

Notice of Meeting

Surrey Pension Fund Committee



Date & time
Friday, 23
September 2016 at
9.30 am

Place
Members Conference
Room

Contact
Vicky Hibbert
Room 122, County Hall
Tel 020 8541 9075

Chief Executive
David McNulty



We're on Twitter:
[@SCCdemocracy](#)

Elected Members

Ms Denise Le Gal (Chairman), Mr Alan Young (Vice-Chairman), Mr W D Barker OBE, Mr Tim Evans, Mr Stuart Selleck and Mrs Hazel Watson

Co-opted Members:

Mr Tony Elias (Borough/District Representative), Ian Perkin (Office of the Surrey Police and Crime Commissioner), District Councillor Peter Stanyard (Borough/District representative) and Philip Walker (Employees)

If you would like a copy of this agenda or the attached papers in another format, eg large print or braille, or another language please either call 020 8541 9122, write to Democratic Services, Room 122, County Hall, Penrhyn Road, Kingston upon Thames, Surrey KT1 2DN, Minicom 020 8541 8914, fax 020 8541 9009, or email .

This meeting will be held in public. If you would like to attend and you have any special requirements, please contact Vicky Hibbert on 020 8541 9075.

AGENDA

1 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

2 MINUTES OF THE PREVIOUS MEETING [11 JULY 2016]

(Pages 1
- 4)

To agree the minutes as a true record of the meeting.

3 DECLARATIONS OF INTEREST

To receive any declarations of disclosable pecuniary interests from Members in respect of any item to be considered at the meeting.

Notes:

1. In line with the Relevant Authorities (Disclosable Pecuniary Interests) Regulations 2012, declarations may relate to the interest of the member, or the member's spouse or civil partner, or a person with whom the member is living as husband or wife, or a person with whom the member is living as if they were civil partners and the member is aware they have the interest.
2. Members need only disclose interests not currently listed on the Register of Disclosable Pecuniary Interests.
3. Members must notify the Monitoring Officer of any interests disclosed at the meeting so they may be added to the Register.
4. Members are reminded that they must not participate in any item where they have a disclosable pecuniary interest.

4 QUESTIONS AND PETITIONS

(Pages 5
- 6)

Member Questions

Four questions have been received from Mr Jonathan Essex.

Notes:

1. The deadline for Member's questions is 12.00pm four working days before the meeting (*19 September 2016*).
2. The deadline for public questions is seven days before the meeting (*16 September 2016*).
3. The deadline for petitions was 14 days before the meeting, and no petitions have been received.

5 ACTION TRACKING AND FORWARD PLAN

(Pages 7
- 10)

An action tracker is attached, detailing actions from previous meetings. The Board is asked to review progress on the item listed.

The Forward Plan for the Pension Fund Committee is also attached for information.

6 MANAGER ISSUES AND INVESTMENT PERFORMANCE

(Pages
11 - 40)

This report is a summary of all manager issues that need to be brought to the attention of the Surrey Pension Fund Committee, as well as manager investment performance.

7 KEY PERFORMANCE INDICATORS AND ADMINISTRATION UPDATE

(Pages
41 - 46)

In line with best practice, Surrey Pension Fund Committee members will be supplied with Pension Fund key performance indicators (KPIs) on a quarterly basis, covering investment and administration practices. This paper also includes an update on administration issues.

- | | | |
|-----------|--|-------------------------|
| 8 | PENSION FUND RISK REGISTER | (Pages
47 - 52) |
| | The Pension Fund Committee to assess the revised Risk Register in Annex 1, making any suggestions for amendment/additions as necessary. | |
| 9 | SHARE VOTING | (Pages
53 - 66) |
| | This report provides a summary of the Fund's share voting process in Q1 of 2016/17 (1 April 2016 to 30 June 2016). | |
| 10 | PRIVATE EQUITY INVESTMENT PERFORMANCE REVIEW | (Pages
67 - 74) |
| | The Surrey Pension Fund Committee reviews the private equity strategy. This report is a review of the investment performance of the private equity portfolio and a comparison of the cost effectiveness of investing in a Fund of Funds with investment in other private equity opportunities. | |
| 11 | PENSION FUND ACCOUNTS 2015/16 | (Pages
75 - 150) |
| | This report presents the audited financial statements of the Pension Fund for the year ended 31 March 2016, with respect of the County Council's obligations as the administering authority under the Local Government Pension Scheme (LGPS) Regulations. | |
| 12 | REVISED STATEMENT OF INVESTMENT PRINCIPLES | (Pages
151 -
172) |
| | It is part of good governance that the Pension Fund Committee should review and approve its Statement of Investment Principles (SIP) and Core Belief Statement on a regular basis. | |
| 13 | ACTUARIAL ASSUMPTIONS: 2016 VALUATION | (Pages
173 -
178) |
| | The Committee are asked to approve the actuarial assumptions. | |
| 14 | STATEMENT OF POLICY FOR ADMINISTERING AUTHORITY PENSION DISCRETIONS | (Pages
179 -
200) |
| | This report provides details of a written policy statement in respect of the discretions that can be exercised by the Administering Authority (AA) in relation to the Local Government Pension Scheme (LGPS) Regulations. | |
| 15 | CONSULTATION ON AMENDMENTS TO THE LOCAL GOVERNMENT PENSION SCHEME REGULATIONS: RESPONSE OF THE COUNCIL | (Pages
201 -
236) |
| | This report summarises the proposed changes to the Local Government Pension Scheme (LGPS) Regulations included in the consultation document issued by the Department for Communities and Local Government (DCLG) in May 2016. It also provides details of the response to this consultation by the Director of Finance on behalf of the Council. | |
| 16 | CONSULTATION ON DEVELOPING AN INSOLVENCY REGIME FOR HIGHER EDUCATION COLLEGES: RESPONSE OF THE COUNCIL | (Pages
237 - |

This report summarises the proposed development of an insolvency regime for the further education sector within a consultation document issued by the Department for Business, Innovation and Skills (DBIS) on 6 July 2016. This report also provides details of the response to this consultation by the Council.

17 DATE OF NEXT MEETING

The next meeting of the Surrey Pension Fund Board will be on 11 November 2016.

David McNulty
Chief Executive

Published: 15 September 2016

MOBILE TECHNOLOGY AND FILMING – ACCEPTABLE USE

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Anyone is permitted to film, record or take photographs at council meetings. Please liaise with the council officer listed in the agenda prior to the start of the meeting so that those attending the meeting can be made aware of any filming taking place.

Use of mobile devices, including for the purpose of recording or filming a meeting, is subject to no interruptions, distractions or interference being caused to the PA or Induction Loop systems, or any general disturbance to proceedings. The Chairman may ask for mobile devices to be switched off in these circumstances.

It is requested that if you are not using your mobile device for any of the activities outlined above, it be switched off or placed in silent mode during the meeting to prevent interruptions and interference with PA and Induction Loop systems.

Thank you for your co-operation

MINUTES of the meeting of the **SURREY PENSION FUND COMMITTEE** held at 9.30 am on 11 July 2016 at Members Conference Room, County Hall, Kingston upon Thames, Surrey KT1 2DN.

These minutes are subject to confirmation by the Committee at its next meeting.

Elected Members:

- * Ms Denise Le Gal (Chairman)
- * Mr Alan Young (Vice-Chairman)
- * Mr W D Barker OBE
- * Mr Tim Evans
- * Mr Stuart Selleck
- * Mrs Hazel Watson

Ex officio Members:

Mrs Sally Ann B Marks, Chairman of the County Council
 Mr David Hodge, Leader of the Council
 Mr Peter Martin, Deputy Leader and Cabinet Member for Economic Prosperity
 Mr Nick Skellett CBE, Vice-Chairman of the County Council

Co-opted Members:

- * Mr Tony Elias, Borough/District Representative
- * Ian Perkin, Office of the Surrey Police and Crime Commissioner
- * District Councillor Peter Stanyard, Borough/District representative
- * Philip Walker, Employees

In attendance

Sheila Little, Director of Finance
 Phil Triggs, Strategic Manager Pensions and Treasury
 Neil Mason, Senior Advisor Pension Fund
 John Harrison, Independent Advisor
 Angela Guest, Regulatory Committee Manager

46/16 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS [Item 1]

Apologies for absence were received from Councillors Stuart Selleck and Peter Stanyard.

47/16 MINUTES OF THE PREVIOUS MEETING [13 MAY 2016] [Item 2]

The Minutes of the meeting held on 13 May 2016 were approved as a correct subject to the removal of the repeated paragraph 8 under Minute 40/16.

48/16 DECLARATIONS OF INTEREST [Item 3]

There were no declarations in interest.

49/16 QUESTIONS AND PETITIONS [Item 4]

There were no questions or petitions to consider.

50/16 ACTION TRACKING AND FORWARD PLAN [Item 5]

Resolved: That an item on the Pooling submission be on the forward plan for 23 September 2016 in order to update the Committee; if the Government had responded to the submission by that time.

51/16 EXCLUSION OF PUBLIC [Item 6]

Resolved: That under Section 100(A) of the Local Government Act 1972, the public be excluded from the meeting for the following two items of business on the grounds that they involve the likely disclosure of exempt information under the relevant paragraphs of Part 1 and Part 3 of Schedule 12A of the Act.

52/16 NATIONAL POOLING: PROPOSAL TO GOVERNMENT [Item 7]

The Committee considered an exempt report detailing the proposed national pooling proposal to Government. **[Exempt 04/16]** Annex 1 to the report was tabled and minor amendments made and agreed.

Mr Alan Young arrived at 9.40am at the start of debate on the draft submission.

Mr Tony Elias arrived at 10.29am midway through the debate on the draft submission.

Resolved:

1. That the Border to Coast Pensions Partnership (BCPP) proposal as set out in the Annex to the minutes was approved.
2. That the Memorandum of Understanding as set out in Annex 2 of the report was approved.
3. That the Cost Agreement as set out in Annex 3 of the report was approved.
4. That the Terms of Reference (Executive Steering Group) as set out in Annex 4 of the report was approved.
5. That the Terms of Reference (Officer Operations Group) as set out in Annex 5 of the report was approved.

Reason for decision

Authorities are required to submit a proposal for collaborative investment asset pooling to Government by 15 July 2016, and set out a timetable for the creation of investment vehicles and governance structures with the Fund's chosen pooling authorities. A detailed submission that satisfies the criteria as set out by the Government was required to be approved by the Pension Fund Committee.

The meeting was adjourned at 11.54am for a comfort break and reconvened at 12pm.

53/16 CONSIDERATION PROCESS: DIVERSIFIED GROWTH MANAGER [Item 8]

Further to Minute 40/16 where the Committee discussed Manager performance issues the Committee now considered an exempt report that detailed three short-listed candidates as potential additional diversified growth managers. An exempt paper was tabled that gave details of a conference call between officers and a Fund Manager.

Three Managers; Aviva, Ruffer and Fulcrum, were invited for interview and to give presentations to the Committee. **[Exempt 05/16]**

Presenters were:

Aviva – Euan Munro, CEO, Peter Fitzgerald, Global Head of Multi Asset and Matthew Graham, Business Development Director.

Fulcrum – Andrew Stevens, CEO, Nabeel Abdoula, Partner and Nick Smith, Director Corporate Pensions.

Ruffer – Trevor Bradley and Alex Lennard, Investment Directors.

The Committee adjourned for a comfort break at 12.42pm and reconvened at 1.03pm.

Resolved:

The Committee agreed to allocate 50% each to Aviva and Ruffer and to disinvest from Standard Life.

Reason for decision

In order to reduce manager risk and increase overall diversification.

54/16 DATE OF NEXT MEETING [Item 9]

It was noted that the next meeting would be held on 23 September 2016.

Meeting ended at: 1.55 pm

Chairman

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Questions 1 to 4 from Jonathan Essex

1. Surrey Pension Fund recently stated that, 'through its participation in the Local Authority Pension Fund Forum (LAPFF) it aims to push for an orderly carbon transition by requiring companies to identify and tackle carbon risks in their business models'. This differs from the commitments and statements made by London's new mayor and his Conservative mayoral challenger, Zac Goldsmith. London's new mayor has committed to 'take all possible steps to divest the London Pension Fund Authority of its remaining investments in fossil-fuel industries'¹, a stance echoed by his Conservative opponent Zac Goldsmith². Meanwhile, distinguished close observers including Sir Mark Moody-Stuart (for eight years chairman of Shell UK) and Sir Jonathan Porritt are on record despairing that any substantive amendment by global hydrocarbon companies of their climate-damaging practices and extractions will take place, including those funded in part by Surrey's Pension Fund.
 - i) In light of this, what specific evidence can the Surrey Pension Fund, its advisors or committee identify where an extractive programme or programmes has been halted by a hydrocarbon company, or a change or changes of policy, or a business model or models being amended by a hydrocarbon company, as a consequence of LAPFF's 'engagement strategy'?
 - ii) Please supply as many examples as possible, and with details.

2. Research such as by The Grantham Institute of Climate Change and the Environment (Unburnable Carbon: Wasted capital and stranded assets, 2014)³ highlight the risk of 'stranded assets' due to investment in fossil fuels. This particular report calls for investors to re-evaluate energy business models against carbon budgets, to prevent a \$6 trillion carbon bubble in the next decade. In response:
 - i) What specialist advice has either the SPF committee, or alternatively the Local Government Pension Scheme, sought in the past 24 months relating to the increasingly systemic danger recognised by investment professionals of investments in high-carbon companies becoming 'stranded assets' and thus ultimately worthless? and
 - ii) What investment actions - including sales and liquidations - has the Surrey Pension Fund or the LGPS taken in the past 24 months, in consequence of the 'disclosure of climate risks' cited by the county's leader as a benefit of the LAPFF's 'engagement policy'?

3. Given the specific, widely confirmed environmental dangers of oil extraction from tar sands (which from extraction to use is one of the most damaging fossil fuels), how does the Surrey Pension Fund justify its continued £3 million holding in Suncor Ltd, a firm engaged in tar sands extraction in the Canadian Arctic?

4. Many different organisations have set out why they feel divestment is compatible with their fiduciary duty, for example as set out to the pension fund of the University of Toronto (March 2014)⁴. Reasons why divesting allow one's fiduciary duty to be met are outlined by various reports including by Smith School, University of Oxford (2013)⁵, IMPAX Asset Management (2013)⁶, HIP Investor Inc. (2013)⁷ and Aperio Group LLC

¹ See www.sadiq.london/a_greener_cleaner_london.

² See www.theguardian.com/environment/2016/apr/22/zac-goldsmith-backs-fossil-fuel-divestment-movement-london-mayor

³ See www.carbontracker.org/wp-content/uploads/2014/09/Unburnable-Carbon-2-Web-Version.pdf

⁴ See http://d3n8a8pro7vnm.cloudfront.net/to350/legacy_url/54/fossil-fuel-divest.pdf?1418320739, Section 4.

⁵ See www.smithschool.ox.ac.uk/research-programmes/stranded-assets/SAP-divestment-report-final.pdf

⁶ See https://s3.amazonaws.com/s3.350.org/images/Impax--20130704_white_paper_fossil_fuel_divestment_uk_final.pdf

(2016)⁸. These state that divestment can remove exposure to significant risk without significantly increasing exposure to other risks, as well as evidencing that fossil free portfolios tend to perform better rather than worse than those which include fossil fuels.

Given the above please could you confirm and explain Surrey Pension Fund's current position regarding whether it believes that selling its investment in the top 200 fossil fuels companies⁹ would be compatible with it meeting its fiduciary duty?

⁷ See <https://s3.amazonaws.com/s3.350.org/images/Resilient-Portfolios-and-Fossil-Free-Pensions-ByHIPinvestor-GoFossilFree-vFinal-2013Oct31.pdf>

⁸ See www.aperiogroup.com/resource/138/node/download

⁹ As defined by the Fossil Free Index: fossilfreeindexes.com/wp-content/uploads/2015/11/CU200_Final_29-Oct-2015.pdf

Surrey Pension Fund Committee – ACTION TRACKING

ACTIONS

Number	Meeting Date	Item	Recommendation / Action	Action by whom	Action by when	Action update
A3/16	13 May 16	PF pooling proposal – Final Submission	Extraordinary Meeting to be arranged for sign off in July	Committee Manager	15 May 2016	EO Meeting arranged for 11 July Submission was approved at the meeting on 11 July 2016.

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Surrey Pension Fund Committee: Forward Plan

23 September 2016	<ul style="list-style-type: none">• Manager Issues, etc• KPIs• Risk Register• Share voting• Private equity review• Pension Fund accounts 15/16• Policy Governance Statement• Pooling update
11 November 2016	<ul style="list-style-type: none">• Manager Issues, etc• KPIs• Risk Register• Share voting• Pooling update
February 2017	<ul style="list-style-type: none">• Manager Issues, etc• KPIs• Risk Register• Share voting• Business plan 17/18• Pooling update

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SURREY COUNTY COUNCIL

PENSION FUND COMMITTEE

DATE: 23 SEPTEMBER 2016

LEAD OFFICER: SHEILA LITTLE, DIRECTOR OF FINANCE

SUBJECT: MANAGER ISSUES AND INVESTMENT PERFORMANCE



SUMMARY OF ISSUE:

This report is a summary of all manager issues that need to be brought to the attention of the Pension Fund Committee, as well as manager investment performance.

RECOMMENDATIONS:

It is recommended that the Pension Fund Committee:

1. Note the report.
2. Approve a \$25m USD commitment to Goldman Sachs Vintage VII.

REASON FOR RECOMMENDATIONS:

In order to achieve best possible performance alongside optimal risk.

DETAILS:

1) Manager Issues during the Quarter

Manager	Issue	Status/Action Required
L&G	Possible Rebalancing	The asset allocation is within the Fund's policy control limits. The asset allocations at 30 June 2016 and 09 September 2016 are shown in Annex 1.
Various	Client meetings	Minutes from external fund manager meetings held on 15 September are shown as Annex 2.

2) Freedom of Information Requests

The table below summarises the Freedom of Information request responses provided by the Fund during the last quarter.

Date of Response	Organisation	Request	Response
27/06/2016	Pitchbook	Information concerning the private equity holdings of the Fund	A spreadsheet containing the valuation of investments within the private equity portfolio.
30/06/2016	City Wire Investments	A list of individual investment holdings	A spreadsheet containing a list of investments held by the Surrey Pension Fund as at 31 May 2016.

3) **Future Pension Fund Committee Meetings/Pension Fund AGM**

The schedule of meetings for 2016 is as follows:

- 23 September 2016: Committee meeting hosted at County Hall
- 11 November 2016: Committee meeting hosted at County Hall
- 18 November 2016: Pension Fund AGM hosted at County Hall
- 10 February 2017: Committee meeting hosted at County Hall

4) **Local Pension Board**

The last Local Pension Board meeting was on 4 July 2016. Minutes of this meeting are shown as Annex 3.

The next meeting of the Local Pension Board is scheduled for 19 October 2016. The forward plan of the Local Pension Board is shown as Annex 4.

5) **Stock Lending**

In the quarter to 30 June 2016, stock lending earned a net income for the Fund of £118k.

6) **Internally Managed Cash**

The internally managed cash balance of the Fund was £76m as at 30 June 2016. As at 09 September 2016, the cash balance was £96m.

7) **Liability Driven Investment (LDI) Framework**

At its meeting on 13 February 2015, the Committee set the real yield trigger for future LDI leverage and this was incorporated into the mandate documentation with Legal & General (LGIM).

Now that the implementation for the leveraged gilt mandate has been completed, the Committee will regularly monitor movements in real yields and, specifically, the trigger point that has been agreed. Officers will report verbally to the meeting.

8) Private Equity Opportunity: Goldman Sachs Vintage VII

The Goldman Sachs Asset Management (GSAM) Alternative Investment Manager Selection Group (AIMS) is currently in the market with its seventh globally diversified private equity secondaries fund, Vintage VII.

The most recent fund (Vintage VI) was raised in 2012. Vintage VII will continue the strategy of Vintage VI, allowing a flexible strategy that will allow manager to pivot across the market, depending where the most attractive relative value opportunities can be sourced, enabling AIMS to take advantage of more complex transactions like direct secondaries or special situations.

All of the Vintage funds have significantly outperformed the public market, generating between 3.84% and 11.6% of net outperformance versus the MSCI World index since the Vintage platform's inception. The mature funds have also generated a 1.5x to 2.0x multiple on investors' net money contributed.

As a buyer of secondary private equity, AIMS will focus on transaction pricing based on the quality of the underlying assets, characteristics of the portfolio, and a point of view on the manager and the transaction dynamics versus net asset value (NAV) and discount (or premium) to NAV with the intention of acquiring secondary portfolios at meaningful discounts to NAV.

AIMS will place emphasis on ensuring the appropriate diversification by industry and strategy. Similar to previous funds, the team expects the majority of opportunities in Vintage VII to be located in the United States and Europe. The target size for Vintage VII will be at least 5bn USD. To date, AIMS has closed on 4.1bn USD of commitments and anticipates holding a series of closes throughout the remainder of 2016 and early 2017.

The Vintage VII management fee is charged based on committed capital. The average annual expected management fee is 0.70% assuming a 12-year fund life. The management fee starts at 1.25% of commitments and steps down each year after year four by 25% of the prior year's fee. There is also a carried interest of 10% which is paid based on profits after investors have received their contributed capital and a preferred return of 8%.

