

## Surrey Pension Fund

### Summary

The Surrey Pension Fund held its Annual General Meeting in November and this paper is to update Executive on the membership and performance of the fund and to highlight any issues going forward including implications for the 2017/18 budget

### Portfolio - Finance

**Date Signed Off: 18 January 2017 (by the Leader)**

**Wards Affected**

**All**

### Recommendation

The Executive is advised to NOTE and comment on the contents of the report

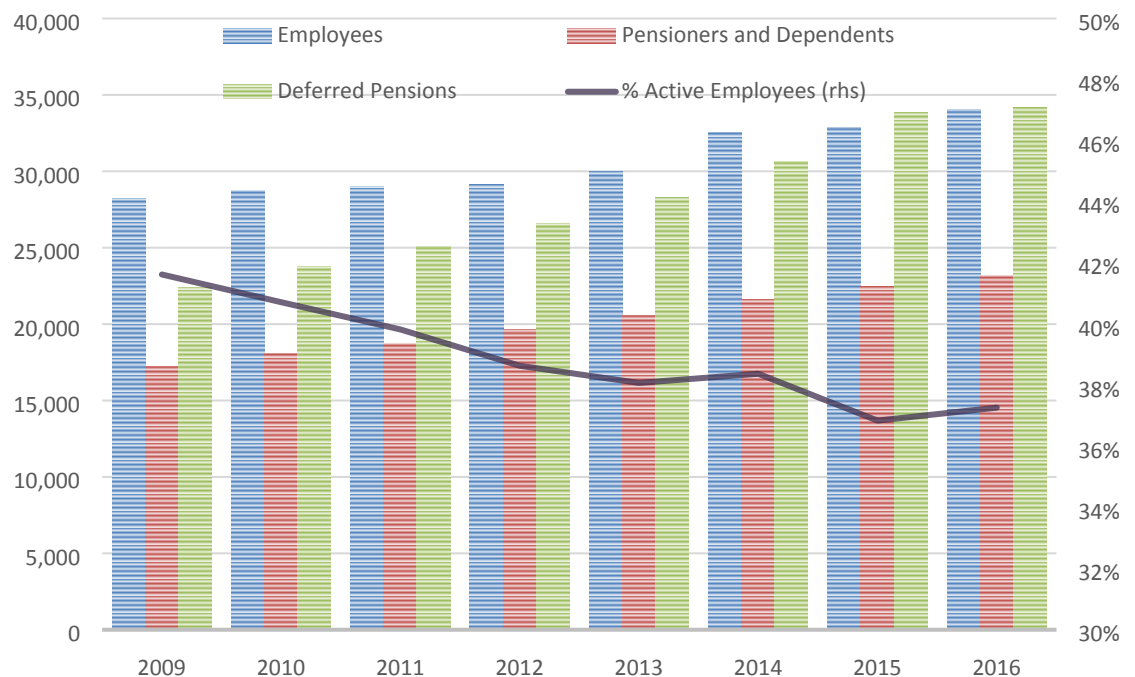
## 1. Key Issues

- 1.1 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

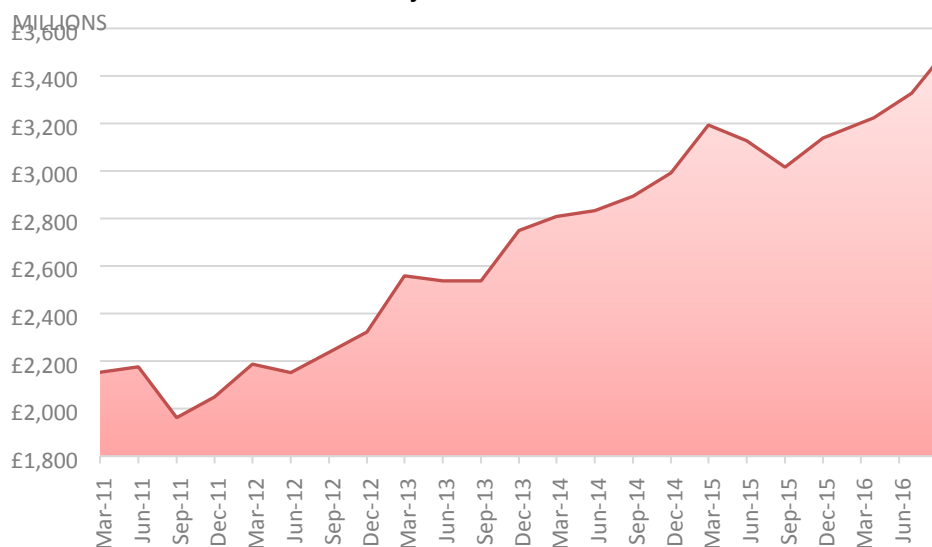
- 1.2 At the end of March 2016 there were 91,427 members in the fund of which 34,072 were active, 23,197 pensioners and 34,158 deferred. This is an increase of 2,300 on the previous year as more part time staff are bought in to the fund through the Government's auto enrolment program. The graph below sets out the changes in membership

