduled Body | 14.2 | 26 | 55 |
| Folly Hill Infants School | Academy | 20.5 | 7 | 27 |
| Fordway Centre | Academy | 16.8 | 7 | 28 |
| Fox Grove School | Academy | 19.4 | 33 | 120 |
| Freedom Leisure - Guildford | Admitted Body | 16.4 | 24 | 62 |
| Freedom Leisure - Woking | Admitted Body | 16.2 | 16 | 42 |
| Frensham Parish Council | Scheduled Body | 18.4 | 2 | 5 |
| Frimley Junior School | Academy | 23.7 | 23 | 95 |
| Fullbrook School | Academy | 23.5 | 73 | 277 |
| Fusion Lifestyle | Admitted Body | 16.0 | 1 | 3 |
| Galliford Try (Surrey Police) | Admitted Body | 25.0 | 1 | 5 |
| George Abbot School | Academy | 23.5 | 93 | 336 |
| Glencross (St Peters School) | Admitted Body | 15.3 | 8 | 21 |
| GLF Central | Academy | 20.0 | 231 | 650 |
| Glyn School | Academy | 20.0 | 68 | 223 |
| Godalming College | Academy | 18.1 | 100 | 291 |
| Godalming Town Council | Scheduled Body | 18.4 | 26 | 71 |
| Goldsworth Academy Trust | Academy | 18.4 | 51 | 160 |
| Goldsworth Primary School | Academy | 18.4 | 30 | 98 |
| Good Shepherd Trust | Academy | 21.3 | 47 | 113 |
| Gordons School Academy Trust | Academy | 21.7 | 46 | 171 |

| Employing Organisation | Type | Employer % Contribution Rate | Employees Contributions £000 | Employer Contributions £000 |
|---|---|---|---|---|
| Great Bookham School | Academy | 25.2 | 13 | 45 |
| Greensand MAT | Academy | 18.0 | 17 | 43 |
| Guildford Borough Council | Scheduled Body | 17.2 | 1495 | 3727 |
| Guildford County School | Academy | 19.3 | 69 | 212 |
| Guildford Grove Primary School | Academy | 23.5 | 44 | 181 |
| Hale Primary School | Academy | 21.9 | 22 | 84 |
| Hammond School | Academy | 20.0 | 17 | 60 |
| Hamsey Green Primary School | Academy | 20.8 | 26 | 95 |
| Hanover Housing Association | Admitted Body | 26.2 | 59 | 234 |
| Haslemere Town Council | Scheduled Body | 18.4 | 8 | 21 |
| Hatchlands Primary School | Academy | 20.0 | 12 | 42 |
| Hawkedale School | Academy | 25.2 | 16 | 66 |
| Heathside School | Academy | 21.5 | 89 | 302 |
| Hendeca Group (SCC) | Admitted Body | 30.1 | 6 | 9 |
| Highfield South Farnham Primary | Academy | 19.1 | 28 | 126 |
| Hillcroft Primary School | Academy | 20.0 | 32 | 112 |
| Hinchley Wood Primary School | Academy | 21.8 | 33 | 127 |
| Hinchley Wood School (Secondary) | Academy | 21.8 | 97 | 350 |
| Hoe Valley School | Academy | 17.7 | 62 | 175 |
| Holland Junior School | Academy | 22.7 | 13 | 56 |
| Holly Lodge Primary School | Academy | 21.9 | 19 | 75 |
| Holmesdale Infant School | Academy | 19.8 | 24 | 86 |
| Holy Family Catholic Primary | Academy | 20.6 | 13 | 47 |

| Employing Organisation | Type | Employer % Contribution Rate | Employees Contributions £000 | Employer Contributions £000 |
|---|---|---|---|---|
| Holy Trinity Primary School | Academy | 21.7 | 25 | 95 |
| Horley Town Council | Scheduled Body | 18.4 | 10 | 26 |
| Howard of Effingham School | Academy | 21.3 | 58 | 208 |
| IESE ltd | Admitted Body | 30.2 | 53 | 171 |
| Independent Catering (Priory School) | Admitted Body | 26.0 | 1 | 7 |
| Innovate (Ash Manor) | Admitted Body | 22.4 | 2 | 10 |
| Innovate (Weydon MAT) | Admitted Body | 19.8 | 1 | 4 |
| ISS (THPT) | Admitted Body | 25.2 | 3 | 12 |
| Jubilee High Academy | Academy | 20.9 | 41 | 135 |
| Kenyngton Manor Primary School | Academy | 21.3 | 30 | 115 |
| Kier (May Gurney) | Admitted Body | 24.4 | 0 | 2 |
| Kingfield Primary | Academy | 25.0 | 23 | 81 |
| Kings College Guildford | Academy | 23.5 | 41 | 161 |
| Kite Academy Trust | Academy | 21.9 | 45 | 143 |
| Knaphill School | Academy | 18.4 | 9 | 30 |
| Lakeside Primary School | Academy | 21.9 | 22 | 83 |
| Leatherhead Trinity School | Academy | 24.2 | 32 | 138 |
| Lightwater Village School | Academy | 20.0 | 15 | 51 |
| Lime Tree Primary School | Academy | 20.0 | 28 | 101 |
| Linden Bridge School | Academy | 20.8 | 55 | 204 |
| Lingfield Parish Council | Scheduled Body | 18.4 | 1 | 3 |
| Loseley Fields Primary | Academy | 23.5 | 31 | 123 |
| Lumen Learning Trust | Academy | 20.2 | 29 | 92 |

| Employing Organisation | Type | Employer % Contribution Rate | Employees Contributions £000 | Employer Contributions £000 |
|---|---|---|---|---|
| Magna Carta School | Academy | 23.3 | 38 | 148 |
| Marden Lodge Primary | Academy | 20.0 | 19 | 68 |
| Matthew Arnold School | Academy | 20.9 | 43 | 140 |
| Maybury Primary School | Academy | 19.8 | 19 | 67 |
| Meadhurst Primary school | Academy | 21.3 | 39 | 145 |
| Meadow Primary School | Academy | 20.9 | 36 | 125 |
| Merstham Park School | Academy | 20.0 | 29 | 99 |
| Merstham Primary School | Academy | 20.0 | 12 | 42 |
| Merton & Sutton Cemetery Board | Admitted Body | 28.7 | 0 | 0 |
| Milestone Ltd | Admitted Body | 21.8 | 8 | 24 |
| Mole Valley Council | Scheduled Body | 17.1 | 633 | 1536 |
| Moor House School | Academy | 34.6 | 28 | 146 |
| Mytchett Primary School | Academy | 21.9 | 12 | 47 |
| NESCOT | Scheduled Body | 21.0 | 236 | 745 |
| New Haw Community Junior | Academy | 20.2 | 25 | 84 |
| New Monument Primary | Academy | 20.9 | 12 | 45 |
| Normandy Parish Council | Scheduled Body | 18.4 | 1 | 4 |
| Northmead Junior School | Academy | 19.3 | 30 | 102 |
| Nviro (SCC) | Admitted Body | 22.8 | 50 | 208 |
| (The) Oaktree School | Academy | 20.4 | 28 | 98 |
| Olive Dining (Bell Farm School) | Admitted Body | 18.2 | 2 | 7 |
| Our Lady of Rosary School | Academy | 15.9 | 6 | 25 |
| Ottershaw CofE Infant & Juniors | Academy | 21.3 | 24 | 90 |

| Employing Organisation | Type | Employer % Contribution Rate | Employees Contributions £000 | Employer Contributions £000 |
|---|---|---|---|---|
| Oxted School | Academy | 21.3 | 85 | 304 |
| Pabulum (Burpham Primary) | Admitted Body | 30.6 | 0 | 2 |
| Pabulum (Epsom and Ewell) | Admitted Body | 16.7 | 0 | 1 |
| Peaslake Free School | Academy | 20.1 | 3 | 12 |
| Pine Ridge and Lorraine Sch | Academy | 20.0 | 24 | 84 |
| Pirbright Village School | Academy | 19.3 | 25 | 86 |
| Pond Meadow School | Academy | 19.5 | 74 | 253 |
| Potters Gate CofE Primary School | Academy | 21.3 | 31 | 116 |
| Pyrcroft Grange Primary | Academy | 20.9 | 31 | 111 |
| Pyrford CofE Aided Primary School | Academy | 21.0 | 45 | 160 |
| Queen Eleanor's School | Academy | 21.3 | 17 | 62 |
| Rapid Clean (St Augustines) | Admitted Body | 28.8 | 0 | 2 |
| Ravenscote Junior School | Academy | 19.8 | 29 | 102 |
| Reigate & Banstead Council | Scheduled Body | 15.0 | 1193 | 2530 |
| Reigate Grammar School | Academy | 28.2 | 105 | 395 |
| Reigate Learning Alliance | Academy | 18.2 | 127 | 384 |
| Reigate School | Academy | 19.8 | 62 | 213 |
| Reigate Valley College | Academy | 16.8 | 25 | 95 |
| Ringway Infrastructure | Admitted Body | 31.5 | 3 | 12 |
| Riverbridge Primary School | Academy | 20.2 | 52 | 182 |
| Rodborough School | Academy | 22.6 | 48 | 174 |
| Rosebery Housing Association | Admitted Body | 32.4 | 2 | 11 |
| Rosebery School | Academy | 20.0 | 46 | 151 |

| Employing Organisation | Type | Employer % Contribution Rate | Employees Contributions £000 | Employer Contributions £000 |
|---|---|---|---|---|
| Runnymede Council | Scheduled Body | 17.6 | 927 | 2332 |
| Russell Education Trust | Academy | 15.2 | 37 | 73 |
| Salesian School | Academy | 20.6 | 101 | 321 |
| Salfords Primary School | Academy | 20.0 | 24 | 86 |
| Sandcross Primary School | Academy | 20.0 | 59 | 195 |
| Sandfield Primary School | Academy | 23.5 | 16 | 64 |
| Sandringham School | Academy | 21.9 | 12 | 47 |
| SAVI | Academy | 25.0 | 4 | 14 |
| Saxon Primary School | Academy | 20.2 | 29 | 104 |
| Sayes Court School | Academy | 20.9 | 17 | 61 |
| SCC Schools | Scheduled Body | 25.2 | 657 | 2759 |
| Scott Broadwood CofE | Academy | 19.7 | 3 | 10 |
| Send Parish Council | Scheduled Body | 18.4 | 3 | 7 |
| SERCO | Admitted Body | 15.9 | 17 | 43 |
| Shalford Infant School | Academy | 19.3 | 9 | 30 |
| Shalford Parish Council | Scheduled Body | 18.4 | 2 | 5 |
| Shawley Community Primary | Academy | 25.2 | 12 | 54 |
| Sight For Surrey | Admitted Body | 25.0 | 4 | 14 |
| Sir William Perkins School | Academy | 37.7 | 5 | 28 |
| South Camberley Primary School | Academy | 19.8 | 36 | 119 |
| South Farnham Education Trust | Academy | 19.1 | 58 | 177 |
| Spelthorne Borough Council | Scheduled Body | 17.3 | 930 | 3375 |
| Springfield Primary School | Academy | 20.0 | 23 | 81 |