Vintage VII will seek to provide innovative solutions to liquidity needs and other challenges faced by private equity investors and managers, enabling them to take advantage of direct secondaries and special situations. The types of secondary transactions that it could be typically expected are:

Single Fund Limited Partnership (LP) Transactions: This involves the sale by an investor of a single limited partnership interest to a buyer. Most private equity funds are structured as partnerships which require investors to lock up their capital for at least ten years. Through the secondary market, an investor is able to receive early liquidity on their investment by negotiating with a buyer the appropriate purchase price for the previously contributed capital and then transferring the entire interest, including the unfunded commitment, to the buyer. As a result, the buyer steps into the shoes of the selling investor, becoming a Limited Partner in the fund and leaving the original limited partnership agreement unaffected.

Multi-Fund LP Transactions: Structurally, Multi-Fund LP transactions are identical to Single Fund LP Transactions, except that an investor is looking to sell multiple fund interests in a single transaction. As a result, Multi-Fund LP Transactions tend to be larger, sometimes reaching \$1bn USD in size.

Direct Secondaries: Direct Secondaries are transactions in which a buyer acquires the underlying private equity portfolio directly from the seller and creates a new partnership, with or without the original team, to hold the assets. Direct Secondaries can offer experienced buyers the opportunity to acquire high-quality assets in less competitive situations where factors other than price often drive seller behaviour. Two types of direct secondaries transactions are:

- **Team Spin-outs:** Such transactions involve spinning out captive private equity teams along with their portfolios of direct company interests from financial and other institutions
- **Fund Restructurings:** Restructuring a fund involves the realignment of incentives between managers and investors whereby a buyer offers to acquire existing investor interests and, to the extent appropriate, create a new vehicle to manage the portfolio of assets under revised terms

Report of the Strategic Finance Manager
Financial and Performance Report

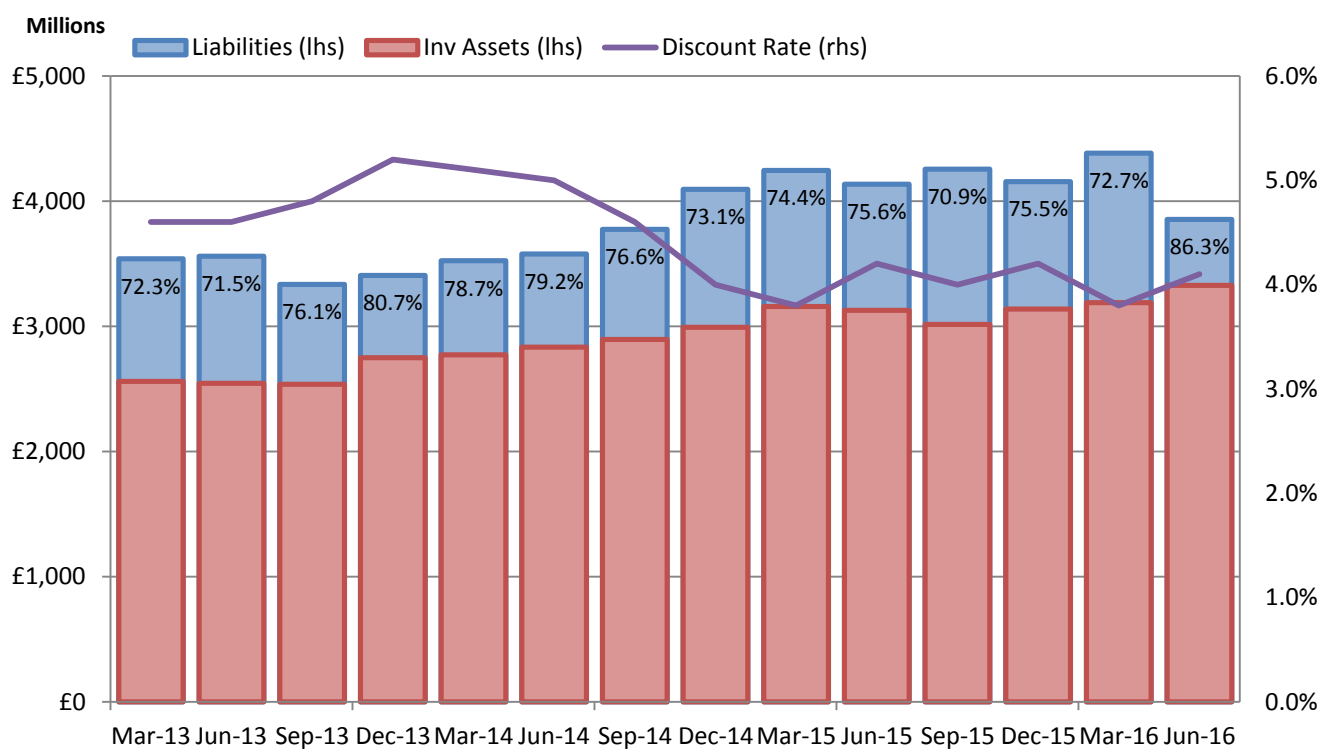
1. Funding Level

Past Service Position	30 June 2016 £m
Past Service Liabilities	-3,854
Market Value of Assets	3,327
Deficit	-527
Funding Level	86.3%

The most recent quarterly valuation has been calculated using the proposed assumptions for the 2016 triennial valuation. The funding level has increased to 86.3%. The movement in the deficit from 31 March 2016, using 2013 valuation methodology, and 30 June with the proposed 2016 methodology is shown in the below table.

The main reasons for the change from the previous quarter were; a reduction in salary growth assumption from RPI +0.5% to RPI – 0.7% p.a, increased variance between RPI and CPI to 1% and an increase in the discount rate from 3.8 to 4.1%.

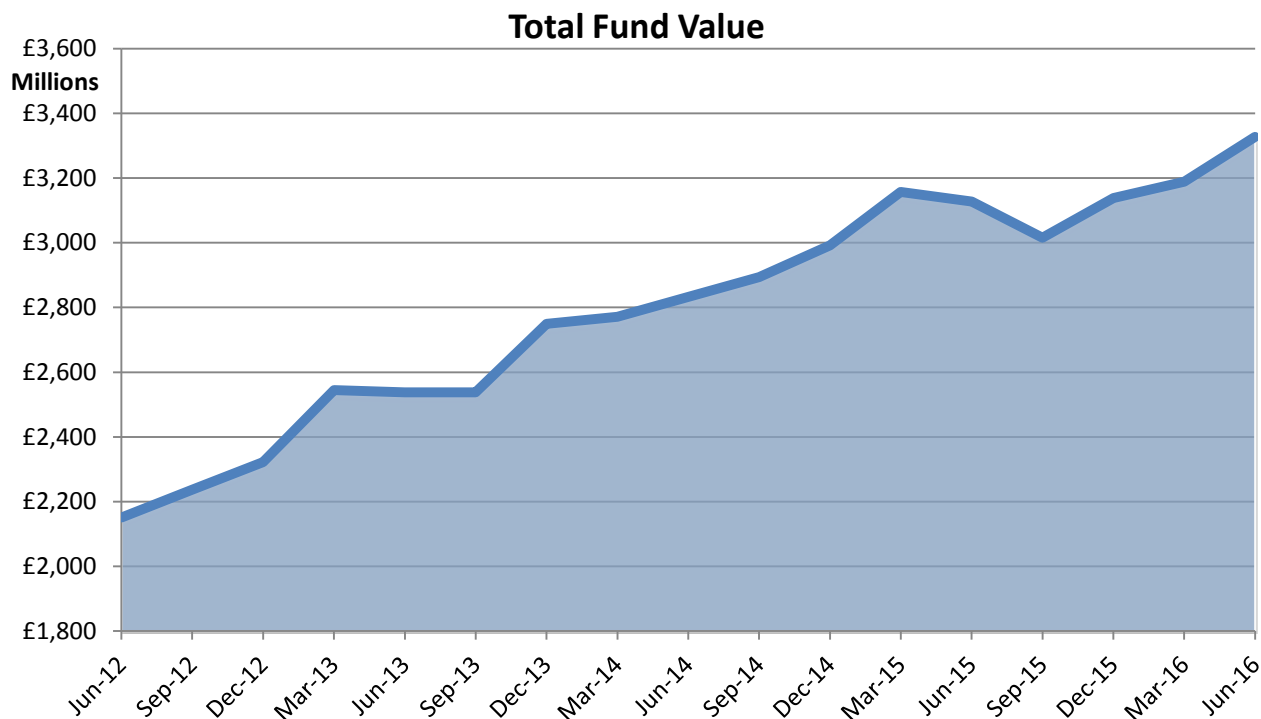
Quarterly Reconciliation	£m
Deficit at 31 March 2016*	-1,195
Interest on deficit	-15
Excess return on assets	98
Change in actuarial assumptions	570
Contributions less benefits accruing	15
Deficit at 30 June 2016	-527



Valuation Period to date Reconciliation	£m
Deficit at 31 March 2013	-980
Interest on deficit	-172
Excess return on assets	259
Change in actuarial assumptions	213
Contributions less benefits accruing	153
Deficit at 30 June 2016	-527

2. Market Value

The value of the Fund was £3,327.0 at 30 June 2016 compared with £3,188.9 at 31 March 2016. The investment performance for the period was +4.1%.



The change in market value is attributed as follows:

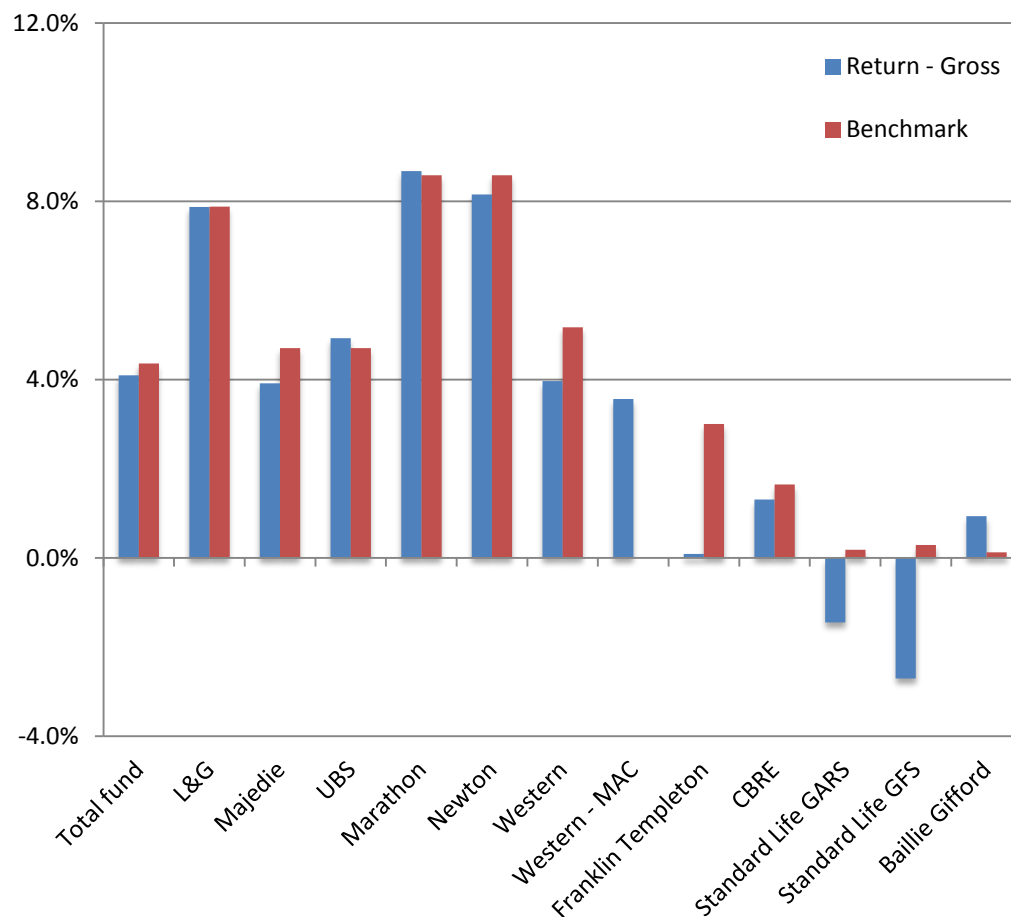
Quarterly Market Value Reconciliation	£m
Market Value at 31/03/2016	3,188.9
Contributions less benefits and net transfer values	9.0
Investment income received	19.4
Investment expenses incurred	-4.0
Market movements	113.7
Market Value at 30/06/2016	3,327.0
Market Value at 09/09/2016	3,490.0

3. Fund Performance - Summary of Quarterly Results (gross of investment fees)

Overall, the Fund returned +4.1% in Q1 2016/17, in comparison with the Fund's customised benchmark of +4.4%.

The table below shows manager performance for 2016/17 Q1 (gross of investment manager fees) against manager specific benchmarks using Northern Trust data.

Q4 Performance



Manager	Gross of Fees Performance %	Benchmark %	Gross Performance Relative to Benchmark %
Total fund	4.1	4.4	-0.3
L&G	7.9	7.9	0.0
Majedie	3.9	4.7	-0.8
UBS	4.9	4.7	0.2
Marathon	8.7	8.6	0.1
Newton	8.2	8.6	-0.4
Western	4.0	5.2	-1.2
Western - MAC	3.6	0.0	3.6
Franklin Templeton	0.1	3.0	-2.9
CBRE	1.3	1.6	-0.3
Standard Life GARS	-1.5	0.2	-1.7
Standard Life GFS	-2.7	0.3	-3.0
Baillie Gifford	0.9	0.1	0.8

Baillie Gifford and Standard Life diversified growth funds are absolute return funds with a benchmark based upon short term cash holdings.

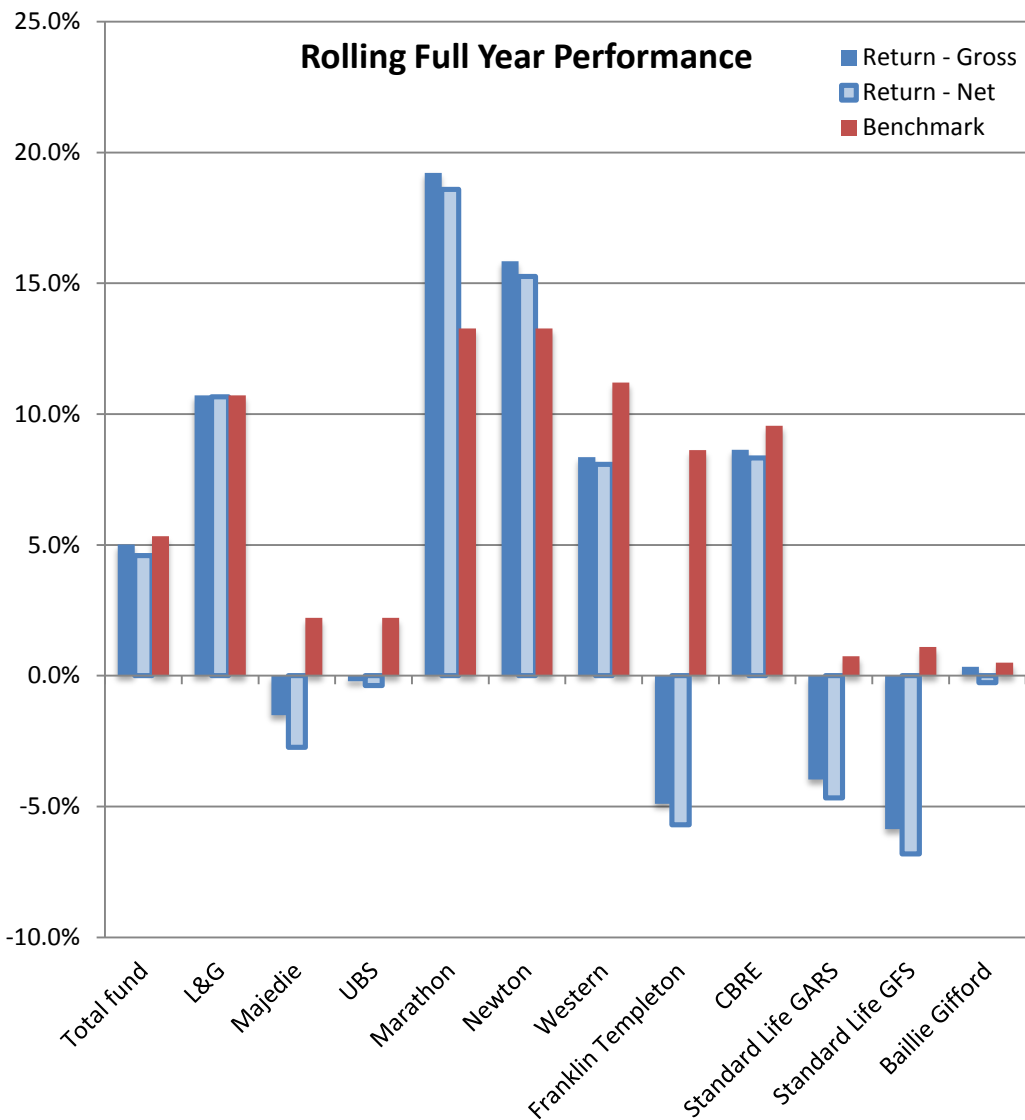
Market expectations for a 'remain' vote UK referendum result boosted cyclical assets in the quarter up to the referendum. The surprise result caused significant market volatility with domestic and mid cap equities falling. The decline in sterling boosted those companies with substantial foreign currency earnings and the sizable monetary policy response from the Bank of England's also providing a fillip to UK risk assets. The FTSE all share ended the period up 4.7%.

Non sterling denominated assets benefited significantly from the currency movements. Both Newton and Marathon reported investment returns for the quarter of over 8%.



Summary of Full Year Investment Results (Gross and net of fees)

During the course of the previous 12 months to 30 June 2016, the Fund returned +5.0% gross of investment fees against the customised fund benchmark of +5.3%.

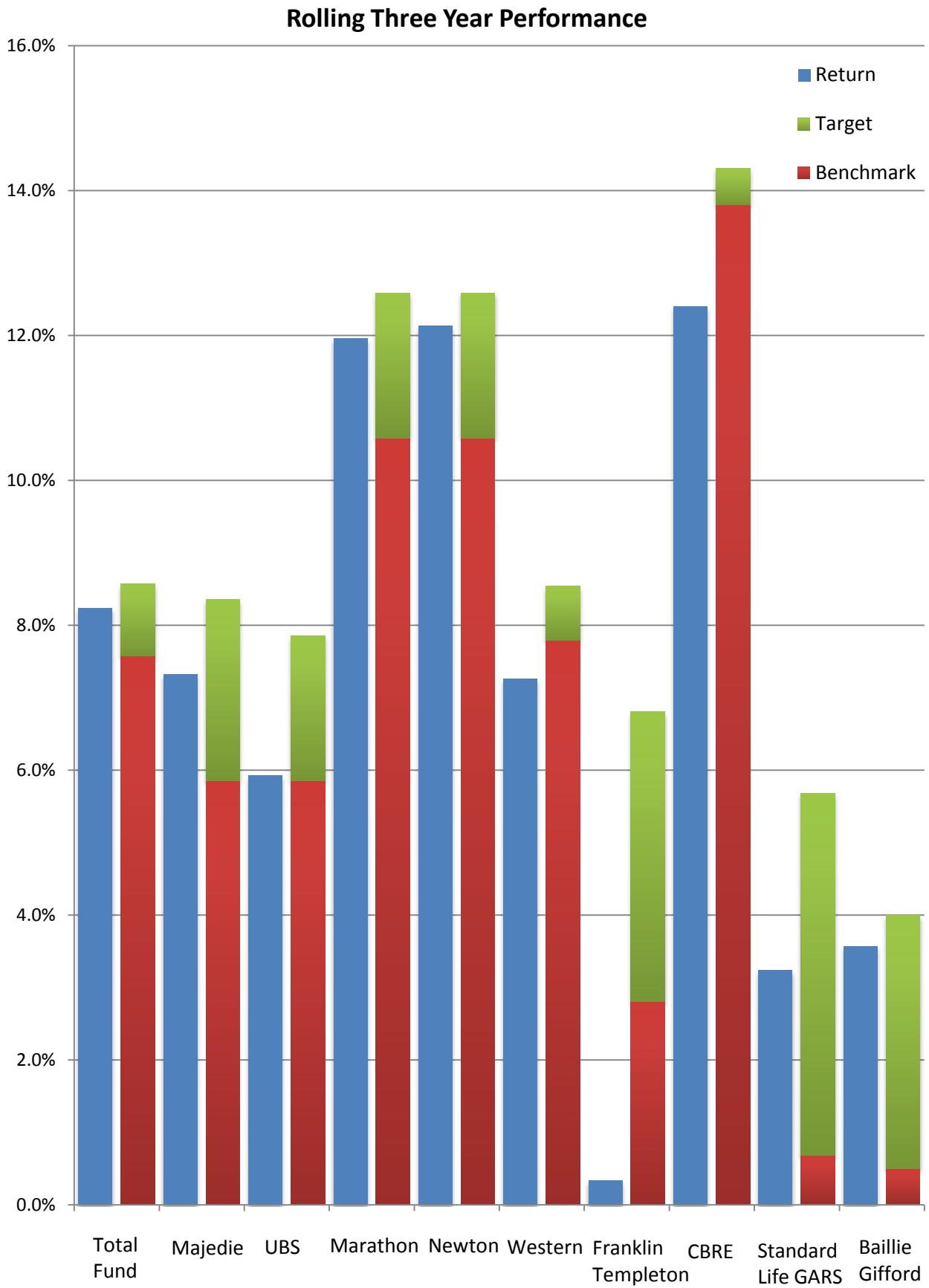


The table below shows manager performance for 2016/17 Q1 (gross of investment manager fees) against manager specific benchmarks using Northern Trust data.