## Number of Pension fund Members



## Market Value of the Fund

- 1.3 The fund was valued at £3.629bn on the 16<sup>th</sup> November 2016 a significant increase on the £3.122bn valuation as at the 31<sup>st</sup> March 2016. The graph below illustrates how the fund valuation has changed over the course of the last 5 years.



## Investment Strategy

- 1.4 The investment strategy is set by the Pension fund committee which includes representatives of the county and districts. Investments are placed with a number of fund managers as in the table below:

<b>Fund Manager</b>	<b>Asset Class</b>	<b>Market Value as at 30/09/16 £m</b>	<b>Percentage of Total Fund as at 30/09/16</b>
LGIM	Multi-asset	896.1	25.4%
Western	Investment and Multi Asset Grade Credit	311.3	8.8%
Franklin Templeton	Unconstrained Bonds	64.5	1.8%
Majedie	UK Equity	329.9	9.4%
UBS	UK Equity	264.7	7.5%
Marathon	Global Equity	517.3	14.7%
Newton	Global Equity	288.2	8.2%
Baillie Gifford	Diversified Growth	136.3	3.9%
Ruffer	Diversified Growth	121.4	3.4%
Aviva	Diversified Growth	121.4	3.4%
CBRE	Property	227.7	6.5%

- 1.5 The fund is managed so as to generate longer term growth to meet the future liabilities of the scheme. The table below shows the split of investments

	<b>Target Allocation 30 September 2016</b>	<b>Actual Allocation 30 September 2016</b>
	<b>%</b>	<b>%</b>
Multi Asset Credit	4.4	3.8
Investment Grade Credit	5.3	5
Index-Linked Gilts	5.5	5.5
Unconstrained	2.4	2
<b>Total Bonds</b>	<b>17.6</b>	<b>16.3</b>
UK Equity	27.5	24.5
Overseas Equity	32.3	35
<b>Total Equity</b>	<b>59.8</b>	<b>59.5</b>
Property	6.2	6
Diversified Growth	11.4	11.2
<b>Total Alternatives</b>	<b>17.6</b>	<b>17.2</b>
<b>Private Equity</b>	<b>5</b>	<b>4.8</b>
<b>Cash and Other</b>	<b>0</b>	<b>2.2</b>
<b>TOTAL</b>	<b>100</b>	<b>100</b>

- 1.6 Investment performance is shown in the table below:

	Surrey Pension Fund %	Surrey Benchmark %
2015/2016	-0.8	-0.9
2014/2015	12.3	11.9
2013/2014	8.6	7.1
2012/2013	14.7	11.6
2011/2012	1.9	3.3
2010/2011	8.9	8.2
2009/2010	42.9	39.1
3-Year (annualised)	6.7	5.7
5-Year (annualised)	7.2	6.3
10-Year (annualised)	5.5	5.0















### Funding Update

- 1.7 Due to growth in investments and additional payments the fund is now managing to keep pace with liabilities. This has resulted in the deficit falling and so the funding level increasing. At the current time the scheme is well over 90% funded. Details are shown in the table below:

	Full Actuarial Valuation  31/03/2010	Full Actuarial Valuation  31/03/2013	Quarterly Valuation  31/03/2014	Quarterly Valuation  31/03/2015	Full Actuarial Valuation  31/03/2016	Quarterly Valuation  30/09/2016
Liabilities	£2,699m	£3,538m	£3,523m	£4,245m	£3,892m	£3,946m
Assets	£1,944m	£2,559m	£2,808m	£3,194m	£3,213m	£3,524m
Deficit	£755m	£979m	£715m	£1,051m	£680m	£422m
Funding Level	72.0%	72.3%	79.7%	75.2%	82.6%	89.3%