| Employing Organisation | Type | Employer % Contribution Rate | Employees Contributions £000 | Employer Contributions £000 |
|---|---|---|---|---|
| Spurgeons (SCC) | Admitted Body | 26.6 | 3 | 13 |
| St Alban's Catholic Primary School | Academy | 20.6 | 26 | 94 |
| St Andrew's CofE Infant School | Academy | 21.3 | 3 | 13 |
| St Andrew's CofE Primary School | Academy | 22.0 | 12 | 46 |
| St Anne’s Catholic Primary School | Academy | 20.6 | 25 | 90 |
| St Augustine’s Catholic Primary School | Academy | 20.6 | 28 | 94 |
| St Charles Borromeo Catholic | Academy | 20.6 | 21 | 75 |
| St Cuthbert Mayne | Academy | 20.6 | 10 | 37 |
| St Edmunds Primary School | Academy | 20.6 | 13 | 48 |
| St Hugh of Lincoln Catholic Primary | Academy | 20.6 | 11 | 39 |
| St Ignatius Catholic Primary | Academy | 15.9 | 7 | 33 |
| St John the Baptist | Academy | 20.6 | 94 | 313 |
| St John's Primary School | Academy | 19.8 | 17 | 61 |
| St John's School, Knaphill | Academy | 18.4 | 9 | 29 |
| St John's Primary School | Academy | 21.3 | 28 | 103 |
| St Lawrence Primary School | Academy | 21.3 | 11 | 42 |
| St Mark and All Saints CofE School | Academy | 21.3 | 12 | 47 |
| St Martins CofE | Academy | 21.8 | 34 | 130 |
| St Mary's CofE Primary School | Academy | 25.2 | 40 | 177 |
| St Mary's Primary School | Academy | 21.3 | 14 | 51 |
| St Matthew's C of E Primary School | Academy | 20.2 | 24 | 82 |
| St Michael's Catholic School | Academy | 15.9 | 9 | 40 |
| St Paul's Catholic College | Academy | 25.2 | 64 | 250 |

| Employing Organisation | Type | Employer % Contribution Rate | Employees Contributions £000 | Employer Contributions £000 |
|---|---|---|---|---|
| St Peters Catholic School | Academy | 20.6 | 75 | 248 |
| St Polycarp's Catholic School | Academy | 20.6 | 23 | 85 |
| St Stephen's CofE Primary School | Academy | 20.2 | 21 | 77 |
| St Thomas' Catholic Primary School | Academy | 20.6 | 32 | 116 |
| St. Paul’s CofE Primary School | Academy | 21.3 | 30 | 103 |
| Stanwell Fields CofE School | Academy | 18.2 | 26 | 83 |
| Stoughton Infant School | Academy | 19.3 | 31 | 103 |
| Sunbury Manor School | Academy | 21.2 | 72 | 250 |
| Surrey Choices | Admitted Body | 14.7 | 36 | 76 |
| Surrey County Council | Admin Authority | 14.8 | 17635 | 37292 |
| Surrey Heath BC | Scheduled Body | 17.2 | 707 | 1705 |
| Surrey Hills All Saints CofE School | Academy | 21.3 | 10 | 37 |
| Surrey Police | Scheduled Body | 16.5 | 3886 | 9628 |
| Surrey Schools | Scheduled Body | 25.2 | 4126 | 17890 |
| Surrey Sports Park | Admitted Body | 26.0 | 12 | 35 |
| Sythwood Primary School | Academy | 20.9 | 59 | 214 |
| Tandridge DC | Scheduled Body | 17.1 | 589 | 1426 |
| Tatsfield Parish Council | Scheduled Body | 18.4 | 1 | 3 |
| Tatsfield Primary School | Academy | 20.8 | 11 | 37 |
| Thames Ditton Junior School | Academy | 21.8 | 10 | 39 |
| Thamesmead School | Academy | 21.3 | 67 | 229 |
| The Abbey School | Academy | 20.8 | 32 | 113 |
| The Alliance Multi Academy Trust | Academy | 21.7 | 11 | 31 |

| Employing Organisation | Type | Employer % Contribution Rate | Employees Contributions £000 | Employer Contributions £000 |
|---|---|---|---|---|
| The Ashcombe School | Academy | 22.0 | 75 | 268 |
| The Beacon School | Academy | 20.0 | 61 | 201 |
| The Bishop Wand CofE School | Academy | 21.2 | 53 | 179 |
| The Echelford Primary School | Academy | 20.2 | 37 | 132 |
| The Grove Primary School | Academy | 21.9 | 25 | 99 |
| The Hermitage School | Academy | 20.4 | 21 | 78 |
| The Horsell Village Academy | Academy | 20.4 | 15 | 55 |
| The Howard Partnership Trust | Academy | 21.3 | 192 | 624 |
| The Knaphill Lower School | Academy | 18.4 | 8 | 25 |
| The Marist Catholic Primary School | Academy | 20.6 | 33 | 120 |
| The Mead Infant School | Academy | 18.9 | 11 | 39 |
| The Park School | Academy | 20.8 | 26 | 93 |
| The Raleigh School | Academy | 19.1 | 24 | 68 |
| The Ridgeway School | Academy | 20.8 | 59 | 208 |
| The Swan Trust | Academy | 20.4 | 11 | 36 |
| The Vale Primary School | Academy | 20.0 | 12 | 42 |
| The Weald Primary School | Academy | 21.3 | 10 | 39 |
| Therfield School | Academy | 22.0 | 55 | 196 |
| Thomas Knyvett College | Academy | 21.3 | 38 | 139 |
| Three Rivers Academy | Academy | 21.3 | 50 | 185 |
| Tomlinscote School | Academy | 23.7 | 84 | 334 |
| Unified Academy | Academy | 19.7 | 27 | 88 |
| Unity Trust | Academy | 23.3 | 34 | 102 |

| Employing Organisation | Type | Employer % Contribution Rate | Employees Contributions £000 | Employer Contributions £000 |
|---|---|---|---|---|
| University of Creative Arts | Scheduled Body | 20.1 | 1227 | 3554 |
| University of Surrey | Scheduled Body | 26.0 | 463 | 1872 |
| Valley End Inf School | Academy | 17.7 | 1 | 4 |
| Wallace Fields Infant School | Academy | 17.0 | 26 | 86 |
| Walsh CoE Junior School | Academy | 25.2 | 22 | 97 |
| Walton Oak School | Academy | 20.2 | 39 | 137 |
| Warlingham Parish Council | Scheduled Body | 18.4 | 1 | 4 |
| Warlingham School | Academy | 20.8 | 100 | 338 |
| Warlingham Village Primary | Academy | 20.0 | 15 | 55 |
| Warren Mead Infant School | Academy | 20.0 | 9 | 33 |
| Warren Mead Junior School | Academy | 20.0 | 15 | 51 |
| Waverley Abbey CofE Junior School | Academy | 21.3 | 22 | 80 |
| Waverley BC | Scheduled Body | 17.2 | 921 | 2244 |
| Waverley Hoppa Transport | Admitted Body | 25.7 | 5 | 27 |
| Welcare (SCC) | Admitted Body | 27.8 | 2 | 12 |
| West End Parish Council | Scheduled Body | 18.4 | 2 | 6 |
| West Ewell Primary School | Academy | 20.9 | 42 | 155 |
| West Hill School | Academy | 20.8 | 32 | 121 |
| Westfield Primary School | Academy | 19.8 | 24 | 86 |
| Wey Valley College | Academy | 16.8 | 17 | 63 |
| Weydon School | Academy | 20.8 | 126 | 402 |
| Weyfield Primary Academy | Academy | 18.8 | 15 | 48 |
| Whyteleafe Primary School | Academy | 20.0 | 32 | 118 |

| Employing Organisation | Type | Employer % Contribution Rate | Employees Contributions £000 | Employer Contributions £000 |
|---|---|---|---|---|
| Whyteleafe Village Council | Scheduled Body | 18.4 | 0 | 1 |
| Windlesham Parish Council | Scheduled Body | 18.4 | 6 | 15 |
| Windlesham Village Infant School | Academy | 21.7 | 7 | 26 |
| Wishmore Cross Academy | Academy | 19.2 | 25 | 80 |
| Witley Parish Council | Scheduled Body | 18.4 | 4 | 12 |
| Woking BC | Scheduled Body | 17.0 | 1036 | 2494 |
| Woking College | Academy | 18.5 | 63 | 189 |
| Woking High School | Academy | 25.1 | 94 | 351 |
| Woodlea Primary School | Academy | 20.8 | 10 | 39 |
| Woodmansterne School | Academy | 20.9 | 26 | 94 |
| Woolmer Hill School | Academy | 20.8 | 40 | 142 |
| Worplesdon Parish Council | Scheduled Body | 18.4 | 7 | 19 |
| Wray Common Primary | Academy | 19.8 | 29 | 97 |
| Wyke Primary School | Academy | 21.9 | 11 | 44 |
| Xavier Catholic Education Trust | Academy | 19.6 | 59 | 157 |
| YMCA East Surrey | Admitted Body | 17.8 | 2 | 6 |

# Risk Management

## Overview

The risk management policy of the Surrey Pension Team is to adopt best practice in the identification, evaluation and control of risks in order to ensure that the risks are recognised, and then either eliminated or reduced to a manageable level. If neither of these options are possible, then means to mitigate the implications of the risks are established.

Risk areas have been assessed in terms of their impact on the Fund as a whole, on the Fund employers, and on the reputation of the Pension Fund Committee and Surrey County Council as the Administering Authority. Assessment has also been made of the likelihood of the risk.

A quarterly assessment of the risk register provides the Local Pension Board with the opportunity to influence and drive the risk management process.

## Risk Register

As at 31 March 2023, there were 16 areas of risk identified as shown below.

| LIKELIHOOD | | | | | | |
|---|---|---|---|---|---|---|
| 5 | **Very Likely** | | | | | |
| 4 | **Likely** | | | | 9, 11 | 16 |
| 3 | **Possible** | | | 3, 10 | 5, 6, 7, 13, 14 | |
| 2 | **Unlikely** | | | 2 | 1, 12, 15 | |
| 1 | **Rare** | | 8 | | 4 | |
| | IMPACT | **Minimal** 1 | **Minor** 2 | **Moderate** 3 | **Major** 4 | **Severe** 5 |

Risk scores with current mitigation controls in place are shown below.

| Risk ID | Risk Title | Likelihood (1-5) | Impact (1-5) | Overall Score |
|---|---|---|---|---|
| 16 | Implementation of new financial systems leads to delayed processing, data integrity issues or financial loss | 4 | 5 | 20 |
| 9 | Skills / knowledge gaps lead to inefficiency and poor performance | 4 | 4 | 16 |
| 11 | Work volume mismatch with operational capacity leading to backlogs | 4 | 4 | 16 |
| 5 | Investment strategy and proposed implementation materially affects investment performance | 3 | 4 | 12 |
| 6 | Investment returns impacted by market volatility/ performance | 3 | 4 | 12 |
| 7 | Investment returns impacted by third party or counter party performance/default | 3 | 4 | 12 |
| 13 | Scheme is financially or reputationally impacted by failure to adhere to (changes in) regulatory and legislative compliance requirements | 3 | 4 | 12 |
| 14 | Reputational issues due to inaccurate public domain information (external stakeholder relationships / comms) or inefficient service | 3 | 4 | 12 |
| 3 | Funding requirements higher due to actuarial assumptions materially different to experience | 3 | 3 | 9 |
| 10 | Data administration failure / fraud leads to data integrity issues | 3 | 3 | 9 |
| 1 | Employers unable/unwilling to make payments | 2 | 4 | 8 |
| 12 | Business interruption or cyber security breach leads to data integrity issues or financial loss | 2 | 4 | 8 |
| 15 | Internal protocols for governance not followed | 2 | 4 | 8 |
| 2 | Employers delay making payments | 2 | 3 | 6 |
| 4 | Investment performance materially impacted by insufficient attention to ESG factors | 1 | 4 | 4 |
| 8 | Insufficient liquidity / lack of cash to meet obligations for collateral rebalancing / payments out | 1 | 2 | 2 |

## Internal audit

A significant programme of internal audit testing is undertaken by Internal Audit each year. During 2022/23, audits were undertaken as set out in the table below.

| Topic | Assurance Rating |
|---|---|
| Compensatory Added Years (CAYs) | Reasonable |
| Administration Review (Transfers Out) | Reasonable |
| Governance Arrangements | Reasonable |
| Pension Investments | Reasonable |
| Banking Controls follow up | No opinion* |

* The banking controls audit provided no opinion pending system changes as a result of the transition of Surrey County Council's financial accounting system in 2023/24.