Manager	Net of Fees Performance %	Benchmark %	Net Performance Relative to Benchmark %	Gross of Fees Performance %
Total fund	4.6	5.3	-0.7	5.0
L&G	10.7	10.7	0.0	10.7
Majedie	-2.7	2.2	-4.9	-1.5
UBS	-0.4	2.2	-2.6	-0.2
Marathon	18.6	13.3	5.3	19.2
Newton	15.3	13.3	2.0	15.8
Western	8.1	11.2	-3.1	8.3
Franklin Templeton	-5.7	8.6	-14.3	-4.9
CBRE	8.3	9.5	-1.2	8.6
Standard Life GARS	-4.7	0.7	-5.4	-4.0
Standard Life GFS	-6.8	1.1	-7.9	-5.9
Baillie Gifford	-0.3	0.5	-0.8	0.3

Both Baillie Gifford and Standard Life are absolute return funds with a benchmark based upon short term cash holdings.

Summary of Rolling Three Year Performance



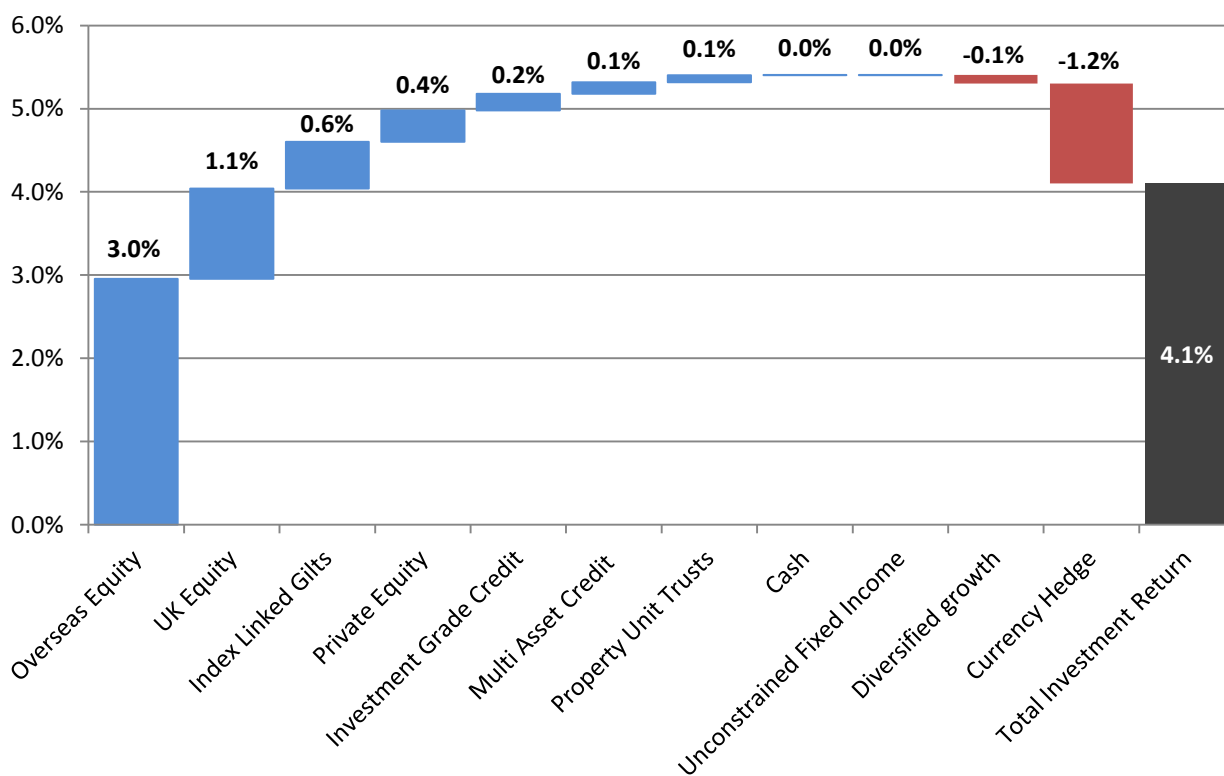
The below table shows the annualised performance by manager for the previous three years.

Manager	Performance %	Benchmark %	Target Above Benchmark %	Relative to target %
Total Fund	8.2	7.6	8.6	-0.4
Majedie	7.3	5.9	8.4	-1.1
UBS	5.9	5.9	7.9	-2.0
Marathon	12.0	10.6	12.6	-0.6
Newton	12.1	10.6	12.6	-0.5
Western	7.3	7.8	8.5	-1.2
Franklin Templeton*	0.3	2.8	8.3	-8.0
CBRE	12.4	13.8	14.3	-1.9
Standard Life GARS	3.2	0.7	5.7	-2.5
Baillie Gifford	3.6	0.5	4.0	-0.4

*Franklin Templeton has an absolute return mandate with a target return of 4-7% p.a over the rolling three year period. For this reason the benchmark return of 2.8% has not been included within the above graph and table

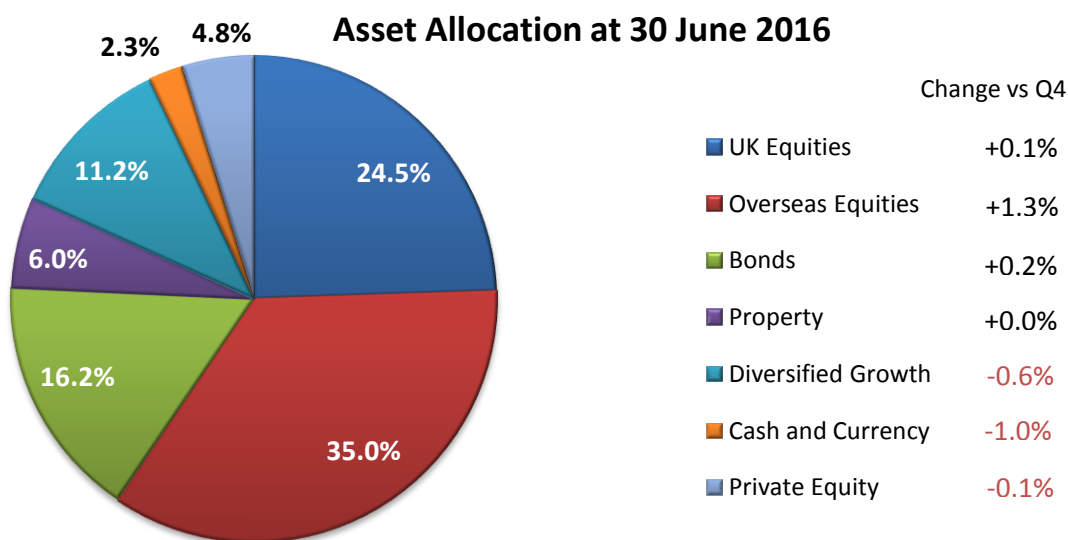
Quarterly Investment Attribution

The below chart sets out the overall investment return attributable to the whole fund from each asset class during Q1 2016/17. The significant fall in the value of sterling following the referendum led to the loss on the currency hedge having a large impact upon the investment performance for the quarter.



4. Asset Allocation

The graph and table below summarise the asset allocation of the fund as at 30 June 2016.

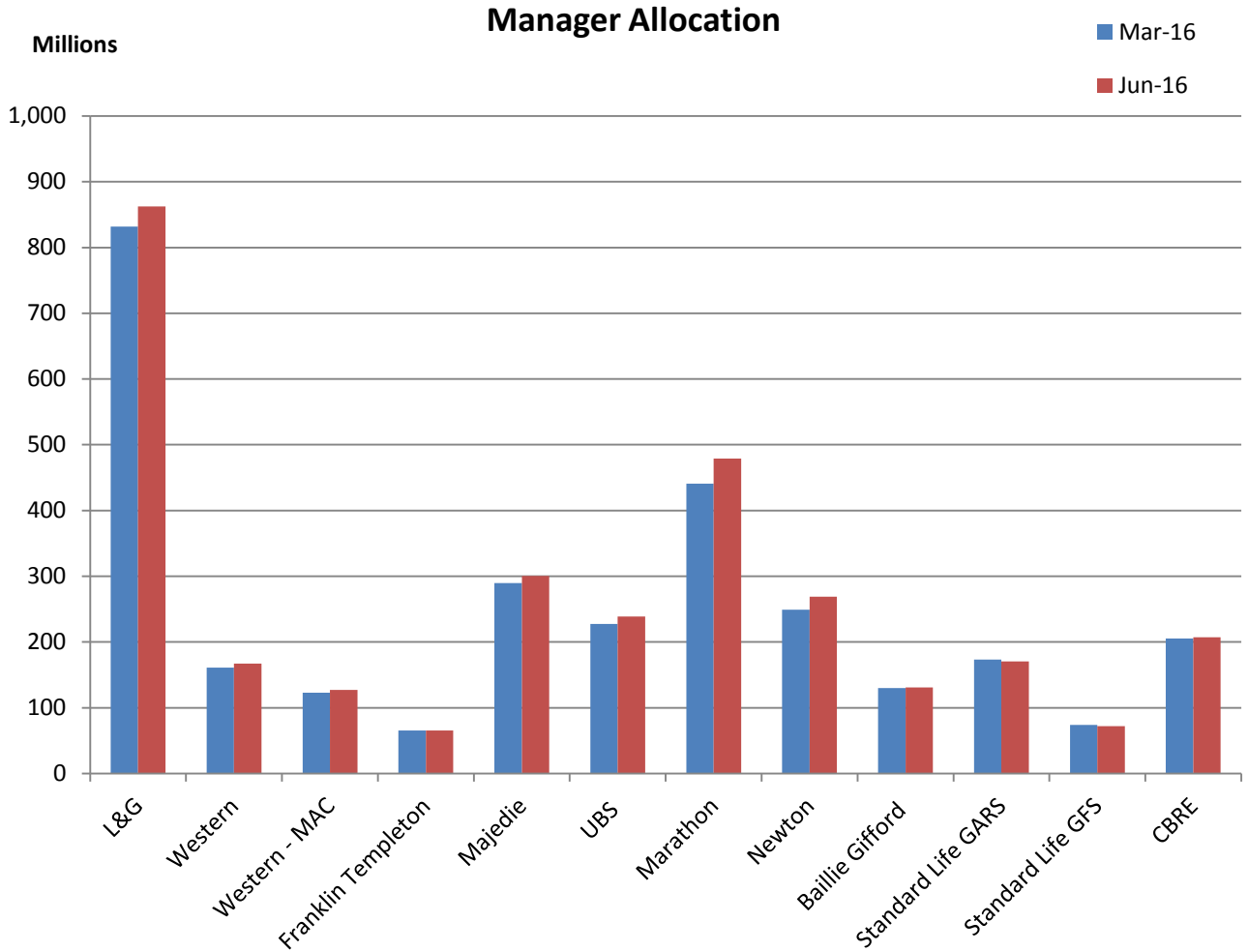


The table below compares the actual asset allocation as at 30 June 2016 against target asset weightings.

	TOTAL FUND	Actual	Target
	£m	%	%
Bonds			
Multi Asset Credit	127.1	3.8	4.4
Investment Grade Credit	165.8	5.0	5.3
Index Linked Gilts	181.7	5.4	5.5
Unconstrained	65.2	2.0	2.4
Equities			
UK	814.4	24.5	27.5
Overseas	1,164.4	35.0	32.3
Property Unit Trusts	200.1	6.0	6.2
Diversified growth	373.5	11.2	11.4
Cash	116.9	3.5	0.0
Currency hedge	-40.8	-1.2	0.0
Private Equity	158.2	4.8	5.0
TOTAL	3,326.5	100.0	100.0

5. Manager Allocation

The graph below shows the manager allocation as at the 30 June and 31 March 2016.



6. Fees

The following table shows a breakdown of fees paid during Q1 2016/17

Manager	Market Value 30/06/2016 £m	Manager Fees Q1 £000	Annualised Average Fee
L&G	862.3	180	0.08%
Western	167.3	225	0.54%
Western - MAC**	127.1	114	0.36%
Franklin Templeton*	65.2	130	0.80%
Majedie	300.6	290	0.39%
UBS	238.7	112	0.19%
Marathon	479.0	479	0.40%
Newton**	268.7	587	0.87%
Baillie Gifford*	131.1	176	0.54%
Standard Life GARS*	170.6	282	0.66%
Standard Life GFS*	71.8	171	0.96%
CBRE	207.3	110	0.21%
Manager Fees Total		2,856	0.34%
Tax withheld		498	
Other investment expenses***		285	
Total Investment Expenses		3,639	

* Estimated, to exclude transaction fees

**Includes performance fee

*** Primarily transaction costs & property fund expenses

CONSULTATION:

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

RISK MANAGEMENT AND IMPLICATIONS:

8 Risk related issues have been discussed and are contained within the report.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

9 Financial and value for money implications are discussed within the report.

SECTION 151 OFFICER (DIRECTOR OF FINANCE) COMMENTARY

10 The Section 151 Officer (Director of Finance) is satisfied that all material, financial and business issues and possibility of risks have been considered and addressed.

LEGAL IMPLICATIONS – MONITORING OFFICER

11 There are no legal implications or legislative requirements.

EQUALITIES AND DIVERSITY

12 The approval of the various options will not require an equality analysis, as there is no major policy, project or function being created or changed.

OTHER IMPLICATIONS

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

WHAT HAPPENS NEXT

14 The following next steps are planned:

- Implementation of the various recommendation approvals.

Contact Officer:

Phil Triggs, Strategic Finance Manager (Pension Fund and Treasury)

Consulted:

Pension Fund Committee Chairman

Annexes:

Annex 1: Asset Allocation Policy and Actual as at 30 June 2016 and 09 September 2016

Annex 2: Minutes from meetings with fund managers on 15 September 2016

Annex 3: Minutes from the Local Pension Board Meeting held on 4 July 2016.

Sources/background papers:

None

Asset Allocation Update

The table shows the actual managed asset allocation as at 30 June 2016 against the target allocation. The allocation for 09 September 2016 is shown overleaf.

Category		Allocation Policy %	Allocation at 30/06/2016	Variance %
Equities		63.0	63.8	+0.8
UK				
<i>Legal and General</i>	<i>Passive</i>	10.0	8.1	-1.9
<i>Majedie</i>	<i>Concentrated Active</i>	11.0	9.7	-1.3
<i>UBS</i>	<i>Core Active</i>	8.0	7.7	-0.3
Overseas				
<i>Legal and General</i>	<i>Passive</i>	14.0	14.1	+0.1
<i>Marathon</i>	<i>Concentrated Active</i>	12.0	15.5	+3.5
<i>Newton</i>	<i>Core Active</i>	8.0	8.7	+0.7
Property		6.5	6.7	+0.2
<i>CBRE</i>	<i>Core Active</i>	6.5	6.7	+0.2
Alternatives		12.0	12.0	+0.0
<i>Standard Life</i>	<i>Diversified growth</i>	8.0	7.8	-0.2
<i>Baillie Gifford</i>	<i>Diversified growth</i>	4.0	4.2	+0.2
Bonds		18.5	17.5	-1.0
Index linked gilts				
<i>Legal and General</i>	<i>Core Active</i>	5.8	5.9	+0.1
Investment grade credit				
<i>Western</i>	<i>Core Active</i>	5.5	5.4	-0.1
Total Return				
<i>Franklin Templeton</i>	<i>Unconstrained</i>	2.6	2.1	-0.5
Multi Asset Credit				
<i>Western</i>	<i>Unconstrained</i>	4.6	4.1	-0.5
Total		100.0	100.0	0.0

Asset Allocation Update

The table shows the actual managed asset allocation as at 09 September 2016 against the policy.

Category		Allocation Policy %	Allocation at 09/09/2016	Variance %
Equities		63.0	64.4	+1.4
UK				
<i>Legal and General</i>	<i>Passive</i>	10.0	8.3	-1.7
<i>Majedie</i>	<i>Concentrated Active</i>	11.0	10.0	-1.0
<i>UBS</i>	<i>Core Active</i>	8.0	8.0	+0.0
Overseas				
<i>Legal and General</i>	<i>Passive</i>	14.0	13.9	-0.1
<i>Marathon</i>	<i>Concentrated Active</i>	12.0	15.6	+3.6
<i>Newton</i>	<i>Core Active</i>	8.0	8.6	+0.6
Property		6.5	6.5	+0.0
<i>CBRE</i>	<i>Core Active</i>	6.5	6.5	+0.0
Alternatives		12.0	11.8	-0.2
<i>Standard Life</i>	<i>Diversified growth</i>	8.0	7.6	-0.4
<i>Baillie Gifford</i>	<i>Diversified growth</i>	4.0	4.2	0.2
Bonds		18.5	17.3	-1.2
Index linked gilts				
<i>Legal and General</i>	<i>Core Active</i>	5.8	5.7	-0.1
Investment grade credit				
<i>Western</i>	<i>Core Active</i>	5.5	5.5	+0.0
Total Return				
<i>Franklin Templeton</i>	<i>Unconstrained</i>	2.6	2.0	-0.6
Multi Asset Credit				
<i>Western</i>	<i>Unconstrained</i>	4.6	4.1	-0.5
Total		100.0	100.0	0.0

MINUTES of the meeting of the **SURREY LOCAL PENSION BOARD** held at 1.30 pm on 4 July 2016 at Committee Room C, County Hall, Kingston upon Thames, Surrey KT1 2DN.

These minutes are subject to confirmation by the Committee at its meeting on 19 October 2016.

Elected Members:

A Paul Bundy
 * Mr Nick Harrison (Chairman)
 A Tina Hood
 * Mr John Orrick (Vice-Chairman)
 * Paresh Rajani
 * David Stewart
 * Claire Williams-Morris
 * Trevor Willington

In attendance

Sue Grimstead, Operations Manager, Pension Services
 Denise Le Gal, Chairman of the Surrey Pension Fund Committee and Cabinet Member for Business Services and Resident Experience
 Neil Mason, Senior Advisor (Pension Fund), Pensions and Treasury
 Alex Moylan, Senior Accountant, Finance, Pension Fund and Treasury
 Phil Triggs, Strategic Finance Manager

18/16 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS [Item 1]

Apologies were received from Paul Bundy and Tina Hood.

The Board welcomed Paresh Rajani who had been appointed as a member representative to the Board following nomination by Unison. His appointment had been made by the People, Performance and Development Committee on 3 May 2016.

19/16 MINUTES FROM THE PREVIOUS MEETING: 9 MARCH 2016 [Item 2]

The minutes were agreed as an accurate record of the meeting.

20/16 DECLARATIONS OF INTEREST [Item 3]

Trevor Willington asked that it be noted that he is a governor at Nescot College, which is an employer in the scheme.

David Stewart asked that it be noted that he was employed by Hammersmith and Fulham, an authority whose pension administration is provided by Surrey County Council as part of the Orbis Partnership.

21/16 QUESTIONS AND PETITIONS [Item 4]

There were no questions or petitions received.

22/16 ACTION TRACKER [Item 5]**Declarations of interest:**

None.

Witnesses:

Sue Grimstead, Operations Manager, Pension Services
 Neil Mason, Senior Advisor (Pension Fund), Pensions and Treasury
 Alex Moylan, Senior Accountant, Finance, Pension Fund and Treasury
 Phil Triggs, Strategic Finance Manager

Key points raised during the discussion:

1. The Board reviewed its action tracker. It was noted that the pooled investment governance structures had been circulated to the Board, and this would be marked as complete on the tracker. The final deadline for submitting the consultation response was 31 July, and the fund's submission would be taken as an item to the Surrey Pension Fund Committee on 11 July 2016.
2. The Board agreed that the Chairman would have regular oversight of FOI requests regarding the fund, and would flag any specific concerns to the Board as appropriate.
3. The Board noted the response from the Cabinet Member for Business Services and Resident Experience, following the Chairman's correspondence concerning pension administration. This response is included as an annex to these minutes. The Chairman noted that Pension Services expected to see improvement in the second quarter of 2016/17.
4. The Board was informed that the majority of employers had returned data submissions for the triennial valuation. Officers informed the Board 11 employer submissions were pending. It was confirmed that benefit statements were expected to be distributed by 31 August 2016.

Recommendations

None.

Actions/further information to be provided:

Chairman to receive a quarterly update on number and subject of FOI requests.

23/16 FORWARD PLAN [Item 6]

Declarations of interest: None

Witnesses:

Sue Grimstead, Operations Manager, Pension Services
 Neil Mason, Senior Advisor (Pension Fund), Pensions and Treasury
 Alex Moylan, Senior Accountant, Finance, Pension Fund and Treasury
 Phil Triggs, Strategic Finance Manager

Key points raised during the discussion:

The Board noted that an item on the Fund's breaches policy had been added to the Forward Plan. It noted that there were two items concerning an annual report - that of the Pension Fund, and also the annual report of the Local Pension Board.

Recommendations:

None.

Actions/further information to be provided:

None.

24/16 PROVISION FOR INDEPENDENT MEMBERS [Item 7]

Declarations of interest: None

Witnesses:

Sue Grimstead, Operations Manager, Pension Services
 Neil Mason, Senior Advisor (Pension Fund), Pensions and Treasury
 Alex Moylan, Senior Accountant, Finance, Pension Fund and Treasury
 Phil Triggs, Strategic Finance Manager

Key points raised during the discussion:

1. The Chairman invited comments from the Board regarding the provision of independent members. The Board commented that there had been good access to advice from officers, and that there were no perceived gaps in the Board's range of skills and learning.
2. The Vice-Chairman noted that many local pension fund boards had appointed an independent chair, and that Surrey was not typical in this regard.

Recommendations:

The Board concluded it was content with the current arrangements and to take no action at this time.

Actions/further information to be provided:

The Board will review the provision for independent members on an annual basis.