### National Asset Pooling

- 1.8 The Government passed legislation to force Local Government Pension Schemes to pool their assets. This was done for 2 reasons. Firstly by pooling the costs of investment management can be reduced thereby giving savings in costs. Secondly the new fund could provide a national fund to invest in infrastructure. Surrey has joined the “Borders to Coast Fund” which has a total value of £35.9bn. The Councils in this pool are shown below:

 Bedfordshire Pension Fund	£1.7bn	 SOUTH YORKSHIRE PENSIONS AUTHORITY	£6.3bn
 Cumbria County Council	£2.0bn	 Sheffield City Region COMBINED AUTHORITY	£0.2bn
 Durham County Council	£2.3bn	 SURREY PENSION FUND	£3.2bn
 ERPFI East Riding Pension Fund	£3.7bn	 Teesside Pension Fund	£3.2bn
 Lincolnshire COUNTY COUNCIL <i>Working for a better future</i>	£1.8bn	 Tyne and Wear Pension Fund Administered by South Tyneside Council	£6.4bn
 North Yorkshire County Council	£2.4bn	 WARWICKSHIRE pension fund	£1.7bn
 NORTHUMBERLAND Northumberland County Council	£1.1bn	 BCPP	£35.9bn

- 1.9 Borders to Coast, which will be based in Leeds, is now working hard to put the legal and Governance infrastructure in place to manage the pool.
- 1.10 In addition on the member side Surrey Pensions now manages the pensions for City of Westminster, the Tri borough Partnership and East Sussex as well as Surrey.

## 2. Resource Implications

- 2.1 Pension contributions are a significant financial commitment for the Council. In 2016/17 employer contributions are expected to exceed £2m of which £800k are to fund pension deficits – this has increased by £500k in the last 3 years.
- 2.2 The fund is required to have an actuarial review every 3 years and this was last done as at the 31<sup>st</sup> March 2016. This indicated that 82.6% funded compared with 72.3% in March 2013. This means that the actuaries are recommending no increase in current contributions or deficit recovery payments for the next 3 years. This is not the case for

all members of the scheme and reflects the increased contributions Surrey Heath have recently made and the age profile of the workforce and pensioners.

- 2.3 The Council can make a lump sum contribution towards the deficit which would result in on going revenue savings. Surrey Pensions can calculate the benefits of doing this and if it is beneficial this may be brought forward to Executive at a later date for consideration.

### **3. Options**

- 3.1 The Executive is only asked to note the contents of the report.

### **4. Proposals**

- 4.1 It is proposed that the Executive NOTES the report COMMENT as appropriate.

### **5. Supporting Information**

- 5.1 The Surrey Pension Fund AGM report available on the Surrey County Council website.

### **6. Corporate Objectives And Key Priorities**

- 6.1 The funding of pensions is a key part of the budget and therefore can influence all of the council's key priorities.

### **7. Policy Framework**

- 7.1 The Councils is required to be a member of the fund and to comply with any funding directions.

### **8. Legal Issues**

- 8.1 The Council is a member together with other organisations of the Surrey Pension Fund. All members underwrite the liabilities of the fund irrespective of where they arise.

### **9. Governance Issues**

- 9.1 The Districts nominate representatives to sit on the Pensions Board.

### **10. Risk Management**

- 10.1 The fund is advised by actuaries and investment advisors with a view to minimising financial risk within the fund.

### **11. Officer Comments**

- 11.1 None

<b>Annexes</b>	<b>None</b>
<b>Background Papers</b>	<b>Surrey Pension fund Annual report 2016 available on the Surrey County Council website</b>
<b>Author/Contact Details</b>	<b>Kelvin Menon – Executive Head of Finance Kelvin.menon@surreyheath.gov.uk</b>
<b>Executive Head of Service</b>	<b>Kelvin Menon – Executive Head of Finance</b>

#### **Consultations, Implications and Issues Addressed**

<b>Resources</b>	<b>Required</b>	<b>Consulted</b>
Revenue	✓	
Capital		
Human Resources		
Asset Management		
IT		

<b>Other Issues</b>	<b>Required</b>	<b>Consulted</b>
Corporate Objectives & Key Priorities	✓	
Policy Framework		
Legal		
Governance		
Sustainability		
Risk Management		
Equalities Impact Assessment		
Community Safety		
Human Rights		
Consultation		
P R & Marketing		

**Review Date:**

**Version:**