Internal audits assist the Fund in identifying areas for improvement and good practice.

### Audit Opinions and Definitions

| Opinion | Definition |
|---|---|
| Substantial Assurance | Controls are in place and are operating as expected to manage key risks to the achievement of system or service objectives. |
| Reasonable Assurance | Most controls are in place and are operating as expected to manage key risks to the achievement of system or service objectives. |
| Partial Assurance | There are weaknesses in the system of control and/or the level of non-compliance is such as to put the achievement of the system or service objectives at risk. |
| Minimal Assurance | Controls are generally weak or non-existent, leaving the system open to the risk of significant error or fraud. There is a high risk to the ability of the system/service to meet its objectives. |

## Value for Money

The National Audit Office Code of Audit Practice requires the Council's auditors (Grant Thornton) to undertake work to provide a commentary against three set criteria: financial sustainability; governance; and improving economy, efficiency and effectiveness.  The 2020/21 audit included a key recommendation (significant weakness) regarding the administration of the pension fund (the Fund).  Whilst noting the transformation program of the service, the recommendation specifically included reference to a backlog of case work.

As reported to the Council's Audit & Governance Committee at its meeting of 18 January 2023, Grant Thornton noted "the Council has continued to deliver its transformation programme in pensions administration and risk management arrangements have continued to develop and are now embedding in the organisation.  This has alleviated our concerns in these areas."; and "there has been considerable organisation and new developments in the way the pension team undertakes its operations.  This is no longer considered a significant risk of weakness."

# Fund Performance and Forecast

## Financial Performance and Forecast

The table below sets out a summary of the income and expenditure of the Fund for 2022/23 and that budgeted for 2023/24.

| | £m | 2022/23 Budget | 2022/23 Actual | 2022/23 Variance | 2023/24 Budget |
|---|---|---|---|---|---|
| **Income** | Employer contributions | 168 | 159 | (9) | 170 |
| | Member contributions | 45 | 49 | 4 | 50 |
| | Total contributions | 213 | 208 | (5) | 230 |
| | Transfers in | 35 | 36 | 1 | 35 |
| | Investment income | 26 | 42 | 16 | 35 |
| | **Total income** | 274 | 286 | 12 | 300 |
| **Expenditure** | Pensions | (167) | (151) | 16 | (165) |
| | Commutation/lump sum retirement | (20) | (21) | (1) | (20) |
| | Other | (6) | (5) | 1 | (5) |
| | Total benefits | (193) | (177) | 16 | (190) |
| | Transfers out | (17) | (26) | (9) | (20) |
| | Administrative expenses | (3) | (4) | (1) | (3) |
| | Oversight/governance costs | (3) | (8) | (5) | (3) |
| | Investment expenses | (11) | (8) | 3 | (12) |
| | Taxes on income | (1) | (1) | - | (1) |
| | **Total expenditure** | (228) | (224) | 4 | (229) |
| | **Net income** | **46** | **62** | **16** | **71** |
| | Change in Market Value | 109 | (128) | (237) | 100 |
| | Net increase in Fund Value | 155 | (66) | (221) | 150 |
| | **Fund Value** | 5,512 | 5,291 | (221) | 5,440 |

## 2023/24 Operational Budget

The table below sets out the operational budget for the Fund for 2023/24.

| £000 | 2023/24 Budget |
|---|---|
| Staffing | 2,150 |
| Non staffing | 800 |
| Overheads | 600 |
| **Total administration** | **3,550** |
| Fund Officers and Management | 1,350 |
| Advisors | 1,035 |
| Audit | 70 |
| Memberships and Benchmarking | 150 |
| Pooling Costs (including Governance) | 500 |
| Training | 100 |
| **Total oversight and governance** | **3,205** |
| Fund Officers | 150 |
| Custody fees | 140 |
| Investment Management Fees | 11,500 |
| **Total investment and custody** | **11,790** |
| Total operational budget | **18,545** |

## Three Year Forecast

The table below sets out a high level forecast of the income and expenditure of the Fund for the years 2023/24 to 2025/26.

| £m | 2023/24 | 2024/25 | 2025/26 |
|---|---|---|---|
| Total contributions | 215 | 216 | 220 |
| Transfers in | 37 | 39 | 40 |
| Investment income | 26 | 27 | 28 |
| **Total income** | 278 | 282 | 288 |
| | | | |
| Total benefits | (208) | (223) | (235) |
| Transfers out | (17) | (18) | (19) |
| Management expenses | (18) | (19) | (20) |
| **Total expenditure** | (243) | (260) | (274) |
| | | | |
| **Net income** | **35** | **22** | **14** |

# Statement of Responsibilities

## The Responsibilities of the County Council

The County Council is required to:

- make arrangements for the proper administration of the financial affairs of the Fund and to secure that one of its officers has the responsibility for the administration of those affairs. In this Council, that officer is the S151 Officer
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets
- approve the Statement of Accounts.

## The S151 Officer's responsibilities

The S151 Officer is responsible for the preparation of the Council's statement of accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom ("The Code").

In preparing this Statement of Accounts, the S151 Officer has:

- selected suitable accounting policies and then applied them consistently
- made judgements and estimates that were reasonable and prudent
- complied with the local authority Code.

The S151 Officer has:

- kept proper accounting records which were up to date
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

I certify that the statement of accounts set out in this report presents a true and fair view of the Surrey County Council Pension Fund at 31 March 2023 and its income and expenditure for the year then ended.

**Anna D'Alessandro**
**Director of Finance – Corporate and Commercial (Interim s151 Officer)**

**Victor Lewanski**
**Chairman of Audit & Governance Committee**

# Pension Fund Accounts 2022/23

## Independent auditor's statement to the members of Surrey County Council on the pension fund financial statements of Surrey Pension Fund included within the Pension Fund Annual Report

### Opinion

We have examined the pension fund financial statements of Surrey Pension Fund (the 'pension fund') for the year ended 31 March 2023 included within the Pension Fund Annual Report, which comprise the Fund Account, the Net Assets Statement, and the notes to the financial statements, including the summary of significant accounting policies.

In our opinion, the pension fund financial statements are consistent, in all material respects, with the audited financial statements of Surrey County Council for the year ended 31 March 2023 and comply with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23.

We have not considered the effects of any events between date the auditor's report on the financial statements of the administering authority was signed, being the date we signed our report on the audited financial statements of Surrey County Council, and the date of this statement.

### Respective responsibilities of the S151 Officer and the auditor

As explained more fully in the Statement of the Director of Finance – Corporate and Commercial's Responsibilities, the Director of Finance – Corporate and Commercial is responsible for the preparation of the pension fund's financial statements in accordance with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23.

Our responsibility is to state to the members of Surrey County Council our opinion on the consistency of the pension fund financial statements within the Pension Fund Annual Report with the financial statements of Surrey County Council.

We also read the other information contained in the Pension Fund Annual Report and consider the implications for our statement if we become aware of any apparent misstatements or material inconsistencies with the pension fund financial statements. The other information comprises the information included in the Pension Fund Annual Report, other than the pension fund financial statements and our auditor's statement thereon.

We conducted our work in accordance with Auditor Guidance Note 07 – Auditor Reporting, issued by the National Audit Office. Our report on the financial statements of Surrey County Council describes the basis of our opinion on those financial statements.

### Use of this auditor's statement

This statement is made solely to the members of Surrey County Council, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014. Our work has been undertaken so that we might state to the members of Surrey County Council those matters we are required to state to them and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than Surrey County Council and the members of Surrey County Council, as a body, for our work, for this statement, or for the opinions we have formed.

**Paul Dossett**, Key Audit Partner
for and on behalf of Grant Thornton UK LLP, Local Auditor

London

27 March 2024

# Surrey Pension Fund Accounts 2022/23

## Fund Account

| £000 | Note | 2022/23 | 2021/22 |
|---|---|---|---|
| Contributions receivable | 7 | 207,586 | 193,640 |
| Transfers in | 8 | 36,287 | 33,289 |
| **Contributions Sub-total** | - | **243,873** | **226,929** |
| Benefits payable | 9 | (176,888) | (170,855) |
| Payments to and on account of leavers | 10 | (26,341) | (16,148) |
| **Benefits Sub-total** | - | **(203,229)** | **(187,003)** |
| **Net additions from dealings with members** | - | **40,644** | **39,926** |
| Management expenses | 11 | (19,765) | (14,709) |
| **Net additions including fund management expenses** | - | **20,879** | **25,217** |
| **Return on investments** | - | - | - |
| Investment income | 12 | 41,850 | 24,531 |
| Taxes on income | - | (1,020) | (1,169) |
| Profit and (losses) on disposal of investments and changes in the value of investment | 17 | (127,825) | 295,914 |
| **Net return on investments** | - | **(86,995)** | **319,276** |
| **Net increase in the net assets available for benefits during the year** | - | **(66,116)** | **344,493** |
| **Opening net assets of the scheme** | - | 5,357,512 | 5,013,019 |
| **Closing net assets of the scheme** | - | **5,291,396** | **5,357,512** |

## Net Assets Statement

| £000 | Note | 31 March 2023 | 31 March 2022 |
|---|---|---|---|
| Investment assets | 14 | 5,240,381 | 5,348,129 |
| Investment liabilities | 14 | - | (23,165) |
| **Total net investments** | **-** | **5,240,381** | **5,324,964** |
| Current assets | 21 | 58,896 | 42,633 |
| **Total assets** | **-** | **5,299,277** | **5,367,597** |
| Current liabilities | 22 | (7,881) | (10,085) |
| **Net assets of the fund available to fund benefits at the end of the reporting period** | **-** | **5,291,396** | **5,357,512** |

**Note:** The Fund's financial statements do not take account of liabilities to pay pensions and other benefits after the period end. The actuarial present value of promised retirement benefits is disclosed at Note 20.

# Notes to the Accounts

## 1. Description of the Fund

The Surrey Pension Fund ('the Fund') is part of the Local Government Pension Scheme (LGPS) and is administered by Surrey County Council. The Surrey Pension Fund is the reporting entity.

### (i) General

The scheme is governed by the Public Service Pensions Act 2013. The Fund is administered in accordance with the following secondary legislation:

- The Local Government Pension Scheme Regulations 2013 (as amended)
- The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- The Local Government Pension Scheme (Management and Investment Funds) Regulations 2016

It is a contributory defined benefit pension scheme administered by Surrey County Council to provide pensions and other benefits for pensionable employees of Surrey County Council, the borough and district councils in Surrey and a range of other scheduled and admitted bodies within the county area. Teachers, police officers and firefighters are not included as they come within other national pension schemes. The Fund is overseen by the Surrey Pension Fund Committee, which is a committee of Surrey County Council.

### (ii) Membership

Membership of the LGPS is voluntary and employees are free to choose whether to join the scheme, remain in the scheme or make their own personal arrangements outside the scheme.

Organisations participating in the Surrey Pension Fund include:

- Scheduled bodies, which are local authorities and similar bodies whose staff are automatically entitled to be members of the Fund.
- Admitted bodies, which are other organisations that participate in the Fund under an admissions agreement between the Fund and the relevant organisation. Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing of services to the private sector.