25/16 UPDATE FROM RECENT SURREY PENSION FUND COMMITTEE MEETINGS: 13 MAY 2016 [Item 8]

Declarations of interest: None

Witnesses:

Sue Grimstead, Operations Manager, Pension Services

Neil Mason, Senior Advisor (Pension Fund), Pensions and Treasury

Alex Moylan, Senior Accountant, Finance, Pension Fund and Treasury

Phil Triggs, Strategic Finance Manager

Key points raised during the discussion:

1. The Board noted that the Surrey Pension Fund Committee had approved pooled ill health retirement self-insurance for all employers. This offered a better rate, and also would impact the actuarial assessment of the allowance. The Board was informed that the ill health allowance was anticipated to be approximately -1% of contributions on a Fund wide basis, although this will be confirmed at as part of the triennial valuation.
2. The Board highlighted that this was a position formerly adopted by the Fund, and that changes were introduced to encourage best practice and increase awareness of the costs to the employer. It was noted that the regulations around ill health had become more stringent in the intervening years. The Board was also informed that the change would have no impact on member rights.
3. The Board was informed that the Committee had reviewed the Fund's administration Key Performance Indicators (KPIs). 6 of these KPIs were not on target, and the correspondence between the Chairman and Cabinet Member was highlighted as being reflective of this. The Board discussed the benefit of being able to see KPIs such as transfers out in terms of range, in order to show how late employers had been in reporting. It was confirmed that the KPIs and manner in which they were measured would be a consideration in a planned review of the Fund's administration strategy.
4. The Board was given an update on the Committee's discussion regarding new investment regulations. There remained concern from the Committee that the regulations would see greater central government interference, and the draft response to the consultation had been strengthened to reflect that view. It was noted that the previous investment regulations had been rescinded and the draft regulations were waiting to be enacted.
5. The Board resolved:
 - that under Section 100(A) of the Local Government Act 1972, the public be excluded from the meeting as the discussion of item 7 of the Committee's agenda on 13 May 2016 would involve the likely disclosure of exempt information under the relevant paragraph of Part 1 of schedule 12a of the Act.

6. The Board discussed the decision taken by the Committee regarding the discount rate methodology for the 2016 valuation. Following this discussion the meeting was then re-opened to the public.
7. The Board discussed the result of the EU referendum, and its impact on the Fund. It was noted that there was early indications that there would be further cuts to interest rates. It was noted that the Bank of England and Chancellor had both made announcements that had sought to reassure the financial markets following the result.

Recommendations:

None.

Actions/further information to be provided:

The Board will review the results of the review of the Fund's administration strategy and changes to KPIs.

26/16 ADDITIONAL VOLUNTARY CONTRIBUTIONS [Item 9]

Declarations of interest: None

Witnesses:

Sue Grimstead, Operations Manager, Pension Services
 Neil Mason, Senior Advisor (Pension Fund), Pensions and Treasury
 Alex Moylan, Senior Accountant, Finance, Pension Fund and Treasury
 Phil Triggs, Strategic Finance Manager

Key points raised during the discussion:

1. The Board was informed that the Fund currently had a single Additional Voluntary Contributions (AVC) provider and that contributions had been increasing on an annual basis.
2. The Board noted that the Hymans recommendations had not been implemented at the time of the report due to changing governance arrangements. It was informed that decisions about changes to AVCs could be made following recommendations to the Surrey Pension Fund Committee.
3. The Board asked what activity was undertaken to promote AVCs to active members. It was outlined that Prudential were active in this regard, producing leaflets and seminars on AVCs. The Board was informed that it was not unusual in local authorities to see low take-up of AVCs by active members. It was suggested that public sector pay freezes and changes in National Insurance contribution rates were contributory factors.

Recommendations:

- That the administering authority consider a review of the AVC arrangement and report back at a future meeting.

Actions/further information to be provided:

None.

27/16 ADMINISTERING AUTHORITY DISCRETIONS [Item 10]

Declarations of interest: None

Witnesses:

Sue Grimstead, Operations Manager, Pension Services
Neil Mason, Senior Advisor (Pension Fund), Pensions and Treasury
Alex Moylan, Senior Accountant, Finance, Pension Fund and Treasury
Phil Triggs, Strategic Finance Manager

Key points raised during the discussion:

1. The Board was informed that this item was intended to demonstrate the policy making process. Officers informed the Board that the plan was to have a suite of draft policies available to take to the September 2016 Pension Committee meeting.
2. The Board questioned how officers would consult with employers in order to secure their agreement. It was highlighted that a number of these discretions were already standard practice, though the administering authority would seek to consult by the end of the year. The Board was informed that both the revised funding strategy and administration strategy would enable the administering authority to consult on and clarify discretions with the employers.
3. The Board queried how the administering authority would ensure that the outlined discretions were being consistently applied. Officers commented that this would be monitored by the Pension Services in the first instance, and that the Internal Dispute Resolution Process would also flag any trends.

Recommendations:

None.

Actions/further information to be provided:

That the Board receive a copy of the administering authority discretions once agreed.

28/16 EMPLOYER DISCRETIONS [Item 11]

Declarations of interest: None

Witnesses:

Sue Grimstead, Operations Manager, Pension Services
Neil Mason, Senior Advisor (Pension Fund), Pensions and Treasury
Alex Moylan, Senior Accountant, Finance, Pension Fund and Treasury
Phil Triggs, Strategic Finance Manager

Key points raised during the discussion:

1. The Board noted that Surrey County Council's employer discretions had been approved by the People, Performance and Development Committee on 3 May 2016. The Board was informed that this consolidated all these discretions and was available on the council's website. Officers confirmed that there was an expectation that all employers within the Fund produced a similar document. It was noted that the administering authority could not compel employers to do so, though it had indicated a six month deadline.
2. The Board sought clarification on whether there was a statutory requirement to publish the discretions. It was confirmed that there was a requirement to publish some, as per the 2013 regulations, and others were being published in line with best practice.

Recommendations:

That the Board receives an update on how many employers have published employer discretions in six months time.

Actions/further information to be provided:

That the Board receive a copy of the employer authority discretions once agreed.

29/16 DATE OF THE NEXT MEETING [Item 12]

The Board noted the next meeting was scheduled for 19 October 2016 at 10am.

30/16 EXCLUSION OF THE PUBLIC [Item 13]

The Board resolved:

That under Section 100(A) of the Local Government Act 1972, the public be excluded from the meeting for the following items of business on the grounds that they involve the likely disclosure of exempt information under the relevant paragraphs of Part 1 of Schedule 12A of the Act.

31/16 REVIEW OF INTERNAL DISPUTE RESOLUTION CASES IN 2015/16 (QUARTER FOUR) [Item 14]

Declarations of interest: None

Witnesses:

Sue Grimstead, Operations Manager, Pension Services
 Neil Mason, Senior Advisor (Pension Fund), Pensions and Treasury
 Alex Moylan, Senior Accountant, Finance, Pension Fund and Treasury
 Phil Triggs, Strategic Finance Manager

Key points raised during the discussion:

1. The Board received an update outlining that the single case for quarter four of 2015/16 was resolved before it reached a stage one adjudication. There were no further concerns.

Recommendations:

None.

Actions/further information to be provided:

None.

32/16 PUBLICITY FOR PART 2 ITEMS [Item 15]

The Board agreed that the item considered under Part 2 of the agenda should not be made available to the Press and public.

Meeting ended at: 3.00 pm

Chairman

Surrey Local Pension Board: Forward Plan

<p>Quarter 4 2015/16</p>	<ul style="list-style-type: none"> • Pension Committee Update • Risk (Risk Register, Covenant Review, KPIs) • Disaster Recovery • Quarterly Internal Dispute Resolution Procedure (IDRP) • Frozen Refunds/Unprocessed Leavers • Pooling Consultation Response • LGPS Advisory Board Counsel Opinion • Training: Communications Review • Training: Valuation Methodology • Training: Asset allocation
<p>Quarter 1 2016/17</p>	<ul style="list-style-type: none"> • Pension Committee Update • Quarterly IDRP • AVCs review (<i>review BAU</i>) • Key Performance Indicators • Data Quality Actuarial Evaluation • Valuation update • Governance Compliance Statement/policy (carried over from Quarter 4 2015/16) • Employer and Administering Authority Discretions (carried over from Quarter 4 2015/16)
<p>Quarter 2 2016/17</p>	<ul style="list-style-type: none"> • Pension Committee Update • Quarterly IDRP • Key Performance Indicators • Local Pension Board Annual Review • Preliminary valuation results (verbal update) • IAS19/FRS17 funding statements • Board knowledge and understanding – annual assessment • Risk register • Breaches policy (new) • Customer service review 01/07/16-30/09/16 (new) • Annual benefit statement update
<p>Quarter 3 2016/17</p>	<ul style="list-style-type: none"> • Pension Committee Update • Quarterly IDRP • Key Performance Indicators • Annual Report

Surrey Local Pension Board: Forward Plan

	<ul style="list-style-type: none"> • Pension Administrations Strategy and Service Level Agreements (moved from quarter 1) • Statement of investment principles • Scheme Advisory Board KPIs • Final Actuarial Valuation results • Annual benefits Statements • CIPFA administration benchmarking • Annual accounts • Administration audit • Funding strategy statement/statement of investment principles • Stewardship policy • Board and committee members knowledge and understanding review • Scheme Advisory Board KPIs • Customer service review 01/10/16-31/12/16 (new)
<p>Quarter 4 2016/17</p>	<ul style="list-style-type: none"> • Pension Committee Update • Quarterly IDRs • Key Performance Indicators • Governance Compliance • Risk register • Disaster recovery/business continuity plan • Customer service review 01/01/16-31/03/17 (new) • Communications review (including suite of member correspondence)

TBC

Fund audit (expected Q1 16/17)

Next training

Inter relation between asset allocation/benchmark returns and discount rate

Surrey Local Pension Board: Forward Plan

Communications

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SURREY COUNTY COUNCIL

PENSION FUND COMMITTEE

DATE: 23 SEPTEMBER 2016

LEAD OFFICER: SHEILA LITTLE, DIRECTOR OF FINANCE

SUBJECT: KEY PERFORMANCE INDICATORS AND ADMINISTRATION UPDATE



SUMMARY OF ISSUE:

In line with best practice, Pension Fund Committee members will be supplied with Pension Fund key performance indicators (KPIs) on a quarterly basis, covering investment and administration practices. This paper also includes an update on administration issues

RECOMMENDATIONS:

It is recommended that:

The Pension Fund Committee note this report and the KPI statement shown in Annex 1.

REASON FOR RECOMMENDATIONS:

To comply with best practice.

MATERIAL CHANGES FROM THE LAST REPORTING PERIOD (31 MAR 2016)

- 1 There is one funding, one investment performance, and ten administration categories that report changes over a three-month period as measured against their target.
- 2 The funding level category has shown a 13.6% increase as compared with the previous three-month reporting period and the target performance level
- 3 The contributions received category has achieved a 98% performance when measured against the new target of 100%, (recommended by the Local Pension Board and to more closely reflect guidance from the Pensions Regulator).
- 4 Of the 17 administration sub-categories, five show a deterioration as compared against the previous three-month reporting period and five show an improvement. Overall, seven administration categories failed to meet the performance target and six either met or exceeded the performance target in the reporting period.
- 5 The KPI number eight confirms that the administration costs per member remains in the lowest CIPFA benchmark quartile, as measured in the twelve-month period to 31 March 2016.

DETAILS:

Requirement

- 6 In line with best practice, future Pension Fund Committee meetings will continue to be supplied with a schedule of Pension Fund key performance indicators (KPIs), covering investment and administration practices.

Key Performance Indicators

- 7 The current KPIs cover the following areas:
- Funding level;
 - Death benefit administration;
 - Retirement administration;
 - Ill health retirement administration;
 - Benefit statements;
 - New joiners;
 - Transfers in and out;
 - Internal dispute cases;
 - Material posted on website;
 - Employer and member satisfaction;
 - Investment performance;
 - Data quality;
 - Contributions monitoring;
 - Audit;
 - Overall administration cost;
 - Scheme membership;
 - Employer membership.
- 8 In order to provide the committee with an overview of the number of administration cases completed in the three-month reporting period, this number is now included in the KPI schedule.
- 9 The KPI schedule to 30 June 2016 is shown as Annex 1.
- 10 Periods covered in the schedule range from one month, three months and twelve months.
- 11 Members are invited to discuss the performances set out in the schedule.

Update on Administration Issues

(i) The Pension Service Team's bid to join the Norfolk LGPS Framework

- 12 In response to local authorities across the country experiencing problems with the resilience of their Pension Administration teams, Norfolk County Council has issued a tender for the provision of outsourced pension administration services to the LGPS.

- 13 There are very few suppliers that are currently looking to expand in this market and the signs are that this trend of consolidation will continue. The Pension Service Team (Orbis) is one of these few recognised suppliers in this rapidly evolving market.
- 14 Orbis is not looking to take on new contracts purely for the financial benefits, as this may expose it to risk. However, if its assumption of potential new contracts is priced appropriately and with all mitigating factors adequately considered, the Surrey Pension Fund can benefit from an increased strengthening of the Orbis team's experience, expertise and scalability. The cost of continuing to supply its own members with a pension administration service should reduce, and the quality of that service should improve.
- 15 Being part of the LGPS Framework does not commit Orbis to taking on any additional pensions administration work. It can be on the Framework and reject any request to take contracts if it wishes.
- 16 Orbis is not proposing to expand the number of pensions administration contracts they take on immediately. This framework tender will pave the way for future pensions administration growth in the coming years. This will give ample time for the implementation of the London Borough of Hillingdon contract, plus any existing challenges still to be resolved.

CONSULTATION:

- 17 The Chairman of the Pension Fund Committee has been consulted and has offered full support regarding the content, structure and performances achieved set out in the schedule.

RISK MANAGEMENT AND IMPLICATIONS:

- 18 There are no risk related issues contained within the report.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

- 19 There are no financial and value for money implications.

SECTION 151 (DIRECTOR OF FINANCE) COMMENTARY

- 20 The Section 151 (Director of Finance) is satisfied that all material, financial and business issues and possibility of risks have been considered and addressed and that the current KPI model offers an effective framework for the monitoring of the essential pension fund KPIs.

LEGAL IMPLICATIONS – MONITORING OFFICER

- 21 There are no legal implications or legislative requirements associated with this report.

EQUALITIES AND DIVERSITY

- 22 The reporting of such information will not require an equality analysis, as the initiative is not a major policy, project or function being created or changed.

OTHER IMPLICATIONS

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

WHAT HAPPENS NEXT

24 The following next steps are planned:

- Continued monitoring of performance against the key performance indicators.
- Further refinement and additions of useful data.
- Future monitoring of KPIs in accordance with future guidance from the LGPS Scheme Advisory Board and the Local Pension Board.

Contact Officer:

Phil Triggs, Strategic Finance Manager (Pension Fund and Treasury)

Consulted:

Pension Fund Committee Chairman.

Annexes:

Annex 1: Schedule of Key Performance Indicators

Sources/background papers:

No	Description	Target	Lead Officer	No of cases	Actual (Score and RAG)	Reporting Period	Previous no of cases	Previous Score	Date Last Reported	Improvement/Deterioration	Comments	
1	FUNDING											
	IMPROVE FUNDING LEVEL Funding level to increase from current levels of 72%	100%	PT		86.3%	30/06/16		72.7%	31/03/16	↑ 13.60%		
2	PENSION ADMINISTRATION											
	DEATH BENEFITS Notify potential beneficiary of lump sum death in service grant within 5 days	95%	JB	5	100.0%	3 months to 30 June 16	6	100.0%	3 months to 31 Mar 16	→ 0.00%		
	Write to dependant and provide relevant claim form within 5 days of notification of death	90%		91	79.0%	3 months to 30 June 16	97	75.0%	3 months to 31 Mar 16	↑ 4.00%		
	Pay death grant within 5 days of receipt of relevant documentation	90%		41	80.0%	3 months to 30 June 16	48	90.0%	3 months to 31 Mar 16	↓ -10.00%		
	Issue notification of dependant's pension within 5 days of receipt of relevant claim forms	90%		41	80.0%	3 months to 30 June 16	48	90.0%	3 months to 31 Mar 16	↓ -10.00%		
	RETIREMENTS Employer decision and options to members within 10 days	90%	JB	175	60.0%	3 months to 30 June 16	196	56.1%	3 months to 31 Mar 16	↑ 3.90%		
	New retirement benefits processed for payment following receipt of election within 10 days	95%		238	91.0%	3 months to 30 June 16	201	89.0%	3 months to 31 Mar 16	↑ 2.00%	Includes deferred benefits into payment.	
	ILL HEALTH RETIREMENTS Retirement options to members within 10 days	90%	JB	16	88.0%	3 months to 30 June 16	17	100.0%	3 months to 31 Mar 16	↓ -12.00%		
	New retirement benefits processed for payment following receipt of election within 10 days	95%		16	100.0%	3 months to 30 June 16	17	100.0%	3 months to 31 Mar 16	→ 0.00%		
	BENEFIT STATEMENTS ABS issued to 95% of eligible active members by 30th September	95%	JB		Issued mid-September	12 months to 31 Mar 16		Final Tranche Issued Dec 2015/Jan 2016 Issued July 2015	12 months to 31 Mar 15			
	DBS issued to 85% of eligible deferred members by 30th June	95%			Issued mid-September	12 months to 31 Mar 16			12 months to 31 Mar 15			
	NEW JOINERS New starters processed within 20 days	90%	JB	348	93.4%	3 months to 30 June 16	607	96.0%	3 months to 31 Mar 16	↓ -2.64%		
	TRANSFERS IN Non LGPS transfers-in quotations processed within 20 days	90%	JB	3	100.0%	3 months to 30 June 16	43	90.0%	3 months to 31 Mar 16	↑ 10.00%	New GAD guidance received in period. Awaiting system updates so reduced numbers of transfers processed.	
	Non LGPS transfers-in payments processed within 20 days	90%		52	75.0%	3 months to 30 June 16	34	87.0%	3 months to 31 Mar 16	↓ -12.00%		
	TRANSFERS OUT Non LGPS transfers-out quotations processed within 20 days	90%	JB	29	N/A - see note	3 months to 30 June 16	74	72.0%	3 months to 31 Mar 16	N/A - see note	New GAD guidance received in period. Awaiting system updates so reduced numbers of transfers processed.	
	Non LGPS transfers out payments processed within 20 days	90%		8	100.0%	3 months to 30 June 16	58	73.0%	3 months to 31 Mar 16	↑ 27.00%	New GAD guidance received in period. Awaiting system updates so reduced numbers of transfers processed.	
	INTERNAL DISPUTE CASES Number of cases referred to the stage 1 IDR adjudicator	N/A	JB/NM	1	N/A	3 months to 30 June 16	1	N/A	3 months to 31 Mar 16	→ 0		
	MATERIAL POSTED ON WEBSITE Relevant Communications Material will be posted onto website within one week of being signed off	95%	JB/NM	N/A	100%	3 months to 30 June 16	N/A	100%	3 months to 31 Mar 16	→ 0.00%		
3	CUSTOMER SERVICE											
	EMPLOYER SATISFACTION/SURVEY Overall satisfaction score for employers to be 80%	80%	JB/NM		82%	Annual survey due		82%	At Aug 15		Annual survey: 19/23 respondents rated service Good or Higher. 4/23 rated Fair. None rated poor.	
	MEMBER SATISFACTION/SURVEY Overall satisfaction score for members to be 80%	80%	JB		81%	At Jun 16		84%	At Jun 15	↓ -3.00%	Based on responses for April to June 2016 retirements.	
4	INVESTMENT PERFORMANCE											
	INVESTMENT RETURNS/OVERALL FUND PERFORMANCE Returns to at least match the benchmark	Benchmark	PT		BENCHMARK 5.3%	12 months to 30 June 16		BENCHMARK -0.9%	12 months to 31 Mar 16	↓ -0.30%		
					ACTUAL 5.0%	12 months to 30 June 16		ACTUAL -1.2%	12 months to 31 Mar 16			
5	DATA											
	DATA QUALITY Common data quality within the Fund should be at least 90% accurate.	90%	JB		TBC	12 months to 31 Mar 16		99%	12 months to 31 Mar 15		Actuary to comment on data quality following 2016 valuation submission	
6	CONTRIBUTIONS											
	CONTRIBUTIONS RECEIVED Pension Fund 100% (total value) of contributions to be received by 21st day of the ensuing period.	100%	PT		98%	Jun-16		99%	Mar-16	↓ -1.00%		
7	AUDIT											
	CLEAN AUDIT REPORT Receive an unqualified audit opinion from the external auditors	Unqualified	PT/JB / NM		Achieved	12 months to 31 Mar 16		Achieved	12 months to 31 Mar 15			
	Annual audit returns no significant findings	No significant findings			Investments + Administration Internal Audit opinion "effective"			Administration Internal Audit opinion "effective"				
8	COST											
	COST PER MEMBER Administration cost per member to remain in lowest CIPFA benchmarking quartile	< lowest quartile	PT/JB / NM		Lowest Quartile achieved	12 months to 31 Mar 16		Lowest Quartile achieved	12 months to 31 Mar 15			
9	SCHEME MEMBERSHIP											
	SURREY COUNTY COUNCIL Number of SCC members administered by the Pension Service Team	N/A	JB		90,427	As of 30 June 16		89,847	As of 31 Mar 16	↑ 580		
	Active members			33,333			33,404	↓ -71				
	Deferred members			33,883			33,200	↑ 683				
	Pensioner members			23,211			23,243	↓ -32				
	TOTAL Total number of members across all LGPS schemes administered by the Pension Service Team	N/A	JB		c204,000	As of 30 June 16		c204,000	As of 31 Mar 16		This sum includes all current schemes administered by the Pension Services Team apart from LB Hillingdon which commences in Nov 2016.	
10	SCHEME EMPLOYERS											
	SURREY EMPLOYERS Number of active employers in the Surrey Pension Fund	N/A	NM		204	As of 30 June 16		202	As of 31 Mar 16	↑ 2		

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SURREY COUNTY COUNCIL

PENSION FUND COMMITTEE

DATE: 23 SEPTEMBER 2016

LEAD OFFICER: SHEILA LITTLE, DIRECTOR OF FINANCE

SUBJECT: PENSION FUND RISK REGISTER



SUMMARY OF ISSUE:

Surrey County Council, as administering authority for the Surrey Pension Fund, is responsible for the delivery of benefit promises made to members of the Surrey Pension Fund. It achieves this by setting objectives and goals with varying timeframes. Risks lie in failing to meet the intended goals.

