

Purpose of Report

The Surrey Pension Fund held its Annual General Meeting in November 2019 and this paper is to update the Performance and Finance Scrutiny Committee on the membership and performance of the fund and to highlight any issues going forward.

1. Background and Key Issues

- 1.1 Pension contributions are a significant financial commitment for the Council. In 2019/20 employer contributions are in excess of £2.3m which includes back funding to cover past deficits.
- 1.2 The Surrey Pension Fund is managed and administered by Surrey County Council on behalf of all Districts, the County and a number of other organisations. All of the figures given in this report are for the fund as a whole and not just for Surrey Heath.

Membership

- 1.3 At the end of March 2019 there were 110,195 members in the fund of which 34,292 were active, 25,929 pensioners and 49,974 deferred. Total membership has increased by 4,179 compared to last year but the number of active (paying) members has fallen by 1,510. This decline in active members will have implications for the fund if it continues since at the moment income collected in contributions exceeds pensions paid but this may not be so in the future. This will then impact the invest strategy of the fund as more of the fund will then need to be held as short term cash.

Market Value of the Fund

- 1.4 The fund was valued at £4.493bn on the 30th September 2019. This compares with £4.026bn on the 31st March 2018 and £3.2bn on the 31st March 2016. 2bn in 2011 and reflects the unbroken increase in equity markets since then. Although difficult to predict it is likely that there will be some sort of correction over the next 6 months and steps are therefore being taken to consolidate some of these gains.

Investment Performance and Strategy

- 1.5 The fund achieved a total return of 5.7% in 2018/19 and the 3-year annualised return was 9.3% which was above the benchmark of 8.4%. This was due in the main to the continued rise in global equities during the year.
- 1.6 At the 31st March 58.1% of the fund was in listed equities with 16.5% in bonds, 9.4% in diversified growth funds, 6.6% in private equity, 6% in property and 3.4% in cash. During the year just under 3% was moved out of listed equities in to property and bonds.

Funding Update

- 1.7 Due in the main to investments performing so well and the additional payments made the deficit has reduced significantly over the last few years as is evidence by the table below. In fact, given the current performance of the stock market the fund is now more than fully funded.

	Full Valuation 31/03/16	Interim Valuation 31/03/17	Interim Valuation 31/03/18	Full Valuation 31/03/19	Interim valuation 30/09/19
Liabilities	3,892m	4,050m	4,233m	4,465m	4,400m
Assets	3,213m	3,799m	4,026m	4,286m	4,493m
Deficit	-680m	-251m	-207m	-179m	93m
Funding Level	82.6%	93.8%	95.1%	96.0%	102.1%

Outlook for the 2019 valuation and contribution rates from 2019/20

- 1.8 The fund is currently having its triennial actuarial review for the year ended 31st March 2019. This will set contributions rates for the next 3 years from 2019/20. The actuaries have adopted a policy of trying to limit changes on contribution rates to 1%. This means that they run a number of different scenarios over a 20-year period to see whether a large change at a single valuation can indeed be spread over a period of time. Although the valuation has not been completed yet early indications are that the actuaries are unlikely to recommend a change to contribution rates as a result of the actuarial review.

Pooling of Funds

- 1.9 The Surrey Pension Fund is part of the Borders to Coast Pension Pool which has £45bn of assets under its control. Although the assets are still held separately by each individual pension fund the pooling means that better deals can be obtained from fund managers and also save money on due diligence and administration.

Governance Issues

- 1.10 The Districts nominate representatives to sit on the Pensions Committee. Currently Cllr Mrs Charlotte Morley sits on the Pensions Committee in her capacity as a Surrey County Councillor as does Cllr David Mansfield.

2. Sustainability

- 2.1 The fund has invested £500m in low carbon passive investments and £45m in renewable energy infrastructure investments. The fund, together with other Borders to Coast members, is willing to use its votes at board meetings to influence companies to make more sustainable decisions. An example of this is that Surrey Pension Fund along with 57 other investors co filed a climate action resolution at BP AGM which directed BP to include in its strategic report a strategy in line with the Paris Agreement. BP agreed to make these disclosures next year. Surrey Pension Fund together with members of the Borders to Coast Pool are collaborating with Climate Action 100+ to force companies to take sustainability seriously
- 2.2 The fund had a review of the Carbon Intensity of its investments compared to the markets it invested in and was found to have a lower value. This continues to fall and the fund is looking at ways it can reduce its environmental impact further.

3. Officer Comments

- 3.1 The actuarial valuation done on the basis of realistic investment returns shows that the fund is in fact fully funded. This is quite an achievement. It should be noted however that for the Council's accounts the valuation of liabilities is mandated under IAS19 to using the returns of corporate bonds and so for the accounts there is always a significant deficit as liabilities are effectively inflated. Whilst this has an impact on the Council's balance sheet value it does not represent a true liability for the Council since on the more realistic basis the scheme has enough assets to pay all known and future liabilities.

4. Recommendations

- 4.1 It is proposed that the Performance and Finance Scrutiny Committee notes and comments upon the contents of this report.

Background Papers: Further information about the fund can be found on the Surrey County Council website

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