Membership details are set out below:

| Membership Details | 31 March 2023 | 31 March 2022 |
|---|---|---|
| Number of employers | **345** | **327** |
| **Employees in the Scheme** | - | - |
| Surrey County Council | 19,664 | 19,326 |
| Other Employers | 23,037 | 22,119 |
| Total Employees in the Scheme | **42,701** | **41,445** |
| **Pensioners** | - | - |
| Surrey County Council | 15,469 | 14,880 |
| Other Employers | 13,104 | 14,730 |
| Total Pensioners | **28,573** | **29,610** |
| **Deferred Pensioners** | - | - |
| Surrey County Council | 26,738 | 26,379 |
| Other Employers | 16,630 | 16,948 |
| Total Deferred Pensioners | **43,368** | **43,327** |
| **Total Number of Members** | **114,642** | **114,382** |

(iii) **Funding**

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the Fund in accordance with the Local Government Regulations 2013 as disclosed in the introduction and ranged from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2023. Employers' contributions are set following triennial actuarial funding valuations. The last such valuation was at 31 March 2022 and new rates applied from April 2023.

The employer contribution rates for 2022/23 ranged from 12.7% to 43.6% of pensionable pay.

(iv) **Benefits**

Prior to 1 April 2014, pension benefits under the LGPS were based on final salary and length of pensionable service. From 1 April 2014, the scheme became a career average revaluation scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49th. Accrued pension is updated annually in line with the Consumer Prices Index.

A range of other benefits are also provided including early retirement, ill health pensions and death benefits, as explained on the LGPS website.

## 2. Basis of preparation

The Statement of Accounts summarises the Fund's transactions for the 2022/23 financial year and its position at the year end at 31 March 2023. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

Paragraph 3.3.1.2. of the Code requires disclosure of any accounting standards issued but not yet adopted. No such accounting standards have been identified for 2022/23.

The accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial present value of promised retirement benefits valued according to the International Accounting Standard (IAS) 19 is disclosed at note 20 of these accounts.

These accounts have been prepared on a going concern basis. The liabilities of the pension fund are ultimately backed by the employing organisations within the Fund including government bodies with tax raising powers.

## 3. Summary of significant accounting policies

### Fund account – revenue recognition

#### (i) Contribution income

Normal contributions, both from the members and from the employer, are accounted for on an accruals basis in the payroll period to which they relate.

Employers' augmentation contributions and pension strain contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid will be classed as a current financial asset. Contributions due for forthcoming periods are not represented within the financial statements.

#### (ii) Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund during the financial year and are calculated in accordance with the Local Government Pension Scheme Regulations.

Transfers in and out of the Fund are accounted for when received or paid, which is normally when the member liability is accepted or discharged. Transfers in from members wishing to use the proceeds of their additional voluntary contributions to purchase scheme benefits are accounted for on a receipts basis and are included within transfers in.

Bulk (group) transfers are accounted for in accordance with the terms of the transfer agreement.

**(iii)Investment income**

- Interest income is recognised in the Fund account as it accrues using the effective interest rate of the financial instrument as at the date of acquisition or origination. Income includes the amortisation of any discount premium, transaction costs or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis.
- Dividend income is recognised on the date the shares are quoted as ex-dividend. Any amount not received by the end of the reporting period is disclosed in the net asset statement as a current financial asset.
- Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the net asset statement as a current financial asset.
- Changes in the value of investments (including investment properties) are recognised as income and comprise all realised and unrealised profits/losses during the year.
- Distributions and drawdowns from private equity partnerships are accounted for according to guidance from the private equity manager as to the nature of the distribution or drawdown. Income and purchases and sales are recognised at the date the capital call or distribution falls due.

## Fund account – expense items

**(iv)Benefits payable**

Pensions and lump sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the net asset statement as current liabilities.

(v) **Management expenses**

The Fund discloses its management expenses in line with the CIPFA guidance Accounting for Local Government Pension Scheme Management Expenses (2016), as shown below. All items of expenditure are charged to the Fund on an accruals basis as follows:

- **Administrative expenses:** Pension administrative expenses reflect the costs incurred in the payment of pensions and other benefits, the maintenance of member records and provision of scheme and entitlement information. Costs incurred in relation to specific employers are recharged to those individual organisations and therefore excluded from the accounts. All administration expenses are accounted for on an accruals basis. The relevant staffing costs of the pension administration team are recharged to the Fund. Management, accommodation and other overheads are apportioned to the Fund in accordance with council policy.
- **Investment management expenses:** All investment management expenses are accounted for on an accruals basis. Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under management and therefore increase or reduce as the value of these investments change.
- **Oversight and governance expenses:** Governance costs reflect those expenses which fall outside the parameters of administrative or investment expenses. All oversight and governance expenses are accounted for on an accruals basis with associated staffing and overhead costs apportioned in accordance with council policy.

(vi) **Taxation**

The Fund is a registered public service scheme under section 1 (1) of the Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments may be subject to withholding tax in the country of origin. Irrecoverable tax is accounted for as a fund expense as it arises. Tax on income due but unpaid at the end of the year is reported as a current liability.

## Net assets statement

(vii) **Financial assets**

All investment assets are included in the financial statements on a fair value basis as at the reporting date. Loans and receivables are held at amortised cost. A financial asset is recognised in the net assets statement on the date the Fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in the fair value of the assets are recognised by the Fund.

Surrey Pension Fund is a partner fund of Border to Coast Pensions Partnership. Each Partner Fund invested in Class A and B Shares at a cost (transaction price) of

£1 and £1,181,818 respectively. This investment has been valued at cost and will continue to be, as the fair value of these assets cannot be reliably estimated.

(viii) **Foreign currency transactions**

Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the spot rate on the date of transaction. End-of-year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at the end of the reporting period.

(ix) **Derivatives**

The Fund uses derivative financial instruments to manage its exposure to specific risks arising from its investment activities. The Fund does not hold derivatives for speculation purposes.

Derivative contract assets are fair valued at bid prices and liabilities are fair valued at offer prices. Changes in fair value of derivative contracts are included in the change in market value.

The value of futures contracts is determined using exchange prices at the reporting date. Amounts due from or owed to the broker are the amounts outstanding in respect of the initial margin and variation margin.

The future value of forward currency contracts is based on the market forward exchange rates at the year-end date and determined as the gain or loss that would arise if the outstanding contracts were matched at the year end with an equal and opposite contract.

(x) **Cash and cash equivalents**

Cash comprises cash in hand and demand deposits and includes amounts held by the Fund’s external managers. All cash balances are short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to minimal risk of changes in value.

(xi) **Loans and receivables**

Financial assets classed as amortised cost are carried in the net asset statement at the value of outstanding principal receivable at the year-end date plus accrued interest.

(xii) **Financial liabilities**

The Fund recognises financial liabilities at fair value as at the reporting date. A financial liability is recognised in the net asset statement on the date the Fund becomes party to the liability. From this date any gains or losses arising from changes in the fair value of the liability are recognised by the Fund.

(xiii) **Actuarial present value of promised retirement benefits**

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirement of IAS 19 and relevant actuarial standards.

As permitted under the Code, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the net asset statement.

(xiv) **Additional voluntary contributions**

Surrey Pension Fund provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested separately from those in the pension fund. The Fund has appointed Prudential as the AVC provider. A small number of members remain with the previous provider Equitable Life. AVCs are paid to the AVC provider by employees and are specifically for providing additional benefits for individual contributors. Each AVC contributor receives an annual statement showing the amounts held in their account and the movements in the year.

AVCs are not included in the accounts in accordance with Regulation 4(1)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 but are disclosed for information in a note to the accounts.

## 4. Critical judgements in applying accounting policies

There are no critical judgements in applying accounting policies.

## 5. Sources of estimation uncertainty

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts. Estimates and assumptions take account of historical experience, current trends and future expectations. However, actual outcomes could be different from the assumptions and estimates made. The items in the net asset statement for which there is a significant risk of material adjustment the following year are as follows:

| Item | Uncertainties | Effect if actual results differ from assumptions |
|---|---|---|
| **Private equity** | Private equity investments, both limited partnership and fund of funds (pooled investments), are disclosed at fair value, provided by the administrators of the funds. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation. These are usually classified as Level 3 Investments. | There is more uncertainty regarding the valuation of these asset types, and could potentially be subject to material adjustments. Sensitivity analysis is provided in note 16 to the accounts. |
| **Property Unit Trust** | Valuation techniques are used to determine the carrying amount of pooled property funds. | There is more uncertainty regarding the valuation of these asset types, and could potentially be subject to material adjustments. Sensitivity analysis is provided in note 16 to the accounts. |

## 6. Events after the reporting date

The Statement of Accounts is adjusted to reflect events after the balance sheet date, both favourable and unfavourable, that occur between the end of the reporting date and the date when the Statement of Accounts is authorised for issue. Adjustments are made that provide evidence of conditions that existed at the end of the reporting period unless deemed insignificant to the true and fair value of the Fund's assets and liabilities. Those events taking place after the date of authorisation for issue will not be reflected in the statement of accounts.

## 7. Contributions receivable

**By Category**

| £000 | 2022/23 | 2021/22 |
|---|---|---|
| **Total Employees' Contributions** | **49,142** | **44,228** |
| Normal contributions | 130,303 | 113,675 |
| Deficit recovery contributions | 27,364 | 33,220 |
| Augmentation contributions | 388 | 2,517 |
| **Total Employers' Contributions** | **158,055** | **149,412** |
| Other contributions | 389 | - |
| **Total Contributions Receivable** | **207,586** | **193,640** |

**By Employer**

| £000 | 2022/23 | 2021/22 |
|---|---|---|
| Administering authority | 91,313 | 87,048 |
| Scheduled bodies | 110,045 | 102,187 |
| Admitted bodies | 5,840 | 4,405 |
| Other | 389 | - |
| **Total** | **207,586** | **193,640** |

## 8. Transfers in from other pension funds

| £000 | 2022/23 | 2021/22 |
|---|---|---|
| Group transfers | 9,359 | - |
| Individual transfers | 26,928 | 33,289 |
| **Total Transfers** | **36,287** | 33,289 |

## 9. Benefits Payable

### By Category

| £000 | 2022/23 | 2021/22 |
|---|---|---|
| Pensions | (151,030) | (143,247) |
| Commutation and lump sum retirement benefits | (21,206) | (22,114) |
| Lump sum death benefits | (4,514) | (5,317) |
| Interest on late payment of benefits | (138) | (177) |
| **Total Benefits Payable** | **(176,888)** | **(170,855)** |

### By Type of Employer

| £000 | 2022/23 | 2021/22 |
|---|---|---|
| Administering authority | (81,786) | (78,970) |
| Scheduled bodies | (81,073) | (82,514) |
| Admitted bodies | (14,029) | (9,371) |
| **Total Benefits Payable** | **(176,888)** | **(170,855)** |

## 10. Payments to and on account of leavers

| £000 | 2022/23 | 2021/22 |
|---|---|---|
| Group transfers to other schemes | (25,529) | (15,404) |
| Refunds of contributions | (822) | (755) |
| Payments for members joining state schemes | 10 | 11 |
| **Total Payments** | **(26,341)** | **(16,148)** |

## 11. Management expenses

| £000 | 2022/23 | 2021/22 |
|---|---|---|
| Administrative costs | (4,198) | (3,883) |
| Investment management expenses | (8,131) | (9,267) |
| Oversight and governance costs | (7,436) | (1,559) |
| **Total Management expenses** | **(19,765)** | **(14,709)** |

As part of its oversight and governance costs in 2022/23, the Fund had also paid £1,521k (2021/22: £649k) in respect of pooling costs payable to the Border to Coast Pensions Partnership (BCPP).