Risks that are established as an issue must be identified and evaluated via a risk register. The risks must be prioritised with existing controls or new controls implemented to mitigate the risks. This should be recorded in a risk register, which should be monitored on a quarterly basis.

RECOMMENDATIONS:

It is recommended that:

Members assess the revised Risk Register in Annex 1, making any suggestions for amendment/additions as necessary.

REASON FOR RECOMMENDATIONS:

A solid framework of risk management is required in order to manage the considerable risk environment surrounding the governance and investment of the pension fund.

MATERIAL CHANGES FROM THE LAST REPORTING PERIOD

- 1 The review of the risk register during the preceding quarter has led not led to any adjustments to the existing risk ratings or mitigation actions.
- 2 A new risk pertaining to breaches policy is included in the risk register.

DETAILS:

Background

- 3 A review of the current risk register for the Pension Fund will give the Pension Fund Committee the opportunity to influence and drive the Pension Fund risk management process during 2016-2017.

Risk Management Process

- 4 The risk management policy of the Surrey Pension Fund 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 is possible, then means to mitigate the implications of the risks should be established.
- 5 The Pension Fund & Treasury Manager has identified a number of risks associated with the Pension Fund. The risks are grouped as follows:
 - Investment
 - Financial
 - Funding
 - Operational
 - Governance
- 6 Each of the risk areas has been assessed in terms of its impact on the Fund as a whole, on the fund employers, and on the reputation of the Pension Committee and Surrey County Council as the administering authority. Assessment has also been given as to the likelihood of the risk.
- 7 Each of the three areas of impact identified above is assessed on a scale of one to four, with four implying the highest level of impact. The likelihood of the risk description (between one and five) is then applied to the combined impact score, which produces an overall risk score. Depending on the score, the risks are then identified as Red, Amber or Green.
- 8 To comply with best practice, a scoring process has been implemented, which will reassess the risk scores after the mitigating action taken to control and reduce the risks. The risk register includes a revised impact score and net risk score as a result of those mitigating actions.
- 9 Within the residual red risks, cost ranges are provided on the implications where possible.

CONSULTATION:

- 10 The Chairman of the Pension Fund Committee has been consulted and has offered full support for the quarterly scrutiny process.

RISK MANAGEMENT AND IMPLICATIONS:

- 11 The risk related issues are contained within the report's Annex 1.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

- 12 There are no expected additional costs from compiling, maintaining and monitoring a risk register.

DIRECTOR OF FINANCE COMMENTARY

13 The Director of Finance is satisfied that all material, financial and business issues and possibility of risks have been considered and addressed and that the risk register will provide members and officers with a suitable platform for the monitoring and control of pension fund risks.

LEGAL IMPLICATIONS – MONITORING OFFICER

14 There are no legal implications or legislative requirements associated with this report.

EQUALITIES AND DIVERSITY

15 The creation of a risk register will not require an equality analysis, as the initiative is not a major policy, project or function being created or changed.

OTHER IMPLICATIONS

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

WHAT HAPPENS NEXT

17 The following next steps are planned:

- Monitoring by officers and reporting to the Committee every quarter.

Contact Officer:

Phil Triggs, Strategic Finance Manager (Pension Fund and Treasury)

Consulted:

Pension Fund Committee Chairman

Annexes:

Annex 1: Pension Fund Risk Register

Sources/background papers:

None

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Risk Group	Risk Ref.	Previous	Risk Description	Impact				Likelihood	Total risk score	Mitigation actions	Revised Likelihood	Net risk score
				Fund	Employers	Reputation	Total					
Funding	1	1	Bond yields fall leading to a increase in value of liabilities: a 0.1% reduction in the discount rate will increase the liability valuation by 2%	4	4	4	12	4	48	TREAT-1) IAS19 data is received annually and provides an early warning of any potential problems. 2) Early consultation with the actuary will take place with regard to the 2016 valuation. 3) Liability driven investment strategy implementation designed to hedge against future risk approved by Pension Fund Board on 13 February 2015. Future trigger points for leverage will provide liability protection against interest rate risk with the full protection framework in place. Once leverage commences, this will reduce the net score arising from mitigating actions.	4	48
Funding	2	2	Pay & price inflation is significantly more or less than anticipated: an increase in CPI inflation by 0.1% will increase the liability valuation by 1.4%	4	4	4	12	4	48	TREAT- 1) Fund employers should monitor own experience. 2) Assumptions made on pay and price inflation (for the purposes of IAS19/FRS17 and actuarial valuations) should be long term assumptions. 3) The fund holds investment in index linked bonds within a liability driven investment portfolio to mitigate risk. 4) Liability driven investment strategy implementation designed to hedge against future risk approved by Pension Fund Board on 13 February 2015. Future trigger points for leverage will provide liability protection against inflation risk with the full protection framework in place. Once leverage commences, this will reduce the net score arising from mitigating actions.	4	48
Funding	3	3	Pensioners living longer: adding one year to life expectancy will increase the future service rate by 0.8%	4	4	1	9	5	45	TREAT- 1) Hymans Robertson use long term longevity projections in the actuarial valuation process. 2) SCC has joined Club Vita, which looks at mortality rates that are employer and postcode specific.	5	45
Funding	4	4	Mismatching of assets and liabilities, inappropriate long-term asset allocation or investment strategy, mistiming of investment strategy	4	3	3	10	4	40	TREAT- 1) Active investment strategy and asset allocation monitoring from Board, officers and consultants. 2) 2015/16 Investment strategy review is current. 3) Separate source of advice from Fund's independent advisor. 4) Setting of Fund specific benchmark relevant to the current position of fund liabilities. 5) Fund manager targets set and based on market benchmarks or absolute return measures. Overall investment benchmark and out-performance target is fund specific.	3	30
Investment	5	5	Increased risk to global financial stability. Outlook deteriorates in advanced economies because of heightened uncertainty and setbacks to growth and confidence, with declines in oil	4	3	3	10	4	40	TREAT- 1) Increased vigilance and continued dialogue with managers as to events on and over the horizon. 2) Continued investment strategy involving portfolio diversification and risk control. 3) Investment strategy review will follow post actuarial 2016 valuation.	3	30
Operational	6	6	Rise in ill health retirements impact employer organisations	1	4	1	6	4	24	TREAT- 1) Investigating the viability of self-insurance across employers within the fund	4	24
Investment	7	7	Investment Managers fail to achieve performance targets over the longer term: a shortfall of 0.1% on the investment target will result in an annual impact of £2.6m	4	4	4	12	3	36	TREAT- 1) The Investment Management Agreements clearly state SCC's expectations in terms of performance targets. 2) Investment manager performance is reviewed on a quarterly basis. 3) The Pension Fund Board should be positioned to move quickly if it is felt that targets will not be met. 4) Having LGIM as a rebalancing/transition manager facilitates quick changes. 5) The Fund's investment management structure is highly diversified, which lessens the impact of manager risk compared with less diversified structures.	2	24
Financial	8	8	Financial loss of cash investments from fraudulent activity	4	4	4	12	3	36	TOLERATE - 1) Policies & procedures are in place which are regularly reviewed to ensure risk of investment loss is minimised. Governance arrangements are in place in respect of the Pension Fund. External advisors assist in the development of the Investment Strategy. Fund Managers have to provide SAS 70 or similar (statement of internal controls).	2	24
Operational	9	9	Financial failure of a fund manager leads to increase costs and service impairment	4	3	4	11	3	33	TREAT- 1) Fund is reliant upon current adequate contract management activity. 2) Fund is reliant upon alternative suppliers at similar price being found promptly. 3) Fund is reliant on LGIM as transition manager.	2	22
Investment	10	10	Investment markets fail to perform in line with expectations leading to deterioration in funding levels and increased contribution requirements from employers	4	3	3	10	3	30	TREAT- 1) Proportion of asset allocation made up of equities, bonds, property funds, diversified growth funds and private equity, limiting exposure to one asset category. 2) The investment strategy is continuously monitored and periodically reviewed to ensure optimal asset allocation. 3) Actuarial valuation and asset/liability study take place automatically every three years. 4) IAS19 data is received annually and provides an early warning of any potential problems. 5) The actuarial assumption regarding asset outperformance of 1.6% over gilts is regarded as achievable over the long term when compared with historical data.	2	20
Funding	11	11	Structural changes in an employer's membership or an employer fully/partially closing the scheme. Employer bodies transferring out of the pension fund or employer bodies closing to new membership. An employer ceases to exist with insufficient funding or adequacy of bond	3	4	3	10	3	30	TREAT- 1) Administering Authority actively monitors prospective changes in membership. 2) Maintain knowledge of employer future plans. 3) Contributions rates and deficit recovery periods set to reflect the strength of the employer covenant. 4) Periodic reviews of the covenant strength of employers are undertaken and indemnity applied where appropriate. 5) Risk categorisation of employers due to be implemented as part of 2016 actuarial valuation.	2	20
Funding	12	12	Impact of increases to employer contributions following the actuarial valuation	3	3	3	9	3	27	TREAT- 1) Officers to consult and engage with employer organisations in conjunction with the actuary. 2) Actuary will assist where appropriate with stabilisation and phasing in processes.	2	18
Governance	13	13	Failure to take difficult decisions inhibits effective Fund management	3	2	4	9	3	27	TREAT-1) Ensure activity analysis encourages decision making on objective empirical evidence rather than emotion. Ensure that basis of decision making is grounded in ALM Study/SIP/FSS/Governance statement and that appropriate advice is sought.	2	18
Investment	14	14	Volatility caused by uncertainty with regard to the withdrawal of the UK from the European Union and its after effects	3	3	2	8	3	24	TREAT- 1) Officers to consult and engage with advisors. 2) Future possibility of looking at move from UK to Global benchmarks on UK Equities and UK Property. 3) Possibility of further hedging of currency movements against Sterling.	2	16
Operational	15	15	Poor data quality results in poor information and decision making	2	2	4	8	3	24	TOLERATE 1) Northern Trust provides 3rd party validation of performance and valuation data. 2) Pension Fund team and pension board members are able to integrate data to ensure accuracy.	2	16
Operational	16	16	Insufficient attention to environmental, social and governance (ESG) leads to reputational damage	1	1	3	5	4	20	TREAT-1) Review SIP in relation to published best practice (e.g. Stewardship Code) 2) Ensure fund managers are encouraged to engage and to follow the requirements of the published SIP. 3) The Fund is a member of the Local Authority Pension Fund Forum (LAPFF), which raises awareness of ESG issues and facilitates engagement with fund managers. 4) The Fund has approved a Stewardship Code and a share voting policy which provides specific guidance in the voting of company resolutions.	3	15
Governance	17	17	Implementation of proposed changes to the LGPS (pooling) does not conform to plan or cannot be achieved within time scales	1	2	4	7	3	21	TREAT- 1) Officers consult and engage with DCLG, LGPS Advisory Board, consultants, peers, seminars, conferences. 2) Officers engage in early planning for implementation against agreed deadlines. 3) Future secondment of Surrey officers onto pooling project teams.	2	14
Operational	18	18	Concentration of knowledge in small number of officers and risk of departure of key staff	2	3	2	7	3	21	TREAT-1) 'How to' notes in place. 2) Development of team members & succession planning needs to be improved. 3) Officers and members of the Pension Fund Board will be mindful of the proposed CIPFA Knowledge and Skills Framework when setting objectives and establishing training needs.	2	14
Financial	19	new entry	The fund suffers a material breach of a regulatory obligation	1	2	4	7	3	21	TREAT - 1) The fund has generally good internal controls with regard to the management of the fund. These controls are assessed on an annual basis by internal and external audit as well as council officers. 2) Through strong governance arrangements and the active reporting of issues, the Fund will seek to report all breaches as soon as they occur in order to allow mitigating actions to take place to limit the impact of any breaches. A report on Breaches Policy will be taken to the November 2016 Committee meeting.	2	14
Operational	20	19	Failure to hold personal data securely	1	1	4	6	3	18	TREAT- 1) Data encryption technology is in place, which allow secure the sending of data to external service providers. 2) Phasing out of holding records via paper files. 3) Pensions Admin records are locked daily in a secure safe. 4) SCC IT data security policy adhered to.	2	12
Funding	21	20	Impact of government policy on the employer workforce	3	2	1	6	3	18	TREAT- 1) Hymans Robertson use prudent assumptions on future of workforce. Employers to flag up potential for major bulk transfers. The potential for a significant reduction in the workforce as a result of the pressures that the public sector is under may have an additional impact on the Fund. 2) Need to make worst case assumptions about diminishing workforce when carrying out the actuarial valuation.	2	12
Governance	22	21	Changes to LGPS regulations	3	2	1	6	3	18	TREAT-1) Fundamental change to LGPS regulations to be implemented from 1 April 2014. 2) Impact on contributions and cashflows will need to be considered during the 2013 valuation process. 3) Fund will respond to consultations. 4) 2016 Regulations due to be laid before Parliament by end of 2016.	2	12

Risk Group	Risk Ref.	Previous	Risk Description	Impact			Likelihood	Total risk score	Mitigation actions	Revised Likelihood	Net risk score	
				Fund	Employers	Reputation						Total
Governance	23	22	Change in membership of Pension Fund Committee leads to dilution of member knowledge and understanding	4	1	1	6	4	24	TREAT- 1) Succession planning process to be implemented. 2) Ongoing training of Pension Fund Board members. 3) Pension Fund Board new member induction programme. 4) Training to be based on the requirements of CIPFA Knowledge and Skills Framework and the results of the test undertaken in 2012. New Board members to take the test.	2	12
Operational	24	23	Inaccurate information in public domain leads to damage to reputation and loss of confidence	1	1	4	6	3	18	TOLERATE- 1) Ensure that all requests for information (Freedom of Information, Member & Public questions at Council, etc) are managed appropriately and that Part 2 items remain so. 2) Maintain constructive relationships with employing bodies to ensure that news is well managed.	2	12
Operational	25	24	Financial failure of third party supplier results in service impairment and financial loss	2	2	2	6	3	18	TOLERATE-1) Performance of third parties (other than fund managers) monitored. 2) Review of Northern Trust took place in January 2009, ahead of decision on whether to retain (Jan 2009) - a fee reduction was secured in 2011). 3) Actuarial and investment consultancies are provided by two different providers.	2	12
Operational	26	25	Procurement processes may be challenged if seen to be non-compliant with OJEU rules. Poor specifications lead to dispute. Unsuccessful fund managers may seek compensation following non compliant process	1	1	4	6	3	18	TOLERATE - Ensure that assessment criteria remains robust and that full feedback is given at all stages of the procurement process.	2	12
Governance	27	26	That the Border to Coast Pensions Partnership disbands or the partnership fails to produce a proposal deemed sufficiently ambitious	3	2	4	9	1	9	TOLERATE-1) Partners for the pool were chosen based upon the perceived expertise and like-mindedness of the officers and members involved with the fund to ensure compliance with the pooling requirements. Ensure that ongoing fund and pool proposals are comprehensive and meet government objectives.	1	9
Governance	28	27	Failure to comply with legislative requirements e.g. SIP, FSS, Governance Policy, Freedom of Information requests	4	1	4	9	2	18	TOLERATE -1) Publication of all documents on external website. 2) Managers expected to comply with SIP and IMA. 3) Pension Board self-assessment to ensure awareness of all relevant documents. 4) Annual audit review.	1	9
Governance	29	28	Failure to comply with recommendations from the local pension board, resulting in the	1	1	4	6	1	6	TOLERATE -1) Ensure that an cooperative, effective and transparent dialogue exists between the pension committee and local pension board	1	6
Financial	30	29	Counterparty risk within the SCC treasury management operation	2	2	2	6	2	12	TOLERATE - 1) A separate bank account exists for the pension fund 2) Lending limits with approved banks are set at prudent levels 3) The pension fund treasury management strategy is based on that of SCC.	1	6
Financial	31	30	Incorrect, failed or late employee/employer contributions payments received	1	4	1	6	2	12	TOLERATE- 1) Monthly monitoring of pensions contributions against expectation. 2) Reminders sent to employers when they fail to meet payment deadline. 3) Scope to report persistent late payment to OPRA.	1	6

SURREY COUNTY COUNCIL

PENSION FUND COMMITTEE

DATE: 23 SEPTEMBER 2016

LEAD OFFICER: SHEILA LITTLE, DIRECTOR OF FINANCE

SUBJECT: CORPORATE GOVERNANCE SHARE VOTING



SUMMARY OF ISSUE:

This report provides a summary of the Fund's share voting process in Q1 of 2016/17 (1 April 2016 to 30 June 2016).

RECOMMENDATIONS:

It is recommended that the Pension Fund Committee:

Note the report.

REASON FOR RECOMMENDATIONS:

The Pension Fund Committee must be aware of the voting actions pertaining to the segregated portfolios of shares held within the pension fund.

DETAILS:

Background

- 1 The informed use of shareholder votes, whilst not a legal duty, is a responsibility of shareholders and an implicit fiduciary duty of pension fund trustees and officers to whom they may delegate this function. Such a process requires the adherence to an approved share voting policy and the advice of a consultant skilled in this particular field.
- 2 The Surrey Pension Fund appointed Manifest in 2013 to provide consultancy advice on share voting and the whole spectrum of company corporate governance. Manifest has assisted in ensuring that the Fund's stewardship policy reflects the most up-to-date standards and officers learn of the latest developments and can reflect these developments in the Fund's share voting policy and the Statement of Investment Principles (SIP).
- 3 Annex 1 contains a list of terms and abbreviations used in the report. Annex 2 shows the Fund's latest approved responsible investment and stewardship (and share voting) policy.

Meetings Voted: Q1 2016/17

- 4 Table 1: Meetings Voted below shows that 289 meetings were voted in total, comprising 274 AGMs and 15 other meetings.

Table 1: Meetings Voted

Region	AGM	EGM	GM	Court	Class	Total
UK & Ireland	90	-	4	2	-	96
Europe – Developed	64	2	-	-	-	66
Japan	59	-	-	-	-	59
Asia & Oceania – Developed	28	2	-	-	1	31
South & Central America	12	2	-	-	-	14
North America	9	-	-	-	-	9
Asia & Oceania - Emerging	4	2	-	-	-	6
Europe – Emerging	4	-	-	-	-	4
Africa	4	-	-	-	-	4
Total	274	8	4	2	1	289

Resolutions

- 5 Table 2: Resolutions Voted shows the total number of resolutions voted by region, broken down by meeting type. This shows the high volume of voting decisions that AGMs bring compared with other meetings. During Q1, 4,314 resolutions were voted, with the bulk of these in UK and Ireland (1,751), Europe – Developed (998) and Japan (850).

Table 2: Resolutions Voted

Region	AGM	EGM	GM	Court	Class	Total
UK & Ireland	1,745	-	4	2	-	1,751
Europe – Developed	987	11	-	-	-	998
Japan	850	-	-	-	-	850
Asia & Oceania – Developed	263	3	-	-	1	267
South & Central America	123	-	-	-	-	123
North America	100	-	-	-	-	100
Asia & Oceania - Emerging	90	5	-	-	-	95
Europe – Emerging	83	-	-	-	-	83
Africa	45	2	-	-	-	47
Total	4,286	21	4	2	1	4,314

- 6 There was a significant increase in voting at the end of Q4, heralding the start of peak proxy session in Europe.

Table 3: Resolutions Voted per Month (April to June)

Event	Apr	May	Jun	Total
AGM	1,507	1,503	1,236	4,286
EGM	3	8	10	21
GM	2	-	2	4
Court	1	-	1	2
Class	-	-	1	1
Total	1,513	1,511	1,250	4,314

Votes Against Management

- 7 The data in Table 4 (Votes Against Management By Resolution Category) show some important perspective on the type of voting decisions being made. As a part of the research analysis of meetings, each resolution is categorised according to the governance considerations to which they relate. Surrey voted against 15.6% of all resolutions for which votes were cast during Q1, which is consistent with the proportion of resolutions opposed in previous quarters.
- 8 A high proportion of the sustainability resolutions were voted against management (81.7%). Sustainability is broadly defined and the resolutions opposed were in connection with political donations, human rights and environmental practices.
- 9 22.5% of the Capital resolutions saw votes against management. All but five of the 159 Capital related resolutions opposed were in connection with share issue authority requests, mainly within the UK or Developed Europe.
- 10 Of the 107 remuneration resolutions opposed, 85 were remuneration report approvals and ten of those were resolutions relating to non-executive remuneration. The other 12 resolutions opposed related to remuneration policy. Remuneration resolutions attracted 15.9% shareholder dissent.
- 11 Over a third of Shareholder Rights related transactions were voted against. 83.7% of resolutions opposed within this category were resolutions to approve 14-day notice periods for ordinary general meetings (other than AGMs). The other resolutions opposed related to anti-takeover provisions, article amendments and shareholder rights.

Table 4: Votes Against Management By Resolution Category

Resolution Category	Total Resolutions	Voted Against Management	% votes against Management
Board	2,325	242	10.4%
Capital	706	159	22.5%
Audit & Reporting	562	9	1.6%
Remuneration	359	107	29.8%
Shareholder Rights	219	86	39.3%
Sustainability	71	58	81.7%
Corporate Actions	53	2	3.8%
Other	19	11	57.9%
Total	4,314	674	15.6%

Shareholder Proposed Resolutions

- 12 68 resolutions voted during the period were proposed by shareholders. Shareholder proposed resolutions usually attract relatively high levels of votes against management, especially where the matter at hand is one on which investors have strong views.

- 13 The tabling of a shareholder proposal is one way in which shareholders can apply pressure on a company, by highlighting an issue and potentially garnering public support for their cause. The flipside danger is of course the possibility of a very public rejection of the question by other shareholders.
- 14 In Q1, there were four successful shareholder proposals in which three of the Boards recommended voting in favour. The Boards of Anglo American, Rio Tinto and Suncor Energy recommended to vote in favour of the shareholder proposed resolutions aimed at improving the sustainability practices within the companies. All three resolutions passed with comfortable shareholder support (an average of 98% shareholder support).

Remuneration

- 15 Votes against remuneration resolutions in Q1 reflected the principles advocated in Surrey's policy. 40 distinct resolutions informed Surrey's remuneration voting but the chief concerns as measured by the number of resolutions associated with remuneration issues were:

Misalignment: Incentive scheme performance measures and key performance indicators used by the company do not match. This was a factor in 57 of the 107 resolutions opposed. Performance targets not measured against a peer group or other benchmark was a factor in 13 of the 107 resolutions opposed.

Bonus Caps: The upper bonus cap for any of the executive directors exceeds an acceptable multiple of salary. This was a factor in 57 of the 107 resolutions opposed by the fund.

Independence of the Remuneration Committee: This was a factor in 21 of the 107 resolutions opposed by the fund.

Special Awards: Recruitment and/or retention awards have been paid was a factor in 12 of the 107 resolutions opposed by the fund.

Disclosure Standards: Remuneration of the directors has not been disclosures individually for all directors. This was a factor in 10 of the 107 resolutions opposed.

Table 5: Remuneration

Resolution Category	Total Resolutions	Voted Against Management
Remuneration report	115	85
Remuneration – non executive	75	10
Policy (long term incentives)	51	2
Amount (Total Collective)	27	-
Policy overall	33	2
Policy short term incentives	17	8
Amount (Total, individual)	19	-
Remuneration other	3	-
Policy (all employee plans)	12	-

Amount (component, individual)	2	-
Amount (component, collective)	3	-
Policy (contracts)	2	-
Total	359	107

Monitoring and Review

- 16 The share voting policy is kept under constant review.

CONSULTATION:

- 17 The Chairman of the Pension Fund has been consulted on the current position and has offered full support for the proposals.

RISK MANAGEMENT AND IMPLICATIONS:

- 18 There are no risk related issues contained within the report.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

- 19 There are no financial and value for money implications.

DIRECTOR OF FINANCE COMMENTARY

- 20 The Director of Finance is satisfied that the share voting policy offers an effective framework for the sound share voting of the pension fund, subject to reviews of the policy being presented to the Pension Fund Committee on a regular basis.

LEGAL IMPLICATIONS – MONITORING OFFICER

- 21 There are no legal implications or legislative requirements associated with this report.

EQUALITIES AND DIVERSITY

- 22 The approval of a share voting policy will not require an equality analysis, as the initiative is not a major policy, project or function being created or changed.

OTHER IMPLICATIONS

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

WHAT HAPPENS NEXT

- 23 The following next steps are planned:
- Share voting policy be kept under review

Contact Officer:

Phil Triggs, Strategic Finance Manager (Pension Fund and Treasury)

Consulted:

Pension Fund Committee Chairman

Annexes:

Annex 1: List of abbreviations

Annex 2: Latest approved share voting policy

Sources/background papers:

None

AGM

An Annual General Meeting of shareholders, normally required by law.

EGM

An Extraordinary General Meeting of shareholders, where a meeting is required to conduct business of an urgent or extraordinary nature. Such business may require a special quorum or approval level.

GM

A General Meeting of shareholders, often used interchangeably with the term EGM or OGM, depending on the term used by the issuer in question.

OGM

An Ordinary General Meeting of shareholders, which is a meeting at which ordinary business is to be conducted (i.e. business which does not require a special quorum or approval level).

Court

A meeting of shareholders which is convened by a Court as opposed to by management. This is often used in the UK in order to effect a scheme of arrangement during a corporate transaction.

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Responsible Investment and Stewardship Policy

1 Introduction

- 1.1 Surrey Pension Fund (the Fund) aims to be an informed and responsible long term shareholder of the companies in which it invests. 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 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.
- 1.2 The Fund takes seriously its responsibility to ensure that its voting rights are exercised in an informed, constructive and considered manner.
- 1.3 The fund complies with the Myners Principles of investment management and the UK Stewardship Code, the seven principles of which are shown below at section 5.
- 1.4 The Fund will review its Responsible Investment and Stewardship Policy annually. The Fund's officers will carry out this review and propose any changes to the Pension Fund Board for consideration.

2 Scope

- 2.1 The Fund aims to vote its shares in all markets wherever practicable. However, due to the relative size of its holdings, we will focus our attention on the quality of our major asset holdings, i.e., UK, EU, US, Far East and emerging markets assets.
- 2.2 The Fund supports the 'comply or explain' principles of The United Kingdom Corporate Governance Code (the Code), and will seek to take all relevant disclosures into account when exercising its votes. While the Fund expects companies to take appropriate steps to comply with the Code, we recognise that departure from best practice may be justified in certain circumstances. In these situations, the Fund expects a considered explanation from the company.
- 2.3 Corporate governance principles and standards vary from market to market, and so the Fund's voting policy allows for some flexibility and discretion with due consideration to local circumstances.

3 General Principles

- 3.1 In general, the Fund aims to support corporate management in their stewardship role. This document sets out the Fund's high level voting principles and the circumstances where the Fund may override support for company management proposals. In general, where the Fund cannot support management, it will positively abstain or withhold a vote but, in certain cases, reserves the right to vote against company management.
- 3.2 In ordinary circumstances, the Fund delegates individual corporate engagement activity to its investment managers. The Fund will, however, consider engaging on a collective basis with other investors on issues of mutual interest.

4 Voting Policy

4.1 Audit & Accountability

The audit and financial reporting process affords investors significant protections by ensuring that management has effective internal controls and financial reporting systems.

Auditor independence may be compromised if the same firm has audited the company for a long time, or where the firm earns significant fees from non audit services. In order to help maintain auditor objectivity, we would expect companies to consider submitting the audit function to periodic tender, and to disclose their policy on tendering, including when the audit was last put to tender and when the incumbent audit firm was appointed.

- **Approval of Financial Statements**

Where there is a qualified audit statement; where there is uncertainty about the future viability of the business; where there is a restatement of annual results made in the previous year (apart from where adapting to new regulations); or where there are concerns of fundamental significance, the Fund will consider approval on a case by case basis.

- **Removal of Auditors**

Surrey Pension Fund will normally vote with management on proposals for the removal of auditors, unless the proposal is for alleged financial irregularities. In this instance, the Fund will judge on a case by case basis.

- **Extra Financial Reporting**

Companies should have regard to the environmental and societal risks and impacts of their operations as these can have a material impact on shareholder returns over a variety of time horizons. We believe that it is good management practice to assess and report on material “Extra Financial” risks associated with the governance of environmental and sustainability issues. Where we consider that disclosure on these risks is inadequate, the Fund will withhold its vote on the annual report or a suitable alternative resolution, where available, such as the sustainability report.

4.2 The Board & Committees

- **Nomination & Succession Planning**

There should be a formal, rigorous and transparent procedure for the appointment of new directors to the board. The board should have plans in place for orderly succession and the policies relating to this should be disclosed in the Company’s annual report.

- **Committee Independence**

Audit, Remuneration and Nomination committees are key components of effective governance for companies. These committees should be composed entirely of independent non-executive directors; the Fund may therefore abstain from a director’s election if they are an executive or non-independent director on the Remuneration Committee.

Committees should be composed of individuals with adequate professional understanding of the matters to be resolved. This is particularly the case for the audit and risk committee. The fund may choose to abstain where there is insufficient evidence of appropriate competencies.

- **Separation of Chairman & Chief Executive Officer (CEO)**

The Fund believes the roles of Chairman and CEO should be separate. There may be individual circumstances where it is necessary to combine the roles for a specified purpose or over a period of time, in which case we will take account of the explanations provided. In all other circumstances, the Fund will abstain on the election of the Chairman.

- **Board Balance and Diversity**

Companies should seek to ensure that their boards are balanced for appropriate skills, competence and experience. Diversity of gender and experience are equally important and we expect to see clear disclosure from companies about their efforts to address gender imbalance and, in particular, how they aim to reach at least 30% female representation.

- **Notice Periods**

Evidence of reward for failure has led to shareholder concerns over the length of notice periods for directors which have been used in the past to inform severance pay levels. Where the terms of executive pay policy allow overly generous severance pay on early termination of an executive contract, the fund may choose to register concern via an abstention vote.

Director notice periods are significantly important. Where an executive director's notice period exceeds twelve months or where severance pay exceeds an equivalent of twelve months, the Fund may abstain from voting.

- **Removal of Directors**

Where there is a proposal to remove a director, the Fund will vote against it unless the proposal has Board support and it is uncontested by the individual concerned. Where the proposal is contested by the individual concerned, the Fund will consider its position on a case by case basis.

4.3 Executive Remuneration

Executive remuneration should be determined by a formal procedure which is independent of the executives in question. The remuneration committee, in addition to demonstrating independent membership, should have written terms of reference and receive independent advice which is wholly separate from other corporate activities, for example, audit or HR.

There should be comprehensive, transparent and comprehensible disclosure of directors pay and policy. Policy in particular should fully explain the aims and objectives of reward strategies in the context of corporate objectives.

- **Approval of Long Term Incentive Schemes**

The Fund's policy on executive remuneration is that companies should develop equitable reward systems that genuinely incentivise directors to deliver sustainable, long term shareholder value, avoiding reward for results over the short term. The Fund wishes to encourage companies to move away from "one-size-fits-all" performance conditions, and to introduce objective performance conditions related to the company's long-term strategy. Discretionary share options and other long term incentive plans can, subject to appropriate safeguards, be acceptable elements of a director's remuneration.

The Fund will vote in favour of executive reward plans when:

- The company has a remuneration structure that encourages participation across the workforce.
- There is a capital commitment on the part of executive participants at the inception of the scheme.
- Where the exercise of options or the vesting of shares for executive participants is based on performance targets which reflect outstanding and sustainable performance and which are insulated from a particular treatment in the accounts or general market factors.
- Where disclosure is adequate to enable the assessment of rewards under the scheme and the cost to the company.
- Where the performance period for any long term scheme is five years or more.
- Where the participants are not eligible for multiple share-based incentives.
- Where the scheme does not have the potential to involve the issuing of shares which will unduly dilute existing holdings or involve a change in control of the company.

The Fund will abstain from supporting an all employee share scheme where non-executives are also permitted to participate.

4.4 Shareholders' Rights and Capital Structures

Surrey will consider resolutions relating to shareholder rights on a case by case basis. The following outlines the principles that we expect our companies to adhere to:

- **Pre-emption right for issues of new capital**

The Fund does not support resolutions that are inconsistent with rules of the Pre-emption Group.

- **“One Share One Vote”**

The Fund does not support issues of shares with restricted or differential voting rights, nor any action which effectively restricts the voting rights of shares held by it.

- **Share Repurchases**

The Fund will normally vote in favour of an authority for share repurchases, provided that it complies with the Listing Rule guidelines (e.g. limit of 15% of issued share capital) and that directors demonstrate that this is the most appropriate use of a company's cash resources. Companies should adopt equitable financial treatment for all shareholders. The Fund therefore supports measures that limit the company's ability to buy back shares from a particular shareholder at higher than market prices.

- **Controlling Shareholder**

Where a controlling shareholder is present on the share register, it is important that minority investors understand fully the nature of the rights held by that shareholder. Minority investors expect a formal relationship agreement to be in place and for this agreement to be fully disclosed to all shareholders.

4.5 Mergers and Acquisitions (M&A)

Support will be given to mergers and acquisitions that enhance shareholder returns in the longer term and encourage companies to disclose fully relevant information and provide for separate resolutions on all issues which require the shareholders to vote, for example, the effect of a merger on the compensation and remuneration packages of the individual Board members.

Due to the investment implications of M&A activity, the fund will liaise with its portfolio managers prior to making a final voting decision in support of takeovers.

Companies should seek shareholder approval on any action which alters the fundamental relationship between shareholders and the Board. This includes anti-takeover measures.

4.6 Article Changes

The Fund does not support proposed changes to Articles of Association and/or constitutional documents that reduce shareholder rights, or do not reflect generally accepted good governance practices.

4.7 Political & Charitable Donations

The fund recognises that some legitimate business related expenditure, such as marketing or sponsorship, may be construed as political under the terms of current legislation in some markets. Where authority for political expenditure fails to distinguish the amounts involved, or the period covered, or the amounts or period are considered excessive, the fund will not support the authority.

In addition the Fund considers that making of donations to political parties is not an appropriate use of shareholders' fund and so will vote against any authority to make such donations.

Charitable donations are acceptable if they are reasonable and further the company's wider corporate social responsibilities. The Fund encourages the issue of a policy statement by companies relating to such donations and full disclosure of the amounts given to the main beneficiaries.

4.8 Shareholder Resolutions

All such proposals will be reviewed on a case by case basis. We will generally support requests for improved corporate disclosure, notably relating to sustainability reporting. In other circumstances the fund will generally vote against shareholder resolutions not supported by management.

4.9 Other Business

Where a resolution proposes moving to an unregulated market or de-listing, the Fund will consider issues on a case by case basis. Schemes of arrangement, significant transactions and bundled resolutions are also considered on a case by case basis.

Where a resolution is proposed to allow for any other business to be conducted at the meeting without prior shareholder notification, the Fund will not support such resolutions.

5 The Principles of the UK Stewardship Code

In order to conform with the principles of the UK Stewardship Code, institutional investors, such as the Surrey County Council Pension Fund, should:

1. Publicly disclose their policy on how they will discharge their stewardship responsibilities.
2. Have a robust policy on managing conflicts of interest in relation to stewardship and this policy should be publicly disclosed.
3. Monitor their investee companies.
4. Establish clear guidelines on when and how they will escalate their stewardship activities.

5. Be willing to act collectively with other investors where appropriate.
6. Have a clear policy on voting and disclosure of voting activity.
7. Report periodically on their stewardship and voting activities.

The Board will provide an annual report on how the Surrey Pension Fund satisfies its UK Stewardship Code obligations requirements.

SURREY COUNTY COUNCIL

PENSION FUND COMMITTEE

DATE: 23 SEPTEMBER 2016

LEAD OFFICER: SHEILA LITTLE, DIRECTOR OF FINANCE

SUBJECT: PRIVATE EQUITY INVESTMENT: PERFORMANCE REVIEW



SUMMARY OF ISSUE:

The Surrey Pension Fund has a commitment to invest 5% of the fund in private equity. This is achieved by investing in funds of funds and direct funds, managed by a number of private equity specialists.

The Pension Fund Committee reviews the private equity strategy. This report is a review of the investment performance of the private equity portfolio.

RECOMMENDATIONS:

It is recommended that:

- 1 The Committee note the current position on the Fund's Private Equity investment performance.
- 2 The Fund continue to commit to drawdowns of the existing private equity schemes, and consider new opportunities to the Pension Fund Committee for approval as and when they arise..

REASON FOR RECOMMENDATIONS:

A solid framework of review is required in order to benefit from this long term asset category.

DETAILS:

Background

- 1 Private equity is a long term investment, with the typical lifetime of a private equity fund in the region of 10 years from an investment (drawdown) phase to the final distribution phase.

Performance Measurement

- 2 An updated Public Market Equivalent (PME) calculation for each scheme's asset value to 31 March 2016 is shown in Annex 1.
- 3 As at 31 March 2016, the calculated internal rate of return (IRR) for the private equity cash flows portfolio of partnerships currently active is 11.7% versus a benchmark from the MSCI World Index of 7.1%, an outperformance of 4.7%.

Current Position

- 4 The detailed position on commitments and cash invested as at 31 March 2016 is shown in Annex 2 and is summarised as follows:

	Value	% of Fund
	£m	
Total Commitment	302	9.4
Investment drawn (paid in capital)	231	7.2
Commitment Outstanding	80	2.5
Distributions Received	145	4.5
Fair Value of Remaining Investments	157	4.9
Distributions + Remaining Investments	302	9.4
Implied Gain	71	
Total Surrey Pension Fund Value (31/03/2016)	3,196	

Where relevant valuations converted to £ equivalent as at 31 March 2016

- 5 Based on investment assets of £3,196m as at 31 March 2016, 9.4% of the Fund is committed to private equity investments. The actual level of investment (based on the Fair Value of the remaining investments) is 4.9% of the Fund versus the asset allocation target of 5.0%
- 6 The following table shows the estimated value of all cash distributions and draw downs for the existing private equity partnerships, and the impact that the estimated level of cash flows would have upon the asset allocation to private equity using current market values.

	12 Months	3 Years
	£m	£m
Estimated Distributions	-19.9	-68.9
Estimated Drawdowns	14.1	51.2
Net Distribution	-5.8	-17.7
Revised Private Equity Allocation %	4.7%	4.4%

CONSULTATION:

- 7 The Chairman of the Pension Fund has been consulted on the report.

RISK MANAGEMENT AND IMPLICATIONS:

- 8 Risk related issues are contained within the report.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

- 9 Financial and value for money implications are contained within the report.

DIRECTOR OF FINANCE COMMENTARY

- 10 The Director of Finance is satisfied that all material, financial and business issues and possibility of risks have been considered, and that private equity has been a good performing asset class for the pension fund.

LEGAL IMPLICATIONS – MONITORING OFFICER

- 11 There are no legal implications or legislative requirements associated with this report.

EQUALITIES AND DIVERSITY

- 12 The review of the Fund's private equity programme will not require an equality analysis, as the initiative is not a major policy, project or function being created or changed.

OTHER IMPLICATIONS

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

WHAT HAPPENS NEXT

- 14 The following next steps are planned:
- Continued monitoring of private equity fund partnerships and a performance review report to be brought to the committee as at the 31 March 2017.

Contact Officer:

Phil Triggs, Strategic Finance Manager (Pension Fund and Treasury)

Consulted:

Pension Fund Committee Chairman

Annexes:

Annex 1: Public Market Equivalent (PME) calculation for each scheme's asset values to 31 March 2016

Annex 2: Detailed position on commitments and cash invested at 31 March 2016

Sources/background papers:

Private equity manager reports

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Table 1

Private equity cashflow analysis - Net of all fees and expenses

Financial Year	Drawdowns (Purchase) £000	Distributions (Sales) £000	Total (net of Purchase/Sales) £000
1999/2000	-161	0	-161
2000/2001	-1,174	6	-1,168
2001/2002	-1,141	16	-1,125
2002/2003	-3,822	170	-3,652
2003/2004	-7,608	1,851	-5,757
2004/2005	-5,792	6,858	1,066
2005/2006	-16,147	5,589	-10,558
2006/2007	-17,172	8,853	-8,319
2007/2008	-9,881	4,598	-5,283
2008/2009	-6,696	2,098	-4,598
2009/2010	-13,880	11,351	-2,529
2010/2011	-15,468	21,401	5,933
2011/2012	-17,365	13,137	-4,228
2012/2013	-19,290	22,785	3,495
2013/2014	-15,633	10,986	-4,647
2014/2015	-32,730	40,558	7,828
2015/2016	-25,921	25,310	-611
Grand Total	-209,881	175,567	-34,314

Table 2

	Private Equity Portfolio	Public Market Equivalent (MSCI World Index)
Assessed Value as at 31 March 2016*	131,249	78,678
Calculated Internal Rate of Return (IRR)**	11.7%	7.1%

* The private equity assessed value is the estimated value attributed to unrealised private equity investments across the whole private equity portfolio. The public market equivalent was calculated by making a hypothetical investment into the MSCI World Index on the dates when cash drawdowns or distributions occurred.

** The IRR is a discount rate applied to the total cashflows in Table 1 as well as the final assessed value in table 2 to ensure that the net present value is zero.

These calculations are performed for each of the assessed values using the same cash in and out to get a comparison between private equity performance and public market performance.

The period covered within the PME calculation includes all cash flows for partnerships that were active on 31 December 2013 and any new funds since that date. The reason for this cut off was the difficulty accessing appropriate fund data beyond this period.

The PME calculation has not been retrospectively adjusted to remove cash flows that relate to ceased or closed partnerships, this is because the PME calculation will be more appropriate when based upon actual cash returns from the partnerships rather than estimates surrounding the fair value of existing investment assets held by individual funds. The assessed value of private equity assets will always be subject to a degree of uncertainty.

As a result, this will not reconcile back to the fund values in Annex 2 as the summary of the existing portfolio will omit information from ceased partnerships.