### Investment management expenses

#### 2022/23

| £000 | Management fees | Performance related fees | Transaction costs | Total |
|---|---|---|---|---|
| Bonds | - | - | - | - |
| Equities | (3,594) | - | (198) | **(3,792)** |
| Pooled investments | (631) | - | (254) | **(885)** |
| Pooled property investments | (1,256) | - | - | **(1,256)** |
| Private equity | (2,031) | - | - | **(2,031)** |
| Property | - | - | - | - |
| Derivatives | - | - | - | - |
| Cash and FX contracts | - | - | - | - |
| **Sub-total** | **(7,512)** | **-** | **(452)** | **(7,964)** |
| Custody fees | - | - | - | **(167)** |
| **Total** | - | - | - | **(8,131)** |
| Oversight and governance | | | | **(7,436)** |
| **Total** | | | | **(15,567)** |

### 2021/22

| £000 | Management fees | Performance related fees | Transaction costs | Total |
|---|---|---|---|---|
| Equities | (1,088) | - | - | **(1,088)** |
| Pooled investments | (1,368) | - | (179) | **(1,547)** |
| Pooled property investments | (2,223) | - | - | **(2,223)** |
| Private equity | (4,287) | - | - | **(4,287)** |
| **Sub-total** | **(8,966)** | **-** | **(179)** | **(9,145)** |
| Custody fees | **-** | **-** | **-** | **(122)** |
| **Total** | **-** | **-** | **-** | **(9,267)** |
| Oversight and governance | | | | **(1,559)** |
| **Total** | | | | **(10,826)** |

## 12. Investment income

| £000 | 2022/23 | 2021/22 |
|---|---|---|
| Income from equities | **18,401** | 7,965 |
| Income from pooled investments | **-** | 4,368 |
| Private equity income | **10,426** | 3,003 |
| Pooled property investments | **10,720** | 8,309 |
| Interest on cash deposits | **1,445** | 9 |
| Other | **858** | 877 |
| **Total Investment income** | **41,850** | 24,531 |

## 13. Other fund account disclosures

| £000 | 2022/23 | 2021/22 |
|---|---|---|
| Payable in respect of external audit | **(64)** | (41) |
| Payable in respect of other services | **-** | (20) |
| **Total External audit costs** | **(64)** | **(61)** |

## 14. Investments

### Investment assets and liabilities

| £000 | 31 March 2023 | 31 March 2022 |
|---|---|---|
| **Investment assets:** | **-** | **-** |
| Equity | **485,691** | 3,569,755 |
| Bonds | **563,595** | 760,065 |
| Pooled funds: Equity unit trusts | **2,999,453** | - |
| **Sub-total** | **4,048,739** | 4,329,820 |
| Other investments: Pooled property investments | **293,784** | 331,775 |
| Other investments: Private equity | **795,159** | 548,856 |
| Derivatives | **22,607** | 1,613 |
| **Total net investments** | **5,160,289** | 5,212,064 |
| Cash deposits | **77,750** | 133,939 |
| Other investment balances | **2,342** | 2,126 |
| **Sub-total** | **5,240,381** | 5,348,129 |
| **Investment liabilities:** | - | - |
| Derivatives | - | (23,165) |
| **Total investment assets** | **5,240,381** | **5,324,964** |

**Note:** Equity assets sub-categorised in 22/23 between pooled and non-pooled funds.

## 14A. Reconciliation of movements in investments and derivatives

### 2022/23

| £000 | Market value 1 April 2022 | Purchases and derivative payments | Sales and derivative receipts | Change in value during the year | Market value 31 March 2023 |
|---|---|---|---|---|---|
| Bonds | **760,065** | - | - | - | - |
| Equities | **3,569,755** | 219,922 | (196,128) | (13,836) | **485,691** |
| Pooled investments | - | 13,350 | (285,642) | (104,419) | **3,563,048** |
| Pooled property investments | **331,775** | 6,631 | (3,997) | (40,624) | **293,784** |
| Private equity | **548,856** | 257,061 | (92,077) | 81,318 | **795,159** |
| **Sub-total** | **5,210,451** | 496,964 | (577,844) | (77,560) | **5,137,682** |
| Derivatives | **(21,552)** | 133,217 | (39,180) | (49,878) | **22,607** |
| **Sub-total** | **5,188,899** | 630,180 | (617,024) | (127,438) | **5,160,289** |
| Other investment balances: Cash | 133,939 | - | - | (387) | **77,750** |
| Other investment balances: Accrued income/other | **2,126** | - | - | - | **2,342** |
| **Total** | **5,324,964** | - | - | (127,825) | **5,240,381** |

**Note:** Bonds and Equity assets sub-categorised in 22/23 between pooled and non-pooled funds.

## 2021/22

| £000 | Market value 1 April 2021 | Purchases and derivative payments | Sales and derivative receipts | Change in value during the year | Market value 31 March 2022 |
|---|---|---|---|---|---|
| Bonds | **792,693** | 615,616 | (614,138) | (34,106) | **760,065** |
| Equities | **2,992,053** | 2,792,039 | (2,421,570) | 207,233 | **3,569,755** |
| Diversified growth | **455,222** | 2,699 | (471,441) | 13,520 | **-** |
| Pooled investments | **-** | - | - | - | **-** |
| Pooled property investments | **266,256** | 26,209 | (9,566) | 48,875 | **331,775** |
| Private equity | **375,944** | 215,962 | (69,224) | 26,174 | **548,856** |
| **Sub-total** | **4,882,168** | 3,652,525 | (3,585,939) | 261,696 | **5,210,450** |
| Derivatives – forward currency contracts | **(7,226)** | 53,359 | (41,508) | (26,177) | **(21,552)** |
| **Sub-total** | **4,874,942** | 3,705,855 | (3,627,447) | 235,519 | **5,188,899** |
| Other investment balances: Cash | **107,494** | - | - | 60,395 | 133,939 |
| Other investment balances: Accrued income/other | **1,505** | - | - | **-** | **2,126** |
| **Total** | **4,983,941** | - | - | 295,914 | **5,324,964** |

### 14B. Investments analysed by fund manager

| Fund Manager | Market value 31 March 2023 £000 | % | Restated Market value 31 March 2022 £000 | % |
|---|---|---|---|---|
| **Investments managed by Border to Coast Pension Partnership:** | **-** | **-** | - | - |
| Border to Coast UK Equity Alpha | **499,575** | **10** | 541,209 | 10 |
| Border to Coast Global Equity Alpha | **739,481** | **14** | 712,861 | 13 |
| Border to Coast Global MAC | **563,595** | **11** | 582,921 | 11 |
| Border to Coast Global Listed Alt | **250,709** | **5** | 402,260 | 8 |
| **Sub-total** | **2,053,360** | **40** | 2,239,251 | 42 |
| **Investments managed outside Border to Coast Pension Partnership:** | **-** | **-** | - | - |
| LGIM (Legal & General Investment Management) | **1,509,699** | **29** | 1,700,507 | 32 |
| Newton Investment Management | **490,754** | **9** | 492,757 | 9 |
| CBRE Global Multi-Manager | **306,891** | **6** | 337,969 | 6 |
| Private equity/other | **857,070** | **16** | 576,032 | 11 |
| Derivatives | **22,607** | **-** | (21,552) | **-** |
| **Sub-total** | **3,187,021** | **60** | 3,085,713 | 58 |
| **Total** | **5,240,381** | **100** | 5,324,964 | 100 |

The table below shows investments that represent 5% or more of the net assets of the scheme.

**Note:** The comparator for the period ended 31 March 2022 is also shown for Private equity/ other and derivatives that was previously omitted.

| Fund Manager | Market value 31 March 2023 £000 | % | Market value 31 March 2022 £000 | % |
|---|---|---|---|---|
| LGIM Future World Global Equity Index | **925,281** | **18** | 1,024,039 | 19 |
| Border to Coast Global Equity Alpha | **739,481** | **14** | 712,861 | 13 |
| Border to Coast Multi Asset Credit | **563,595** | **11** | 582,921 | 11 |
| Border to Coast UK Equity Alpha | **499,573** | **10** | 541,209 | 10 |
| Border to Coast Multi Listed Alternatives | **250,701** | **5** | 402,260 | 8 |
| LGIM World Emerging Markets Fund | **275,163** | **5** | 299,134 | 6 |
| LGIM - TLCV Bespoke (34048) | **187,215** | **4** | 262,815 | 5 |
| **Total** | **3,441,009** | **67** | 3,825,239 | 72 |

## 14C. Stock lending

Stock lending is the act of loaning a stock, derivative or other security to an investor or firm. The Fund operates a stock lending programme in partnership with the Fund custodian. As at 31 March 2023 the value of quoted securities on loan was £16 million (£5.6 million as at 31 March 2022) in exchange for collateral held by the Fund custodian at fair value of £17.3 million (£6.1 million as at 31 March 2022).

## 15. Analysis of derivatives

### Forward currency contracts

Forward foreign exchange contracts are over the counter contracts whereby two parties agree to exchange two currencies on a specified future date at an agreed rate of exchange. At 31 March 2023 the Fund had forward currency contracts in place with a net unrealised gain of £22.6m (net unrealised loss of (£21.6m) at 31 March 2022).

### 2022/23

| Number of contracts | Contract settlement date within | Currency bought | Currency Sold | Notional amount in local currency bought £000 | Notional amount in local currency sold £000 | Asset £000 | Liability £000 |
|---|---|---|---|---|---|---|---|
| 4 | Three months | GBP | EUR | 199,059 | (223,072) | 2,636 | - |
| 2 | Three months | GBP | JPY | 66,264 | (10,543,400) | 1,724 | - |
| 7 | Three months | GBP | USD | 656,649 | (790,288) | 18,247 | - |
| - | - | - | - | - | - | **22,607** | **-** |

### 2021/22

| Number of contracts | Contract settlement date within | Currency bought | Currency Sold | Notional amount in local currency bought £000 | Notional amount in local currency sold £000 | Asset £000 | Liability £000 |
|---|---|---|---|---|---|---|---|
| 2 | Three months | GBP | EUR | 176,351 | (210,475) | - | (1,925) |
| 2 | Three months | GBP | JPY | 73,141 | (11,412,300) | 1,613 | - |
| 6 | Three months | GBP | USD | 651,956 | (886,118) | - | (21,240) |
| - | - | - | - | - | - | **1,613** | **(23,165)** |

## 16. Fair value – basis of valuation

The basis of the valuation of each class of investment asset is set out below. There has been no change in the valuation techniques used during the year.

Assets and liabilities have been classified into three levels, according to the quality and reliability of information used to determine fair values.

| Description of Asset | Valuation Hierarchy | Basis of Valuation | Observable and Unobservable Inputs | Key Sensitivities Affecting the Valuations Provided |
|---|---|---|---|---|
| Market quoted investments (equities) | Level 1 | Published bid market price ruling on the final day of the accounting period | Not required | Not required |
| Quoted bonds | Level 1 | Fixed interest securities are valued at a market value based on current yields | Not required | Not required |
| Futures and options in UK bonds | Level 1 | Published exchange prices at the year-end | Not required | Not required |
| Exchange traded pooled investments | Level 1 | Closing bid value on published exchanges | Not required | Not required |
| Unquoted bonds (bonds) | Level 2 | Average of broker prices | Evaluated price feeds | Not required |
| Forward foreign exchange derivatives (derivatives and other) | Level 2 | Market forward exchange rates at the year-end | Exchange rate risk | Not required |
| Overseas bond options | Level 2 | Option pricing model | Annualised volatility of counterparty credit risk | Not required |

| Description of Asset | Valuation Hierarchy | Basis of Valuation | Observable and Unobservable Inputs | Key Sensitivities Affecting the Valuations Provided |
|---|---|---|---|---|
| Pooled investments - overseas unit trusts and property funds (pooled Property) | Level 2 & 3 | Closing bid price where bid and offer prices are published. Closing single price where single price published | NAV-based pricing | Valuations could be affected by material events occurring between the date of the financial statements provided and the pension fund's reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts |
| Pooled investments - hedge funds | Level 3 | Closing bid price where bid and offer prices are published. Closing single price where single price published | NAV-based pricing | Valuations could be affected by material events occurring between the date of the financial statements provided and the pension fund's reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts |
| Unquoted equities (Equities and private equities) | Level 3 | Comparable valuation of similar companies in accordance with *International Private Equity and Venture Capital Valuation Guidelines* (2012) | EBITDA multiple, Revenue multiple, Discount for lack of marketability, Control premium | Valuations could be affected by material events occurring between the date of the financial statements provided and the pension fund's own reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts |

### Sensitivity of assets held at Level 3

The Fund has determined that the valuation methods described above for Level 3 investments are likely to be accurate to within the following ranges, and has set out below the consequent potential impact on the closing value of investments held at 31 March 2023 and 31 March 2022.