Manager	Investment	Vintage Year	Paid in Capital £000s	Outstanding Commitment £000s	Total Commitment £000s	Distributions Received £000s	Fair Value of Remaining Investments £000s	Total Value Distributions + Fair Value £000s	Total Value versus Paid In Capital	IRR	Date of Valuation
Sterling Funds											
HG Capital	HG 5	2006	7,857	498	8,250	10,373	1,573	11,946	1.5	12.1%	31/03/2016
HG Capital	HG 6	2009	9,373	627	10,000	5,512	8,310	13,822	1.5	9.0%	31/03/2016
HG Capital	HG 7	2013	9,492	5,508	15,000	581	10,044	10,625	1.1	11.7%	31/03/2016
ISIS	ISIS IV	2007	11,654	3,346	15,000	14,914	5,080	19,994	1.7	17.0%	31/03/2016
ISIS	ISIS Growth	2013	6,374	3,626	10,000	1,678	6,398	8,076	1.3	17.0%	31/03/2016
Darwin	Darwin Leisure Property Fund	2013	20,000	0	20,000	0	25,687	25,687	1.3		31/03/2016
Euro Funds											
Standard Life	ESP II	2004	7,759	525	7,920	10,957	1,655	12,612	1.6	9.9%	31/03/2016
Standard Life	ESP 2006 B	2006	10,959	1,183	11,880	9,591	4,883	14,474	1.3	6.9%	31/03/2016
Standard Life	ESP 2008	2008	9,692	2,340	11,880	3,851	8,077	11,929	1.2	9.4%	31/03/2016
Standard Life	ESF	2011	8,074	6,584	13,860	904	6,937	7,841	1.0	3.7%	31/03/2016
Dollar Funds											
BlackRock	Vesey Street I	2001	3,303	174	3,477	5,658	213	5,871	1.8	13.2%	31/03/2016
BlackRock	Vesey Street II	2003	3,251	226	3,477	4,914	1,067	5,980	1.8	10.9%	31/03/2016
BlackRock	Vesey Street III	2005	10,709	1,460	12,169	10,648	4,497	15,145	1.4	5.1%	31/03/2016
Goldman Sachs	GS PEP 2000	2000	7,057	131	6,606	11,069	606	11,675	1.7	14.1%	31/03/2016
Goldman Sachs	GS PEP 2004	2004	7,280	55	6,954	8,932	1,768	10,699	1.5	7.5%	31/03/2016
Goldman Sachs	GS PEP 2005	2006	11,723	726	11,822	8,778	5,044	13,822	1.2	3.3%	31/03/2016
Goldman Sachs	GS PEP X	2008	11,272	2,134	12,517	5,987	9,523	15,511	1.4	9.6%	31/03/2016
Goldman Sachs	GS PEP XI	2011	19,035	10,358	27,816	4,361	18,080	22,441	1.2	10.1%	31/03/2016
Goldman Sachs	GS Vintage VI	2013	9,670	4,390	13,908	3,087	8,122	11,208	1.2	15.7%	31/03/2016
Capital Dynamics	SOLAR	2011	15,591	1,793	17,385	19,356	561	19,917	1.3	9.4%	31/03/2016
Capital Dynamics	Clean Energy	2012	17,281	87	17,367	942	16,475	17,418	1.0	1.9%	31/03/2016
Standard Life	SOF I	2013	9,032	6,543	13,908	1,921	7,897	9,818	1.1	13.1%	31/03/2016
Standard Life	SOF II	2014	4,594	10,301	13,908	987	4,439	5,426	1.2	30.6%	31/03/2016
Standard Life	SOF III	2016	0	17,395	17,395	0	0	0			
TOTAL			231,032	80,010	302,499	145,001	156,936	301,937	1.3		

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SURREY COUNTY COUNCIL

PENSION FUND COMMITTEE

DATE: 23 SEPTEMBER 2016

LEAD OFFICER: SHEILA LITTLE, DIRECTOR OF FINANCE

SUBJECT: SURREY PENSION FUND ACCOUNTS 2015/16



SUMMARY OF ISSUE:

This report presents the audited financial statements of the Pension Fund for the year ended 31 March 2015, with respect to the County Council's obligations as the administering authority under the Local Government Pension Scheme (LGPS) Regulations.

The external auditor (Grant Thornton) has issued an unqualified opinion on the accounts and this is outlined in the Audit Findings for Surrey Pension Fund Report.

RECOMMENDATIONS:

It is recommended that the Pension Fund Committee:

- 1 Note and approve the financial statements set out in Annex 1.
- 2 Note the content of the External Audit Findings for Surrey Pension Fund Report as set out in Annex 2.
- 3 Note the Letter of Representation as set out in Annex 3.

REASON FOR RECOMMENDATIONS:

The Pension Fund Committee must approve all financial statements produced for the Pension Fund.

DETAILS:

- 1 The Surrey Pension Fund Statement of Accounts was presented to the Audit and Governance Committee at its meeting on 25 July 2016.
- 2 The external auditor is required to report on the Pension Fund Financial Statements. During the external audit, Grant Thornton identified some minor issues, which led to minor amendments being made to the 2015/16 draft financial statements and related notes to the accounts.
- 3 A copy of the financial statements and notes to the accounts included in Annex 1 will be published in the Pension Fund Annual Report 2015.
- 4 The External Audit Findings for the Surrey Pension Fund is presented at Annex 2 and sets out a summary of the work carried out, the conclusions

reached and recommendations made. The Pension Fund Committee will note that Grant Thornton issued an unqualified opinion on the financial statements.

- 5 It is considered good practice for those charged with governance to provide the external auditor with a letter of representation in respect of matters that are material to the financial statements, but appropriate audit evidence cannot reasonably be expected to exist. The letter of representation, signed by the Director of Finance is included at Annex 3.
- 6 The Audit and Governance Committee approved the report and associated attachments at the 25 July 2016 meeting.

CONSULTATION:

- 7 The Chairman of the Pension Fund has been consulted on the financial statements and has confirmed full support on the outcome.

RISK MANAGEMENT AND IMPLICATIONS:

- 8 There are no risk related issues contained within the report.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

- 9 Financial and value for money implications are contained within the financial statements and the External Audit Findings Report.

DIRECTOR OF FINANCE COMMENTARY

- 10 The Director of Finance has overseen the full process of the compilation of the financial statements and the external audit process.

LEGAL IMPLICATIONS – MONITORING OFFICER

- 11 There are no legal implications or legislative requirements associated with this report.

EQUALITIES AND DIVERSITY

- 12 The approval of the financial statements will not require an equality analysis, as the initiative is not a major policy, project or function being created or changed.

OTHER IMPLICATIONS

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

WHAT HAPPENS NEXT

- 14 The following next steps are planned:
 - Approval of the financial statements.
 - Inclusion of the financial statements in the Pension Fund Annual Report 2016.

Contact Officer:

Phil Triggs, Strategic Finance Manager (Pension Fund and Treasury)

Consulted:

Pension Fund Committee Chairman

Annexes:

1. Surrey Pension Accounts 2015/16
2. External Audit Finding Report
3. Director of Finance's Letter of Representation

Sources/background papers:

None

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SURREY PENSION FUND

ACCOUNTS 2015/2016

The accounts on the following pages give a stewardship report on the financial transactions of the Surrey Pension Fund during 2015/2016 and of the disposition of its assets at 31 March 2016.

Surrey County Council is responsible for administering a pension fund for staff employed by the county council, the 11 borough and district councils in Surrey and over a hundred other local bodies. The fund includes local authority employees within Surrey, except teachers, police and firefighters for whom separate pension arrangements apply.

The fund exists to provide pensions and other benefits for employees, their widows, widowers or dependants in accordance with Local Government Pension Scheme Regulations.

The number of employees in the fund and the number of pensioners as at 31 March 2015 and 31 March 2016 are:

31 Mar 2015		31 Mar 2016
32,851	Employees in the fund	34,072
22,481	Pensioners	23,197
33,833	Deferred pensioners	34,158
89,165	Total	91,427

Surrey pension fund account

2014/2015 £000		Note	2015/2016 £000
Contributions and benefits			
173,448	Contributions receivable	7	186,901
<u>7,656</u>	Transfers in	8	<u>5,518</u>
181,104			192,419
-126,113	Benefits payable	9	-131,330
-6,195	Payments to and on account of leavers	10	-6,762
-15,857	Investment and governance expenses	14	-14,830
<u>-1,550</u>	Administration expenses		<u>-1,121</u>
-149,715			-154,043
Net additions from dealings with members			
<u>31,389</u>			<u>38,376</u>
Return on investments			
56,444	Investment income	16	61,346
-1,023	Taxes on income	15	-924
<u>299,210</u>	Change in market value of investments	17	<u>-68,655</u>
354,631	Net return on investments		-8,233
Net increase in the fund during the year			
<u>386,020</u>			<u>30,143</u>
Net assets of the fund			
2,807,500	At 1 April		3,193,520
<u>3,193,520</u>	At 31 March		<u>3,223,663</u>

Net asset statement

31 Mar 2015	Note	31 Mar 2016
£000		£000
	17	
350,859		342,581
161,260		168,470
1,908,092		1,851,024
199,410		225,690
360,061		376,686
112,642		129,353
	17c	
0		26
3,082		44
77,218		64,294
0		37,000
9,033	17b	8,649
	17c	
-288		0
-11,501		-6,331
-2,441	17b	-1,148
0		0
3,167,427		3,196,338
12,705	12	10,890
18,949	11	23,090
-5,561	13	-6,655
3,193,520		3,223,663
Net assets of the fund at 31 March		

The financial statements 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 on an International Accounting Standard (IAS) 19 basis is disclosed at note 25 of these accounts.

Note 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

The following description of the fund is a summary only. For more detail, reference should be made to the Surrey Pension Fund Annual Report 2015/16 and the underlying statutory powers underpinning the scheme, namely the Superannuation Act 1972 and the Local Government Pension Scheme (LGPS) Regulations.

a) General

The fund is governed by the Public Services Pensions Act 2013. The fund is administered in accordance with the following secondary legislation:

- The LGPS Regulations 2013 (as amended)
- The LGPS (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)

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.

During 2015/16 the investment decision making and governance of the fund was undertaken by the Pension Fund Board, a committee of the Administering Authority, with representation on behalf of employers and members.

b) 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.

c) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the fund in accordance with the LGPS (Benefits, Membership and Contributions) Regulations 2007 and ranged from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2016. Employee contributions are matched by employers' contributions which are set based on triennial actuarial funding valuations. The last such valuation was at 31 March 2013 and new rates applied from April 2014. Currently employer contribution rates range from 12.0% to 30.0% of pensionable pay.

d) Benefits

Prior to 1 April 2014, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service.

	Service pre 1 April 2008	Service 1 April 2008 until 31 March 2014
Basis of pension	1/80 th of final salary	1/60 th of final salary
Lump sum	Automatic lump sum 3 x salary Trade £1 of annual pension for £12 lump sum	No automatic lump sum Trade £1 of annual pension for £12 lump sum

There are a range of other benefits provided under the scheme including early retirement disability pensions and death benefits. For more details please refer to the Surrey Pension Fund website (<http://www.surreypensionfund.org>).

e) New LGPS Scheme 2014

The current UK national government requested Lord Hutton to chair a commission on the reform of public sector pensions. Following the publication of this report in 2011, a new scheme design for the LGPS was agreed. The new scheme commenced on April 1 2014.

The changes will not affect those who currently receive pension payments. All pension benefits built up to 31 March 2014 will be treated according to the existing scheme rules.

	Service 1 April 2008 until 31 March 2014	LGPS 2014 scheme
Basis of pension	Final salary	Career average revalued earnings
Accrual rate	1/60 th of salary	1/49 th of salary
Revaluation rate	No revaluation: based on final salary	Inflation rate: consumer prices index (CPI)
Pensionable pay	Pay excluding non-contractual overtime and non-pensionable additional hours	Pay including non-contractual overtime and additional hours for part time staff
Employee contribution	See below table	See below table
Normal pension age	65	Equal to the individual member's State Pension Age
Lump sum trade off	Trade £1 of annual pension for £12 lump sum	Trade £1 of annual pension for £12 lump sum
Death in service lump sum	3x pensionable payroll	3x pensionable payroll
Death in service survivor benefits	1/160th accrual based on Tier 1 ill health pension enhancement	1/160th accrual based on Tier 1 ill health pension enhancement
Ill Health Provision	Tier 1 - Immediate payment with service enhanced to Normal Pension Age Tier 2 - Immediate payment with 25% service enhancement to Normal Pension Age Tier 3 - Temporary payment of pension for up to 3 years	Tier 1 - Immediate payment with service enhanced to Normal Pension Age Tier 2 - Immediate payment with 25% service enhancement to Normal Pension Age Tier 3 - Temporary payment of pension for up to 3 years
Indexation of pension in payment	Inflation rate: CPI (RPI for pre-2011 increases)	Inflation rate: CPI

Pre 2014 employee contribution rates	
Pensionable payroll banding	Contribution rate
Up to £13,700	5.5%
£13,701 to £16,100	5.8%
£16,101 to £20,800	5.9%
£20,801 to £34,700	6.5%
£34,701 to £46,500	6.8%
£46,501 to £87,100	7.2%
More than £87,100	7.5%
Estimated overall LGPS average	6.5%

LGPS 2014 employee contribution rates for 2015/16	
Pensionable payroll banding	Contribution rate
Up to £13,600	5.5%
£13,601 to £21,200	5.8%
£21,201 to £34,400	6.5%
£34,401 to £43,500	6.8%
£43,501 to £60,700	8.5%
£60,701 to £86,000	9.9%
£86,001 to £101,200	10.5%
£101,201 to £151,800	11.4%
More than £151,800	12.5%
Estimated overall LGPS average	6.5%

For additional information about the LGPS 2014 please refer to the Surrey Pension Fund website (<http://www.surreypensionfund.org>) or the LGPS 2014 scheme website (<http://www.lgps2014.org>).

Note 2: Basis of preparation

The Statement of Accounts summarises the fund's transactions for the 2015/16 financial year and its position at the year end at 31 March 2016. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

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 25 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.

Note 3: Summary of significant accounting policies

Pension fund management expenses are accounted for in accordance with CIPFA guidance on accounting for Local Government Scheme Management Costs.

Fund account – revenue recognition

a) 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.

b) 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/leavers 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.

c) Investment income

i) Interest 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.

- ii) Dividend income
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.
 - iii) Distributions from pooled funds
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.
 - iv) Movement in the net market value of investments
Changes in the net market value of investments (including investment properties) are recognised as income and comprise all realised and unrealised profits/losses during in the year.
- d) Private equity
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

- e) 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.
- f) 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 31 March 2016 is reported as a current liability.
- g) Administration 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.

h) Investment and governance 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.

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.

Net assets statement

i) Financial assets

All financial assets are included in the net asset statement on a fair value basis as at the reporting date, with the exception of loans and receivables which 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.

The values of investments as shown in the net assets statement have been determined as follows:

i) Market quoted investments

The value of an investment for which there is a readily available market price is determined by the bid market price ruling on the final day of the accounting period.

ii) Fixed interest securities

Fixed interest securities are recorded at net market value based on their current yields.

iii) Unquoted investments

The fair value of investments for which market quotations are not readily available is as follows:

- Valuations of delisted securities are based on the last sale price prior to delisting, or where subject to liquidation, the amount the fund expects to receive on wind-up, less estimated realisation cost.
- Securities subject to takeover offer are valued at the consideration offered, less estimated realisation costs.
- Directly held investments by limited partnerships, shares in unlisted companies, trusts and bonds. Other unquoted securities typically include pooled investments in property, infrastructure, debt securities and private equity. The valuation of

these pools or directly held securities is undertaken by the investment manager or responsible entity and advised as a unit or security price. The valuation standards followed in these valuations adhere to industry guidelines or to standards set by the constituent documents of the pool or management agreement.

- iv) Investments in private equity funds and unquoted listed partnerships are valued based on the fund's share of the net assets in the private equity fund or limited partnership using the latest financial statements published by the respective fund managers in accordance with the guidelines set out by the International Private Equity and Venture Capital Guidelines, which follow the valuation principles of IFRS.
 - v) Limited partnerships
Fair value is based on the net asset value ascertained from periodic valuations provided by those controlling the partnership.
 - vi) Pooled investment vehicles
Pooled investment vehicles are valued at closing bid price if both bid and offer prices are published; or if singularly priced, at the closing single price.
- j) 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.
- k) 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 contract were matched at the year end with an equal and opposite contract.
- l) Cash and cash equivalents
Cash comprises cash in hand and demand deposits. Cash equivalents are short-term highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal changes in value.

m) 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.

n) 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 IAS 26, the fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the net asset statement.

o) 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 employers 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 section 4(2)(b) of the Local Government Pension Scheme (Management & Investment of Funds) Regulations 2009 (SI 2009/3093).

Note 4: Critical judgements in applying accounting policies

Unquoted private equity investments

It is important to recognise the highly subjective nature of determining the fair value of private equity investments. They are inherently based on forward looking estimates and judgements involving many factors. Unquoted private equities are valued by the investment managers using the International Private Equity and Venture Capital Guidelines, which follow the valuation principles of IFRS. The value of unquoted private equities at 31 March 2016 was £129 million (£113 million at 31 March 2015).

Pension Fund Liability

The pension fund liability is calculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines and in accordance with IAS 19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in note 25. This estimate is subject to significant variances based on changes to the underlying assumptions.

Note 5: Assumptions made about the future and other major sources of estimation uncertainty

The Statement of Accounts contains estimated figures that are based on assumptions made by the council about the future or that are otherwise uncertain. Estimates are made by taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the net assets statement or subsequent notes as at 31 March 2016 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits	Estimation of the net liability to pay pension depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the fund with expert advice about the assumptions to be applied.	The net pension liability of the fund would change. An increase in the discount rate would result in a corresponding decrease in the pension liability. An increase in earnings would increase the value of liabilities, as would an increase in life expectancy.
Private equity	Private equity investments, both limited partnership and fund of funds, 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.	The total private equity investments in the financial statement are £129 million. There is a risk that this investment may be over or under stated in the accounts.
Fund of fund investments	Where investments are made into a fund of fund structure there is an additional level of separation from the fund. There may be a lack of clarity over the classification of the sub funds and investment transactions	The total private equity fund of fund investments are £81 million. There is a risk that asset or investment transaction misclassification may occur.

Note 6: Events after the balance sheet date

The Statement of Accounts will be authorised for issue by the Chief Financial Officer in July 2016. 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 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 Funds assets and liabilities. No such adjustments have been deemed necessary.

Note 7: Contributions receivable

By category

2014/2015		2015/2016
£000		£000
93,269	Employers	94,565
43,580	Employers deficit	55,283
36,599	Members	37,053
173,448		186,901

2014/2015		2015/2016
£000		£000
83,223	Administering authority	84,530
75,565	Scheduled bodies	82,358
14,660	Admitted bodies	20,013
173,448		186,901

The latest actuarial valuation carried out as at 31 March 2013, set contribution rates for fund employers with effect from April 2014. The financial year 2014/2015 was the first year of the revised employer contribution rates.

Note 8: Transfers in from other pension funds

2014/2015		2015/2016
£000		£000
0	Group transfers from other schemes	0
7,656	Individual transfers in from other schemes	5,518
7,656		5,518

Note 9: Benefits payable

By category

2014/15		2015/16
£000		£000
106,175	Pensions	110,904
17,734	Commutation and lump sum retirement benefits	17,276
2,170	Lump sum death benefits	3,094
34	Interest on late payment of benefits	56
126,113		131,330

By employer*

2014/2015		2015/2016
£000		£000
60,937	Administering Authority	61,079
55,571	Scheduled Bodies	59,766
9,571	Admitted Bodies	10,429
126,079		131,274

*(Note that the above does not include interest on late payment of benefits of £56k)

Note 10: Payments to and on account of leavers

2014/2015		2015/2016
£000		£000
0	Group transfers to other schemes	480
5,896	Individual transfers to other schemes	5,907
227	Refunds of contributions	298
72	Payments for members joining state schemes	77
6,195		6,762

Note 11: Current assets

2014/2015		2015/2016
£000		£000
2,816	Contributions - employees	3,262
10,196	Contributions - employer	12,025
5,937	Sundry debtors	7,803
<u>18,949</u>		<u>23,090</u>

Analysis of current assets

2014/2015		2015/2016
£000		£000
3,112	Central government bodies	5,366
13,713	Other local authorities	15,478
2,123	Other entities and individuals	2,246
<u>18,948</u>		<u>23,090</u>

Note 12: Long term debtors

2014/2015		2015/2016
£000		£000
12,705	Central government bodies	10,890
<u>12,705</u>		<u>10,890</u>

On 1 April 2005 the Magistrates Court Service (an employer in the Surrey Pension Fund) became part of the Civil Service. Terms were agreed for the transfer of liabilities from the Local Government Pension Scheme (LGPS) to the Principal Civil Service Pension Scheme (PCSPS). The fund's actuary determined the value of the pensioner and deferred liabilities remaining with the fund and calculated the retained assets to match these liabilities. The actuary determined that the assets were insufficient to match the liabilities and that a balancing payment would be required.

On 11 March 2013 the total value of the shortfall was agreed as £18.150m, to be made in ten equal, annual instalments commencing on 15 April 2013. The full amount was recognised as contributions during 2012/13. A corresponding debtor was created. The first instalment of £1.815m was received on 26 March 2013 meaning that the remaining nine instalments were due in excess of one year from the 31 March 2013, the whole of the remaining balance was therefore included as a long term debtor in the accounts. The outstanding balance as at 31 March 2016 is £12.705m but £1.815m was due in 2015/16, leaving a long term debtor of £10.890m.

Note 13: Current liabilities

2014/2015		2015/2016
£000		£000
5,541	Sundry creditors	6,595
20	Benefits payable	60
<u>5,561</u>		<u>6,655</u>

Analysis of current liabilities

2014/2015		2015/2016
£000		£000
1,408	Central government bodies	1,483
1,664	Other local authorities	3,053
2,489	Other entities and individuals	2,119
<u>5,561</u>		<u>6,655</u>

Note 14: Investment and governance expenses

2014/2015		2015/2016
£000		£000
14,908	Investment management fees	13,952
226	Investment custody fees	206
723	Oversight and governance costs	672
<u>15,857</u>		<u>14,830</u>

The investment management fees above includes £1.9million (2014/15:£3.9million) in respect of performance-related fees paid/payable to the fund's investment managers. It also includes £1.1million in respect of transaction costs (2014/15: £1.6million).