**2023**

| 31 March 2023 | Potential variation in fair value (+/-%) | Value at 31 March 2023 £000 | Potential value on increase £000 | Potential value on decrease £000 |
|---|---|---|---|---|
| Private Equity | 10 | 795,159 | 874,675 | 715,643 |
| Property Funds | 10 | 126,189 | 138,808 | 113,570 |
| **Total** | **-** | **921,348** | **1,013,483** | **829,213** |

**2022**

| 31 March 2023 | Potential variation in fair value (+/-%) | Value at 31 March 2022 £000 | Potential value on increase £000 | Potential value on decrease £000 |
|---|---|---|---|---|
| Private Equity | 10 | 548,856 | 603,742 | 493,970 |
| Property Funds | 10 | 153,524 | 168,876 | 138,172 |
| **Total** | **-** | **702,380** | **772,618** | **632,142** |

## 16A. Fair Value Hierarchy

### Financial Assets and Liabilities at Fair Value 31 March 2023

| £000 | Quoted market price Level 1 | Using observable inputs Level 2 | With significant unobservable inputs Level 3 | Total |
|---|---|---|---|---|
| **Financial assets at fair value:** | - | - | - | - |
| Equities | 485,691 | - | - | 485,691 |
| Pooled investments | - | 3,563,048 | - | 3,563,048 |
| Pooled property investments | - | 167,595 | 126,189 | 293,784 |
| Private equity | - | - | 795,159 | 795,159 |
| Derivatives | - | 22,607 | - | 22,607 |
| Cash* | 77,570 | - | - | 77,570 |
| Other investment balances | 2,497 | 25 | - | 2,522 |
| **Financial liabilities at fair value:** | 565,758 | 3,753,275 | 921,348 | 5,240,381 |
| Derivatives | - | - | - | - |
| **Total** | **565,758** | **3,753,275** | **921,348** | **5,240,381** |

### Financial Assets and Liabilities at Fair Value 31 March 2022

| £000 | Quoted market price Level 1 | Using observable inputs Level 2 | With significant unobservable inputs Level 3 | Total |
|---|---|---|---|---|
| **Financial assets at fair value:** | - | - | - | - |
| Equities | 475,732 | 3,094,023 | - | 3,569,755 |
| Bonds | - | 760,065 | - | 760,065 |
| Pooled investments | - | - | - | - |
| Pooled property investments | - | 178,250 | 153,521 | 331,775 |
| Private equity | - | - | 548,856 | 548,856 |
| Derivatives | - | 1,613 | - | 1,613 |
| Cash* | 133,939 | - | - | 133,939 |
| Other investment balances | 2,104 | 22 | - | 2,126 |
| **Financial liabilities at fair value:** | 611,775 | 4,033,973 | 702,381 | 5,348,129 |
| Derivatives | - | (23,165) | - | (23,165) |
| **Total** | **611,775** | **4,010,808** | **702,381** | **5,324,964** |

*This is financial instrument is classified at amortised cost in note 17.

## 16B. Reconciliation of Fair Value measurements within Level 3

### 2022/23

| £000 | Value at 31 March 2022 | Purchases | Sales | Realised gains and losses | Unrealised gains and losses | Value at 31 March 2023 |
|---|---|---|---|---|---|---|
| Private equity | 548,856 | 256,874 | (91,889) | 31,018 | 50,300 | 795,159 |
| Property funds | 153,524 | 6,039 | (3,997) | - | (29,377) | 126,189 |
| **Total** | **702,380** | **262,913** | **(95,886)** | **31,018** | **20,923** | **921,348** |

### 2021/22

| £000 | Value 31 March 2021 | Purchases | Sales | Realised gains and losses | Unrealised gains and losses | Value 31 March 2022 |
|---|---|---|---|---|---|---|
| Private equity | 375,944 | 215,962 | (69,224) | 21,349 | 4,825 | **548,856** |
| Property funds | 118,168 | 34,357 | (6,512) | 7,511 | - | **153,524** |
| **Total** | 494,112 | 250,319 | (75,736) | 28,860 | 4,825 | **702,380** |

## 17. Classification of financial instruments

### Financial assets and liabilities 31 March 2023

| £000 | Fair value through Profit and Loss | Assets at amortised cost | Liabilities at amortised cost |
|---|---|---|---|
| **Financial assets:** | - | - | - |
| Equities | 485,691 | - | - |
| Pooled investments | 3,563,048 | - | - |
| Pooled property investments | 293,784 | - | - |
| Private equity | 795,159 | - | - |
| Derivatives | 22,607 | - | - |
| Cash | - | 77,750 | - |
| Other investment balances | 2,342 | - | - |
| **Financial liabilities:** | 5,162,631 | 77,750 | - |
| Derivatives | - | - | - |
| **Total** | **5,162,631** | **77,750** | **-** |

### Financial assets and liabilities 31 March 2022

| £000 | Fair value through Profit and Loss | Assets at amortised cost | Liabilities at amortised cost |
|---|---|---|---|
| **Financial assets:** | - | - | - |
| Equities | 3,569,755 | - | - |
| Bonds | 760,065 | | |
| Pooled property investments | 331,775 | - | - |
| Private equity | 548,856 | - | - |
| Derivatives | 1,613 | - | - |
| Cash | - | 133,939 | - |
| Other investment balances | 2,126 | - | - |
| Current assets | - | 42,633 | - |
| **Financial liabilities:** | 5,214,190 | 176,572 | - |
| Derivatives | (23,165) | - | - |
| Current liabilities | - | - | (10,085) |
| **Total** | **5,191,025** | **176,572** | **(10,085)** |

## 17A. Net gains and losses on financial instruments

| £000 | 2022/23 | 2021/22 |
|---|---|---|
| **Financial assets:** | - | - |
| Fair value through profit and loss | (77,560) | 261,696 |
| Amortised cost - realised gains on derecognition of assets | - | - |
| Amortised cost - unrealised gains | 91 | 60,400 |
| **Financial liabilities:** | - | - |
| Fair value through profit and loss | (49,877) | (26,177) |
| Amortised cost - realised (losses) on derecognition of assets | (479) | - |
| Amortised cost - unrealised (losses) | - | (5) |
| **Total gain / (loss)** | **(127,825)** | **295,914** |

## 18. Nature and extent of risks arising from financial instruments

The Fund's primary long-term risk is that the Fund's assets will fall short of its liabilities (i.e., promised benefits to members). Therefore, the aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gain across the whole portfolio. The Fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cash flows. The council manages these investment risks as part of its overall pension fund risk management programme.

Responsibility for the Fund's risk management strategy rests with the Pension Fund Committee. Risk management policies are established to identify and analyse the risks faced by the council's pensions operations. Policies are reviewed regularly to reflect changes in activity and in market conditions.

### Market risk

Market risk is the risk of loss from fluctuations in equity prices, interest and foreign exchange rates and credit spreads. The Fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price, yield and the asset mix.

To mitigate market risk, the pension fund is invested in a diverse pool of assets to ensure a reasonable balance between different asset categories, having taken external professional advice as necessary. The management of the assets is split between a number of investment fund managers with different benchmark performance targets and investment strategies. Managers are expected to maintain a diverse portfolio and each manager has investment guidelines in place that specify the manager's investment powers and restrictions. Managers are required to report on any temporary breaches of their investment powers and are required to take corrective action as soon as is practicable.

## Other price risk

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market.

The Fund is exposed to share and derivative price risk. This arises from investments held by the Fund for which the future price is uncertain. All securities investments present a risk of loss of capital. The maximum risk resulting from a financial instrument is determined by the fair value of the instrument. By diversifying investments across asset classes and managers, the Fund aims to reduce the exposure to price risk. Statutory limits prescribed by Regulations are also in place to avoid concentration of risk in specific areas.

## Other price risk – sensitivity analysis

In consultation with its investment advisors, the Fund has determined that the following movements in market price risk are reasonably possible in the short term, assuming that all other variables, in particular foreign exchange rates and interest rates, remain the same.

### 2023

| Asset | Potential market movement (+/-%) | Value at 31 March 2023 £000 | Potential value on increase £000 | Potential value on decrease £000 |
|---|---|---|---|---|
| Equities | 13 | 485,691 | 546,888 | 424,494 |
| Equity unit trusts | 6 | 2,999,453 | 3,179,420 | 2,819,486 |
| Bonds | 7 | 563,595 | 604,117 | 523,073 |
| Pooled property investments | 6 | 293,784 | 312,674 | 274,894 |
| Cash | 3 | 77,750 | 79,818 | 75,682 |
| Private equities | 6 | 795,159 | 844,459 | 745,859 |
| Other assets | 2 | 24,949 | 25,548 | 24,350 |
| **Total** | **7** | **5,240,381** | **5,592,924** | **4,887,838** |

**2022**

| Asset | Potential variation in fair value (+/-%) | Value at 31 March 2022 £000 | Potential value on increase £000 | Potential value on decrease £000 |
|---|---|---|---|---|
| Equities | 18 | 593,956 | 700,452 | 487,460 |
| Equity unit trusts | 14 | 2,975,799 | 3,390,030 | 2,561,568 |
| Index Linked | 9 | 177,144 | 193,264 | 161,024 |
| Bonds | 8 | 582,921 | 629,730 | 536,112 |
| Pooled property investments | 5 | 331,775 | 347,866 | 315,684 |
| Cash | 2 | 133,939 | 137,167 | 130,711 |
| Private equities | 6 | 548,856 | 582,336 | 515,376 |
| Other assets | 2 | (19,426) | (19,894) | (18,958) |
| **Total** | **12** | **5,324,964** | **5,894,203** | **4,755,725** |

### Interest rate risk

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Fund is predominantly exposed to interest rate risk through its holdings in bonds.

### Interest rate risk – sensitivity analysis

The analysis that follows assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/- 1% change in interest rates. The analysis demonstrates that a 1% increase in interest rates will not affect the interest received on fixed interest assets but will reduce their fair value, and vice versa. Changes in interest rates do not impact on the value of cash and cash equivalent balances but they will affect the interest income received on those balances.

Assets exposed to interest rate risk:

### 2023 analysis by asset type

| £000 | Value at 31 March 2023 | Potential value on 1% rate increase | Potential value on 1% rate decrease |
|---|---|---|---|
| Cash and cash equivalents - includes direct and indirect holdings | 95,497 | 95,497 | (95,497) |
| Fixed interest securities | 563,595 | 569,231 | (557,959) |
| **Total** | **659,092** | **664,728** | **(653,456)** |

### 2022 analysis by asset type

| £000 | Value at 31 March 2022 | Potential value on 1% rate increase | Potential value on 1% rate decrease |
|---|---|---|---|
| Cash and cash equivalents - includes direct and indirect holdings | 133,939 | 133,939 | (133,939) |
| Fixed interest securities | 582,921 | 582,921 | (582,921) |
| **Total** | **716,860** | **716,860** | **(716,860)** |

### Currency risk

Currency risk represents the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than sterling. The Fund holds monetary and non-monetary assets denominated in currencies other than sterling.

The Fund therefore has a policy to passively hedge up to 50% of the equity exposure to US Dollar, Yen and the Euro. Legal and General Investment Management manages this currency hedge. Individual fund managers may also use derivatives if permitted by their investment management agreements. Furthermore, fund managers will take account of currency risk in their investment decisions.

### Currency risk – sensitivity analysis

The tables below show assets with potential non-UK exposures.  These assets are identified as overseas investments.

**2023**

| Analysis by asset type | Potential market movement (+/-%) | Value at 31 March 2023 £000 | Potential value on increase £000 | Potential value on decrease £000 |
|---|---|---|---|---|
| Overseas equities | 6 | 2,073,088 | 2,204,635 | 1,941,541 |
| Bonds | 6 | 563,595 | 599,358 | 527,832 |
| Property & private equity | 6 | 677,218 | 720,191 | 634,245 |
| **Total** | **6** | **3,313,901** | **3,524,184** | **3,103,618** |

**2022**

| Analysis by asset type | Potential market movement (+/-%) | Value at 31 March 2022 £000 | Potential value on increase £000 | Potential value on decrease £000 |
|---|---|---|---|---|
| Overseas equities | 7 | 2,975,799 | 3,194,350 | 2,757,248 |
| Bonds | 7 | 582,921 | 625,732 | 540,110 |
| Property & private equity | 7 | 467,599 | 501,941 | 433,257 |
| Cash | 7 | 4,189 | 4,497 | 3,881 |
| **Total** | **7** | **4,030,508** | **4,326,520** | **3,734,496** |

### Credit risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Fund's financial assets and liabilities.

Contractual credit risk is represented by the net payment or receipt that remains outstanding, and the cost of replacing the derivative position in the event of a counterparty default. The residual risk is minimal due to the various insurance policies held by exchanges to cover defaulting counterparties.

The Fund's cash balance is lent to borrowers in accordance with the county council's treasury management strategy. There are rigorous procedures in place to manage the security of all cash deposits, including criteria for the quality of counterparties and limits on the amount that can be placed with any of those counterparties.

The Fund holds a separate bank account with HSBC, which holds AA long term credit ratings (or equivalent) with all three credit rating agencies (Fitch, Moody's, Standard and Poor's).

The Fund has 5 accounts with money market funds, managed by Morgan Stanley, Aberdeen, Black Rock, Deutsche and Aviva (all with AAA credit rating). In line with the treasury strategy, the maximum deposit level allowed with each counterparty is £25 million.

| **£000** | **31 March 2023** | **31 March 2022** |
|---|---|---|
| **Money market fund:** | - | - |
| Aberdeen MMF | 100 | 100 |
| Aviva | 100 | 100 |
| Blackrock | 12,700 | 14,700 |
| Deutsche | 3,300 | 100 |
| Morgan Stanley | 400 | 100 |
| **Sub-total** | **16,600** | **15,100** |
| **Current account:** | - | - |
| HSBC | 1,147 | 42 |
| **Internally managed cash** | **17,747** | **15,142** |
| **Externally managed cash:** | - | - |
| LGIM | - | 85,671 |
| Custodian | 77,750 | 33,126 |
| **Total cash and cash equivalents** | **95,497** | **133,939** |

## Liquidity risk

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The council therefore takes steps to ensure that the pension fund has adequate cash to meet its commitments. The Fund needs to manage its cash flows to ensure pensioner payroll costs are met and sufficient cash is available to meet investment commitments.

The treasury management activities of the Fund are managed by the Orbis Treasury Function on a daily basis. A cash flow forecast is updated daily to help understand and manage the timings of the Fund's cash flows. The Fund has immediate access to the internally managed cash holdings and money market fund. The Fund is able to borrow cash to meet short-term cash requirements.

The Fund monitors prospective cash flow. Cash flow surpluses are invested with fund managers, given that the Fund has an aim of being as fully invested as possible after allowing for the need to hold working balances. Regular rebalancing exercises take place, which involves assessing the level of internal cash available to be invested with managers.

### Derivative risk

Some portfolios in which the Fund invests may utilise financial derivative instruments to reduce risks or costs or to generate additional returns to meet the portfolio's objectives. Use of such derivatives does not guarantee a positive result for the portfolio.

Derivatives may invoke a small initial investment but carry the potential for a much greater liability. This is known as leverage. A small market movement could therefore have a proportionately larger impact either for or against the Fund. Other specific risks include the inability of the portfolio manager to close out a derivative position due to illiquidity in the derivative market.

The employment of derivatives within the Fund is limited to specific portfolios where their usage is primarily to manage volatility associated with other holdings. A significant movement to the detriment of the portfolio is intended to be balanced by positive movements in other areas of the portfolio. Fund managers will be expected to ensure a balanced, diverse pool of assets with internal exposure restrictions to limit the impact of potential market movements.

## 19. Funding arrangements

This statement has been prepared in accordance with Regulation 57(1)(d) of the Local Government Pension Scheme Regulations 2013. It has been prepared at the request of the Administering Authority of the Fund for the purpose of complying with the aforementioned regulation.

### Description of Funding Policy

The funding policy is set out in the Administering Authority's Funding Strategy Statement (FSS), dated April 2023. In summary, the key funding principles are as follows:

- take a prudent long-term view to secure the regulatory requirement for long-term solvency, with sufficient funds to pay benefits to members and their dependants
- use a balanced investment strategy to meet the regulatory requirement for long-term cost efficiency (where efficiency in this context means to minimise cash contributions from employers in the long term)
- where appropriate, ensure stable employer contributions
- reflect different employers' characteristics to set their contribution rates, using a transparent funding strategy
- use reasonable measures to reduce the risk of an employer defaulting on its pension obligations.

The FSS sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable. For employers whose covenant was considered by the Administering Authority to be sufficiently strong, contributions have been stabilised to have a sufficiently high likelihood of achieving the funding target over 20 years. Asset-liability modelling has been carried out which demonstrate that if these contribution rates are paid and future contribution changes are constrained as set out in the FSS, there is at least a 70% likelihood that the Fund will achieve the funding target over 20 years.

### Funding position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 62 of the Local Government Pension Scheme Regulations 2013 was as at 31 March 2022. This valuation revealed that the Fund's assets, which at 31 March 2022 were valued at £5,358 million, were sufficient to meet 102% of the liabilities (i.e., the present value of promised retirement benefits) accrued up to that date. The resulting surplus at the 2022 valuation was £101 million.

Each employer had contribution requirements set at the valuation, with the aim of achieving their funding target within a time horizon and likelihood measure as per the FSS. Individual employers' contribution for the period 1 April 2023 to 31 March 2026 were set in accordance with the Fund's funding policy as set out in its FSS.

### Principal Actuarial Assumptions and Method used to value the liabilities

Full details of the methods and assumptions are described in the 2022 valuation report and FSS.

## Method

The liabilities were assessed using an accrued benefits method which takes into account pensionable membership up to the valuation date; and makes an allowance for expected future salary growth to retirement or expected earlier date of leaving pensionable membership.

## Assumptions

A market-related approach was taken to valuing the liabilities, for consistency with the valuation of the Fund assets at their market value. The key financial assumptions adopted for the 2022 valuation were as follows:

| Financial assumptions | 31 March 2022 % |
|---|---|
| Discount rate | 4.4 pa |
| Salary increase assumption | 3.7 pa |
| Benefit increase assumption (CPI) | 2.7 pa |

The key demographic assumption was the allowance made for longevity. The life expectancy assumptions are based on the Fund's VitaCurves with improvements in line with the CMI 2021 model, with a 0% weighting of 2021 (and 2020) data, standard smoothing (Sk7), initial adjustment of 0.25% and a long term rate of 1.50% p.a. Based on these assumptions, the average future life expectancies at age 65 are as follows:

| Average future life expectancy at age 65 | Males - Years | Females - Years |
|---|---|---|
| Current pensioners | 22.3 | 24.9 |
| Future pensioners (age 45 at the 2022 valuation) | 23.1 | 26.3 |

Copies of the 2022 valuation report and Funding Strategy Statement are available on request from the Administering Authority to the Fund and on the Fund's website.

## Experience over the period since 31 March 2022

Markets continued to be disrupted by the ongoing war in Ukraine and inflationary pressures, impacting on investment returns achieved by the Fund's assets. High levels of inflation in the UK (compared to recent experience), have resulted in a higher than expected LGPS benefit increase of 10.1% in April 2023. Despite this, the funding level of the Fund is likely to be higher than reported at the 31 March 2022 funding valuation due to the significant rise in interest rates which reduces the value placed on the Fund's liabilities.

The next actuarial valuation will be carried out as at 31 March 2025. The Funding Strategy Statement will also be reviewed at that time.

Steven Scott FFA

22 May 2023

For and on behalf of Hymans Robertson LLP

## 20. Actuarial present value of promised retirement benefits

CIPFA's Code of Practice on Local Authority Accounting 2022/23 requires Administering Authorities of LGPS funds that prepare pension fund accounts to disclose what IAS26 refers to as the actuarial present value of promised retirement benefits. The actuary Hymans Robertson was instructed by the Administering Authority to provide the necessary information for the Surrey Pension Fund ("the Fund").

The actuarial present value of promised retirement benefits is to be calculated similarly to the Defined Benefit Obligation under IAS19. There are three options for its disclosure in the pension fund accounts:

- Showing the figure in the Net Assets Statement, in which case it requires the statement to disclose the resulting surplus or deficit
- As a note to the accounts, or
- By reference to this information in an accompanying actuarial report.

If an actuarial valuation has not been prepared at the date of the financial statements, IAS26 requires the most recent valuation to be used as a base and the date of the valuation disclosed. The valuation should be carried out using assumptions in line with IAS19 and not the Fund's funding assumptions.

### Present value of promised retirement benefits

| £m | 31 March 2023 | 31 March 2022 |
|---|---|---|
| Active members | 1,926 | 3,526 |
| Deferred members | 1,428 | 2,016 |
| Pensioners | 2,311 | 2,209 |
| **Total** | **5,665** | **7,751** |

The promised retirement benefits at 31 March 2023 have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2022. The approximation involved in the roll forward model means that the split of benefits between the three classes of member may not be reliable. However, I am satisfied that the total figure is a reasonable estimate of the actuarial present value of benefit promises.

The figures include both vested and non-vested benefits, although the latter is assumed to have a negligible value. Further, I have not made any allowance for unfunded benefits.

It should be noted the above figures are appropriate for the Administering Authority only for preparation of the pension fund accounts. They should not be used for any other purpose (i.e., comparing against liability measures on a funding basis or a cessation basis).

### Assumptions

The assumptions used are those adopted for the Administering Authority IAS19 report and are different as at 31 March 2023 and 31 March 2022. I estimate that the impact of the change in financial assumptions to 31 March 2023 is to decrease the actuarial present value by £3,039m. I estimate that the impact of the change in demographic assumptions is to decrease the actuarial present value by £95m.

### Financial assumptions

| % Rate | 31 March 2023 | 31 March 2022 |
|---|---|---|
| Pension Increase Rate | 2.95 | 3.20 |
| Salary Increase Rate | 3.95 | 4.10 |
| Discount Rate | 4.75 | 2.70 |

### Demographic assumptions

The longevity assumptions have changed since the previous IAS26 disclosure for the Fund. Life expectancy is based on the Fund's VitaCurves with improvements in line with the CMI 2021 model, with a 10% weighting of 2021 (and 2020) data, standard smoothing (Sk7), initial adjustment of 0.25% and a long term rate of improvement of 1.5% p.a. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

| Average future life expectancy at age 65 | Males - Years | Females - Years |
|---|---|---|
| Current pensioners | 22.0 | 24.7 |

| | | |
|---|---|---|
| Future pensioners (assumed to be aged 45 at the latest formal valuation) | 22.7 | 26.1 |

All other demographic assumptions are unchanged from last year and as per the latest funding valuation of the Fund.

### Sensitivity analysis

CIPFA guidance requires the disclosure of the sensitivity of the results to the methods and assumptions used. The sensitivities regarding the principal assumptions used to measure the obligations are set out below:

| **Sensitivity to the assumptions for the year ended 31 March 2023** | **Approximate increase to liabilities %** | **Approximate monetary amount £m** |
|---|---|---|
| 0.1% p.a. decrease in the Discount Rate | 2 | 102 |
| 1 year increase in member life expectancy | 4 | 227 |
| 0.1% p.a. increase in the Salary Increase Rate | - | 8 |
| 0.1% p.a. increase in the Pension Increase Rate (CPI) | 2 | 95 |

### Professional notes

This statement accompanies the ‘Accounting Covering Report – 31 March 2023’ which identifies the appropriate reliance and limitations for the use of the figures above, together with further details regarding the professional requirements and assumptions.

Steven Scott FFA

22 May 2023

For and on behalf of Hymans Robertson LLP

## 21. Current assets

| **£000** | **31 March 2023** | **31 March 2022** |
|---|---|---|
| Contributions - employees | 3,039 | 3,236 |
| Contributions - employer | 8,658 | 8,896 |
| Sundry debtors | 29,452 | 30,501 |
| **Sub-total** | **41,149** | **42,633** |
| Cash balances | 17,747 | - |
| **Total Current Assets** | **58,896** | **42,633** |

Note: Cash balances directly held by the Fund have been analysed as part of Current Assets for the period ended 31 March 2023. The comparator for the period ended 31 March 2022 is also shown on this basis.

## 22. Current liabilities

| £000 | 31 March 2023 | 31 March 2022 |
|---|---|---|
| Sundry creditors | (7,700) | (9,717) |
| Benefits payable | (181) | (368) |
| **Total Current liabilities** | **(7,881)** | **(10,085)** |

## 23. Additional voluntary contributions

| £000 | 31 March 2023 | 31 March 2022 |
|---|---|---|
| Prudential - market value | 14,753 | 16,053 |

| £000 | 2022/23 | 2021/22 |
|---|---|---|
| Prudential - contributions paid | 1,100 | 1,900 |

## 24. Agency services

The Surrey Pension Fund pays discretionary awards to former employees of district councils on an agency basis as shown below. The amounts paid are reclaimed from the employer bodies.

| £000 | 2022/23 | 2021/22 |
|---|---|---|
| District & Boroughs | 2,007 | 15,968 |
| Other bodies | 306 | 3,101 |
| **Total** | **2,313** | **19,069** |

## 25. Related party transactions

The Surrey Pension Fund is administered by Surrey County Council. During the reporting period, the council incurred costs of £4.720m (2021/22 £4.725m) in relation to the administration and management of the Fund and was reimbursed by the Fund for these expenses.

The council is also the single largest employer of members of the pension fund. Net amounts owed by Surrey County Council to the Fund as at 31 March 2023 were £2,047k (£1,456k at 31 March 2022).

Members of both the Pension Fund Committee and Local Pension Board are required to declare their disclosable pecuniary interests in respect of any item to be considered at each meeting. Declarations of interest are recorded in the minutes of each meeting as part of the public record and a copy can be found on the Surrey County Council website.

## 25A. Key management personnel

Key management personnel are members of the Pension Fund Committee, the Executive Director of Corporate Resources, the Director of Corporate Finance and the Assistant Director – LGPS Senior Officer.

Their renumeration is set out below:

| **£000** | **2022/23** | **2021/22** |
|---|---|---|
| Short-term benefits | 143 | 144 |
| Post-employment benefits | 17 | - |
| **Total Remuneration** | **160** | **144** |

## 26. Contingent Liabilities and Contractual Commitments

At 31 March 2023 the Fund held part paid investments on which the liability for future calls amounted to £846 million (£553 million as at 31 March 2022).

# Contacts

## Surrey Pension Contact

### Service Delivery - Benefits and Contributions

Enquiries should be directed in writing to Surrey Pension Team at the following address:

Surrey Pension Team, PO Box 471, Reigate, RH2 2HA

Telephone: 020 8541 9289 or 9292

Email: crtpensions@surreycc.gov.uk

Fax: 020 8541 9287

### Accounts and Investments

Information can be obtained from Surrey Pension Team:

Investments: pension.fund@surreycc.gov.uk

Accounts: employer.pensions@surreycc.gov.uk

### The Pensions Regulator

Customer Support, The Pensions Regulator, Telecom House, 125-135 Preston Road, Brighton BN1 6AF

Telephone: 0345 600 0707

Website: The Pensions Regulator

### Money and Pension Services (MaPS)

Holborn Centre, 120 Holborn, London, EC1N 2TD

Telephone: 01159 659570

Email: contact@maps.org.uk

Website: Money and Pensions Service

### Pensions Ombudsman

10 South Colonnade, Canary Wharf, E14 4PU

Telephone Local: 0800 917 4487

Telephone Overseas: 0207 630 2200

Email: enquiries@pensions-ombudson.org.uk

Website: Pensions Ombudsman

## Scheme Information

### Pension Scheme Regulations

Website: LGPS Regulations 2013

Paper copies can be obtained from: Governance Manager, Adele Seex

Email: adele.seex@surreycc.gov.uk

### Employee and Employer Guides

Website: Surrey Pension Fund

Website: Employers Surrey Pension Fund

### National LGPS Website

Website: LGPS Website

# Glossary of Terms

## Active Management

A style of management where the Fund manager aims to outperform a benchmark by superior asset allocation, market timing or stock selection (or a combination of these). Compare with passive management.

## Actuary

An independent consultant who advises the County Council on the financial position of the Fund. See actuarial valuation.

## Actuarial Valuation

This is an assessment done by an actuary, usually every three years. The actuary will work out how much money needs to be put into a pension fund to make sure pensions can be paid in the future.

## Additional Voluntary Contribution (AVC)

An option available to individuals to secure additional pensions benefits by making regular payments in addition to the 5.5%-7.5% of basic earnings payable.

## Admitted Bodies

Employers whose staff can become members of the Fund by virtue of an admission agreement made between the Administering Authority and the employer.

## Asset Allocation

The apportionment of a fund's assets between asset classes and/or world markets. The long-term strategic asset allocation of a fund will reflect the Fund's investment objectives. In the short term, the Fund manager can aim to add value through tactical asset allocation decisions.

## Benchmark

A yardstick against which the investment policy or performance of a fund manager can be compared. The Surrey Pension Fund's benchmark is customised, meaning that it is tailored to the Fund's liability profile.

## Bond

A debt investment with which the investor loans money to an entity (company or government) that borrows the funds for a defined period of time at a specified interest rate.

## Broker

An individual or firm that charges a fee or commission for executing buy and sell orders submitted by an investor.

## Commission

A service charge assessed by an agent in return for arranging the purchase or sale of a security or real estate. The commission must be fair and reasonable, considering all the relevant factors of the transaction.

### Corporate Bond

A debt security issued by a corporation, as opposed to those issued by the government.

### Corporate Governance

The system by which companies are run, and the means by which they are responsible to their shareholders, employees and other stakeholders.

### Creditors

Amounts owed by the pension fund.

### Custody

Safekeeping of securities by a financial institution. The custodian keeps a record of the client's investments and may also collect income, process tax reclaims and provide other services such as performance measurement.

### Debtors

Amounts owed to the pension fund.

### Derivative

Used to describe a specialist financial instrument such as options or futures contracts. Financial instruments are agreements to buy or sell something, under terms laid out in a contract.

### Diversification

A risk management technique that mixes a wide variety of investments within a portfolio. It is designed to minimize the impact of any one security on overall portfolio performance.

### Dividend

Distribution of a portion of a company's earnings, decided by the board of directors, to a class of its shareholders. The amount of a dividend is quoted in the amount each share receives or in other words dividends per share.

### Emerging Markets

There are about 80 stock markets around the world of which 22 markets are generally considered to be mature. The rest are classified as emerging markets.

### Equity

Stock or any other security representing an ownership interest.

### Ex-dividend

Purchase of shares without entitlement to current dividends. This entitlement remains with the seller of the shares.

### Final Salary Scheme

An employer pension scheme, the benefits of which are linked to length of service and the final salary of the member (also known as defined benefit).

### Fixed interest

A loan with an interest rate that will remain at a predetermined rate for the entire term of the loan. See bond.

### Funding Level

A comparison of a scheme's assets and liabilities.

### Futures Contract

A contract to buy goods at a fixed price and on a particular date in the future. Both the buyer and seller must follow the contract by law.

### Gilts

The familiar name given to sterling, marketable securities (or bonds) issued by the British Government.

### Hedge

Making an investment to reduce the risk of adverse price movements in an asset. Normally, a hedge consists of taking an offsetting position in a related security, such as a futures contract.

### Index Linked

A bond which pays a coupon that varies according to some underlying index, usually the Consumer Price Index.

### LGPS

Local Government Pension Scheme.

### Mandate

The agreement between a client and investment manager laying down how the portfolio is to be managed, including performance targets.

### Market Value

A security's last reported sale price (if on an exchange) i.e. the price as determined dynamically by buyers and sellers in an open market. Also called market price.

### Option

The name for a contract where somebody pays a sum of money for the right to buy or sell goods at a fixed price by a particular date in the future. However, the goods do not have to be bought or sold.

### Passive Management

A style of fund management that aims to construct a portfolio to provide the same return as that of a chosen index. Compare with active management.

### Pension Fund

A fund established by an employer to facilitate and organise the investment of employees' retirement funds contributed by the employer and employees. The pension fund is a common asset pool meant to generate stable growth over the long term and provide pensions for employees when they reach the end of their working years and commence retirement.

### Private Equity

When equity capital is made available to companies or investors, but not quoted on a stock market. The funds raised through private equity can be used to develop new products and technologies, to expand working capital, to make acquisitions, or to strengthen a company's balance sheet. Also known as development capital.

### Property Unit Trusts

Pooled investment vehicles that enable investors to hold a stake in a diversified portfolio of properties.

### Return

Synonymous with profit, be it income received, capital gain or income and capital gain in combination. Usually expressed as a percentage of the nominal value of the asset.

### Risk

The likelihood of performance deviating significantly from the average. The wider the spread of investment in an investment sector or across investment sectors, i.e. the greater the diversification, the lower the risk.

### Scheme Employers

Local authorities and other similar bodies whose staff automatically qualify to become members of the pension fund.

### Security

An investment instrument, other than an insurance policy or fixed annuity, issued by a corporation, government, or other organisation, which offers evidence of debt or equity.

### Stock

A type of security that signifies ownership in a corporation and represents a claim on part of the corporation's assets and earnings. Also known as shares or equity.

### Stock Selection

The process of deciding which stocks to buy within an asset class.

### Transaction Costs

Those costs associated with managing a portfolio, notably brokerage costs and taxes.

### Transfer Value

The amount transferred to/from another pension fund should a member change employment. The amount transferred relates to the current value of past contributions.

### Transition

To move from one set of investment managers to another.

### Unit Trust

A pooled fund in which investors can buy and sell units on an ongoing basis.

### Unrealised Gains/(losses)

The increase/(decrease) at year-end in the market value of investments held by the Fund since the date of their purchase.

### Yield

The rate of income generated from a stock in the form of dividends, or the effective rate of interest paid on a bond, calculated by the coupon rate divided by the bond's market price. Furthermore, for any investment, yield is the annual rate of return expressed as a percentage.