Note 15: Taxes on Income

2014/2015		2015/2016
£000		£000
603	Withholding tax - equities	821
420	Withholding tax - property	103
1,023		924

Note 16: Investment income

2014/2015		2015/2016
£000		£000
	Fixed interest	
5,905	UK	5,394
5,873	Overseas	6,956
54	Index linked	91
	Equities	
18,781	UK	21,269
10,605	Overseas	12,322
7,936	Property unit trusts	7,943
2,601	Diversified growth	3,245
3,793	Private equity	3,412
523	Interest on cash deposits	180
373	Other	534
56,444		61,346

Diversified growth is an investment in a separate pooled fund, which can invest in a variety of traditional and alternative asset classes to target a return comparable with other growth assets but with reduced volatility.

Note 17a: Reconciliation of movements in investments and derivatives

	Market value at 31 Mar 2015	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Market movements	Market value at 31 Mar 2016
	£000	£000	£000	£000	£000
Fixed interest securities	350,859	157,937	-143,145	-23,070	342,581
Index linked securities	161,260	0	-2,093	9,303	168,470
Equities	1,908,092	257,490	-262,124	-52,434	1,851,024
Property unit trusts	199,410	35,963	-26,003	16,320	225,690
Diversified growth	360,061	30,344	0	-13,719	376,686
Private equity	112,642	24,797	-26,434	18,348	129,353
Derivatives					
- Futures	-288	470	-2	-154	26
- Forex contracts	-8,419	39,557	-12,829	-24,596	-6,287
	3,083,617	546,558	-472,630	-70,002	3,087,543
Cash	77,218			1,347	64,294
Other short term investments	0				37,000
Other investment balances	6,592				7,501
Borrowing	0				0
	3,167,427			-68,655	3,196,338

	Market value at 31 Mar 2014	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Market movements	Market value at 31 Mar 2015
	£000	£000	£000	£000	£000
Fixed interest securities	352,134	50,397	-78,009	26,337	350,859
Index linked securities	94,675	143,817	-102,781	25,549	161,260
Equities	1,747,131	643,615	-679,281	196,627	1,908,092
Property unit trusts	165,824	33,218	-17,909	18,277	199,410
Diversified growth	270,937	60,253	0	28,871	360,061
Private equity	101,814	32,424	-40,239	18,643	112,642
Derivatives					
- Futures	-35	1,447	-159	-1,541	-288
- Forex contracts	7,862	11,823	-14,551	-13,553	-8,419
	2,740,342	976,994	-932,929	299,210	3,083,617
Cash	39,212				77,218
Other investment balances	1,958				6,592
Borrowing	-4,500				0
	2,777,012			299,210	3,167,427

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year.

Derivative receipts and payments represent the realised gains and losses on forward foreign exchange contracts. The Fund's objective is to decrease risk in the portfolio by entering into futures positions to match assets that are already held in the portfolio.

Note 17b: Analysis of investments

	31 Mar 2015	31 Mar 2016
Fixed interest securities	£000s	£000s
UK public sector & quoted	148,648	82,845
UK pooled funds	51,905	0
Overseas public sector & quoted	76,104	66,961
Overseas pooled fund	74,202	192,775
	350,859	342,581
Index linked securities	161,260	168,470
Equities		
UK quoted	540,276	495,555
UK pooled funds	276,454	281,110
Overseas quoted	554,463	564,742
Overseas pooled funds	536,899	509,617
	1,908,092	1,851,024
Property unit trusts		
UK property funds	194,992	224,098
Overseas property funds	4,418	1,592
	199,410	225,690
Diversified growth		
UK diversified growth funds	0	0
Overseas diversified growth funds	360,061	376,686
	360,061	376,686
Private equity		
UK limited partnerships	24,905	27,970
Overseas limited partnerships	13,852	20,452
UK fund of funds	0	0
Overseas fund of funds	73,885	80,931
	112,642	129,353
Derivatives		
Futures	-288	26
FX forward contracts	-8,419	-6,261
	-8,707	-6,235
Cash deposits	77,218	64,294
Other short term investments	0	37,000
Other investment balances		
Outstanding sales	2,239	1,459
Outstanding purchases	-2,408	-1,105
Tax due on accrued income	-33	-43
Accrued income - dividends and interest	6,794	7,190
	6,592	7,501
Total investments	3,167,427	3,196,338

Note 17c: Analysis of derivatives**Futures**

Futures contracts are exchange traded contracts to buy or sell a standard quantity of a specific asset at a pre-determined future date. At 31 March 2016 the fund had three futures contracts in place with an unrealised gain of £26k. As at 31 March 2015 the Fund had two contracts in place with a net unrealised loss of £288k.

**31 March
2016**

Contract	Expiration date	Expiration date within	Type of underlying investment	Economic exposure £'000	Asset £'000	Liability £'000
Futures	21/06/2015	3 Months	US Treasury Bonds	801	11	0
Futures	21/06/2015	3 Months	US Treasury Bonds	-3,721	8	0
Futures	28/06/2015	3 Months	UK Government Bonds	-7,637	7	0
				-7,637	26	0

**31 March
2015**

Contract	Expiration date	Expiration date within	Type of underlying investment	Economic exposure £'000	Asset £'000	Liability £'000
Futures	19/06/2015	3 Months	US Treasury Bonds	3,312	0	-64
Futures	26/06/2015	3 Months	UK Government Bonds	11,471	0	-224
				14,783	0	-288

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 2016 the Fund had forward currency contracts in place with a net unrealised loss of £6,287 (net unrealised loss of £8,419k at 31 March 2015).

2015/16

No of contracts	Contract settlement date within	Currency		Notional amount (local currency)		Asset £'000	Liability £'000
		Bought	Sold	Bought (000)	Sold (000)		
1	One Month	BRL	USD	4,002	-1,122	17	-13
1	One Month	GBP	AUD	4	-8	0	0
1	One Month	GBP	EUR	20	-25	0	0
2	Two Months	GBP	EUR	6,118	-7,884	0	-140
4	Three Months	GBP	EUR	87,400	-112,765	0	-2,145
1	One Month	GBP	JPY	87	-14,147	0	0
3	Three Months	GBP	JPY	62,227	-10,246,348	0	-1,291
1	Two Months	GBP	SEK	2,482	-30,350	0	-126
4	Two Months	GBP	USD	16,283	-23,539	0	-93
6	Three Months	GBP	USD	278,256	-403,456	0	-2,403
1	One Month	GBP	ZAR	0	-9	0	0
1	One Month	USD	BRL	966	-4,002	7	-120
1	Four Months	USD	BRL	1,094	-4,002	4	-7
1	One Month	USD	GBP	457	-318	0	0
1	Two Months	USD	GBP	842	-580	6	0
1	Two Months	USD	JPY	2,290	-254,405	10	7
						44	-6,331

2014/15

No of contracts	Contract settlement date within	Currency		Notional amount (local currency)		Asset £'000	Liability £'000
		Bought	Sold	Bought (000)	Sold (000)		
1	One Month	AUD	HKD	63	-380	0	-1
1	One Month	CHF	GBP	69	-48	0	0
1	One Month	EUR	GBP	98	-71	0	0
2	Two Months	EUR	GBP	5,183	-3,831	0	-78
1	One Month	GBP	DKK	176	-1,817	0	0
1	One Month	GBP	EUR	142	-196	0	0
1	Two Months	GBP	EUR	11,511	-15,348	399	0
5	Three Months	GBP	EUR	101,285	-136,236	2,603	0
4	Three Months	GBP	JPY	60,634	-11,040,774	0	-1,458
1	One Month	GBP	MXN	24	-535	0	0
1	Two Months	GBP	MXN	1,095	-24,670	7	0
1	One Month	GBP	NOK	78	-931	0	0
1	One Month	GBP	SEK	133	-1,708	0	0
5	Two Months	GBP	USD	16,218	-24,789	0	-486
7	Three Months	GBP	USD	262,793	-403,768	0	-9,308
1	One Month	GBP	ZAR	13	-228	0	0
1	One Month	HKD	SGD	463	-82	0	0
1	One Month	JPY	USD	1,117,909	-9,437	0	-76
1	One Month	USD	BRL	1,265	-4,002	14	0
1	One Month	USD	GBP	777	-525	0	-2
1	One Month	USD	JPY	9,412	-1,117,909	59	0
1	Three Months	USD	JPY	10,576	-1,283,435	0	-92
						3,082	-11,501

Stock Lending

During the financial year 2015/16 the fund operated a stock lending programme in partnership with the fund custodian. As at 31 March 16 the value of quoted securities on loan was £119.4million in exchange for collateral held by the fund custodian at fair value of £128.2million

Note 17d: Investments analysed by fund manager

Market value 31 March 2015		Manager	Market value 31 March 2016	
£000	%		£000	%
918,551	30.6	Legal & General Investment Management	831,747	26.0%
308,575	10.3	Majedie Asset Management	289,511	9.1%
0	0.0	Mirabaud Asset Management	0	0.0%
242,069	8.0	UBS Asset Management	227,289	7.1%
424,497	14.1	Marathon Asset Management	440,714	13.8%
242,915	8.1	Newton Investment Management	249,031	7.8%
232,799	7.8	Western Asset Management	283,675	8.9%
69,454	2.3	Franklin Templeton Investments	65,268	2.0%
227,691	7.6	Standard Life Investments	246,846	7.7%
132,370	4.4	Baillie Gifford Life Limited	129,839	4.1%
179,326	6.0	CBRE Global Multi-Manager	205,181	6.4%
23,354	0.8	Darwin Property Investment Management	25,687	0.8%
3,001,601			2,994,788	

The table above excludes the private equity portfolio, internal cash and residual cash held by the custodian.

The following investments represent more than 5% of the net investment assets of the fund

Market value 31 March 2015 £000	% of total fund	Security	Market value 31 March 2016 £000	% of total fund
393,877	12.4	Legal & General World Developed Equity Index	380,744	11.9
276,450	8.7	Legal & General UK Equity Index	255,392	8.0
163,459	5.2	Standard Life Global Absolute Return Strategies	173,119	5.4

Note 18a: Classification of financial instruments

The following table analyses the fair value of financial assets and liabilities by category and net asset statement heading. No financial assets were reclassified during the accounting period.

As at 31 March 2015**As at 31 March 2016**

Designated as fair value though profit and loss £000	Loans and receivables £000	Financial liabilities at amortised costs £000		Designated as fair value though profit and loss £000	Loans and receivables £000	Financial liabilities at amortised costs £000
Financial assets						
350,859	0	0	Fixed interest securities	342,581	0	0
161,260	0	0	Index linked securities	168,470	0	0
1,908,092	0	0	Equities	1,851,024	0	0
199,410	0	0	Property unit trusts	225,690	0	0
360,061	0	0	Diversified growth	376,686	0	0
112,642	0	0	Private equity	129,353	0	0
3,082	0	0	Derivatives	70	0	0
0	77,218	0	Cash	0	64,294	0
			Other short term investments		37,000	
9,033	0	0	Other investment balances	8,649	0	0
0	31,654	0	Debtors	0	33,980	0
3,104,439	108,872	0	Total financial assets	3,102,523	135,274	0
Financial liabilities						
-11,789	0	0	Derivatives	-6,331	0	0
-2,441	0	0	Other investment balances	-1,148	0	0
0	0	-5,561	Creditors	0	0	-6,655
0	0	0	Borrowings	0	0	0
-14,230	0	-5,561	Total financial liabilities	-7,479	0	-6,655
3,090,209	108,872	-5,561		3,095,044	135,274	-6,655

Note 18b: Valuation of financial instruments carried at fair value

The valuation of financial instruments has been classified into three levels, according to the quality and reliability of information used to determine fair values.

Level 1

Financial instruments at level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprise quoted equities, quoted fixed securities, quoted index-linked securities and unit trusts.

Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

Level 2

Financial instruments at level 2 are those where quoted market prices are not available, for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.

Level 3

Financial instruments at level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data.

The fund's private equity investments are valued using techniques that require significant judgement in determining appropriate assumptions. The value of the investments in private equity are based on valuations provided by the managers of the private equity funds in which the Surrey Pension Fund is invested.

These valuations are prepared in accordance with the International Private Equity and Venture Capital Guidelines, which follow the valuation principles of IFRS.

31 March 2016	Quoted market price Level 1 £000	Using observable inputs Level 2 £000	With significant unobservable inputs Level 3 £000	Total £000
Financial assets				
Financial assets through profit & loss	2,848,936	93,353	160,234	3,102,523
Total financial assets	2,848,936	93,353	160,234	3,102,523
Financial liabilities				
Financial liabilities through profit & loss	7,479	0	0	7,479
Total financial liabilities	7,479	0	0	7,479
Net financial assets	2,841,457	93,353	160,234	3,095,044

31 March 2015	Quoted market price Level 1 £000	Using observable inputs Level 2 £000	With significant unobservable inputs Level 3 £000	Total £000
Financial assets				
Financial assets through profit & loss	2,877,727	93,600	133,112	3,104,439
Total financial assets	2,877,727	93,600	133,112	3,104,439
Financial liabilities				
Financial liabilities through profit & loss	14,230	0	0	14,230
Total financial liabilities	14,230	0	0	14,230
Net financial assets	2,863,497	93,600	133,112	3,090,209

Note 18c: Book cost

The book cost of all investments at 31 March 2016 is £2,585million (£2,489million at 31 March 2015).

Note 19: Outstanding commitments

At 31 March 2016 the Fund held part paid investments on which the liability for future calls amounted to £91million (£98million as at 31 March 2015).

Note 20: Nature and extent of risks arising from financial instruments**Risk and risk management**

The fund's primary long-term risk is that the fund's assets will fall short of its liabilities (ie 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. 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.

a) 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

The WM Company has provided the fund with an analysis of historical asset class returns to determine potential movements in the market price risk of investments during 2015/16 reporting period. The potential volatilities are consistent with a one standard deviation movement in the change in value of the assets over the latest three years.

Asset type	Value at 31 March 2016 £000	Change	Value on increase £000	Value on decrease £000
UK equities	776,665	10.01%	854,409	698,921
Overseas equities	1,074,359	9.32%	1,174,489	974,229
Fixed interest bonds	342,581	5.61%	361,800	323,362
Index linked	168,470	9.48%	184,441	152,499
Cash	64,294	0.01%	64,300	64,288
Other short term investments	37,000	0.01%	37,004	36,996
Property	225,690	1.74%	229,617	221,763
Alternatives	129,353	6.45%	137,696	121,010
Diversified growth fund	376,686	3.90%	391,377	361,995
Other assets	1,240	0.01%	1,241	1,239
Total Investment Assets	3,196,338	6.60%⁽¹⁾	3,407,296	2,985,380

Asset type	Value at 31 March 2015 £000	Change	Value on increase £000	Value on decrease £000
UK equities	816,730	9.76%	896,443	737,017
Overseas equities	1,091,362	9.09%	1,190,567	992,157
Fixed interest bonds	350,859	5.52%	370,226	331,492
Index linked	161,260	9.33%	176,306	146,214
Cash	77,218	0.01%	77,226	77,210
Property	199,410	2.43%	204,256	194,564
Alternatives	112,642	5.60%	118,950	106,334
Diversified growth fund	360,061	3.27%	371,835	348,287
Other assets	-2,115	0.00%	-2,115	-2,115
Total Investment Assets	3,167,427	6.12%⁽¹⁾	3,361,274	2,973,580

(1) The percentage change for total investment assets includes the impact of correlation across asset classes. Therefore the impact upon total assets will not tally to the sum of each asset class' individual value on increase/decrease.

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. Western Asset Management, the Fund's appointed active bond manager, manages this risk. The fund also invests in pooled bond funds managed by Legal & General and Franklin Templeton.

The fund's direct exposure to interest rate movements as at 31 March 2016 and 31 March 2015 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

As at 31 March 2015 £000		As at 31 March 2015 £000	
77,218	Cash & cash equivalents	64,294	
0	Other short term investments	37,000	
350,859	Fixed interest securities	342,581	
428,077	Total	443,875	

Interest rate risk sensitivity analysis

The council recognises that interest rates can vary and can affect both income to the fund and the value of the net assets available to pay benefits. Long term average interest rates are not particularly volatile from one year to the next so a potential move in interest rates of 100 basis points is deemed reasonable.

The analysis below assumes all other variables remain constant and shows the effect in the year on the net assets of a +/- 100 basis point change in interest rates.

Asset type	Carrying amount as at 31 March 2016	Change in net assets	
	£000	+100 bps £000	- 100 bps £000
Cash & cash equivalents	64,294	64	-64
Other short term investments	37,000	37	-37
Fixed interest securities	342,581	343	-343
Total	443,875	444	-444

Asset type	Carrying amount as at 31 March 2015	Change in net assets	
	£000	+100 bps £000	- 100 bps £000
Cash & cash equivalents	77,218	772	-772
Fixed interest securities	350,859	3,509	-3,509
Total	428,077	4,281	-4,281

Currency risk

Currency risk represents the risk that the fair value of 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 WM Company has provided the fund with an analysis of historical exchange rate movements to determine potential changes in the fair value of assets during the 2015/16 reporting period due to exchange rate movements.

The analysis assumes all other variables remain constant.

Asset type	Value at 31 March 2015 £000	% Change	Value on increase £000	Value on decrease £000
Equities	983,313	6.24%	1,044,672	921,954
Fixed interest	211,966	6.24%	225,193	198,739
Property and Private Equity	102,975	6.24%	109,401	96,549
Diversified Growth	376,686	6.24%	400,191	353,181
Cash and Other Assets	10,433	6.24%	11,084	9,782
Total	1,685,373	6.24%	1,790,541	1,580,205

For comparison last year figures are included below.

Asset type	Value at 31 March 2015 £000	% Change	Value on increase £000	Value on decrease £000
Equities	1,074,070	5.94%	1,137,820	1,010,320
Fixed interest	117,553	5.94%	124,530	110,576
Property and Private Equity	94,249	5.94%	99,843	88,655
Diversified Growth	360,061	5.94%	381,432	338,690
Cash and Other Assets	-3,644	5.94%	-3,860	-3,428
Total	1,642,289	5.94%	1,739,765	1,544,813

b) 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.

In essence the fund's entire investment portfolio is exposed to some form of credit risk, with the exception of the derivative positions, where the risk equates to the net market value of a positive derivative position. However, the selection of high quality counterparties, brokers and financial institutions minimises the credit risk that may occur through the failure to settle a transaction in a timely manner.

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 one of those counterparties. The council operates a lowest common denominator approach to counterparty management which means that available counterparties must meet the minimum credit rating criteria with all three ratings agencies.

The fund has agreed a total of £37m in short fixed term deposits as part of the treasury management strategy; these include £37 million of fixed term deposits with other Local Authorities.

Balance at 31 March 2015 £000	Fixed Term Deposits	Balance at 31 March 2016 £000
	Sheffield City Council	10,000
	The Wirral Metropolitan Borough Council	7,000
	Woking Borough Council	5,000
	Southend on Sea Borough Council	5,000
	Wiltshire Council	10,000
0	Other short term investments	37,000

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 a call account with Natwest Bank and Lloyds Bank, an account with a money market fund, managed by Goldman Sachs Asset management and a term deposit placed with Nationwide Building society. In line with the treasury strategy, the maximum deposit level allowed with each counterparty is £15 million.

Balance at 31 March 2015 £000		Balance at 31 March 2016 £000
	Term Deposits	
0	Nationwide	10,000
	Call account	
7,400	Natwest	12
0	Lloyds	5,031
	Money market fund	
15,000	Goldman Sachs	6,700
	Current account	
-193	HSBC	3,835
22,207	Internally Managed Cash	25,578
55,011	Externally Managed Cash	38,716
77,218	Total Cash	64,294

The fund's cash holding under its treasury management arrangements as at 31 March 2016 was £25.6million (£22.2million at 31 March 2015).

c) 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 Surrey County Council 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, no such instances occurred during 2014/15 or 2015/16

The fund currently has a long-term positive cash flow, which reflects the fact that contributions into the fund exceed benefits being paid out. 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.

d) 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.

Note 21: Related party transactions

i) Employer pension contributions paid by Surrey County Council in 2015/16 amounted to £65,019k (£64,074k in 2014/15).

2014/2015		2015/2016
£000		£000
42,996	Employers' current service contributions	43,370
18,834	Lump sum payments to recover the deficit in respect of past service	21,087
2,244	Payments into the fund to recover the additional cost of early retirement liabilities	562
<u>64,074</u>		<u>65,019</u>

ii) Surrey Pension Fund paid Surrey County Council £1,382k for services provided in 2015/16 (£1,662k in 2014/15).

2014/2015		2015/2016
£000		£000
252	Treasury management, accounting and managerial services	261
1,410	Pension administration services	1,121
<u>1,662</u>		<u>1,382</u>

iii) Net amounts owed by Surrey County Council to the fund as at 31 March 2016 were £8,583k (£6,594k at 31 March 2015).

Note 22: Key management personnel

The below employees of Surrey County Council hold key positions in the financial management of the Surrey Pension Fund. Their financial relationship with the fund is disclosed as a proportion of salary costs, including employer pension contributions and national insurance contributions that can be attributed to the fund. The post for Senior Specialist Advisor had only recently been created and filled by the end of 2014/15 and was excluded from the note for 2014/15 accounts. The role has sufficient influence within the management of the pension fund to warrant inclusion for 2015/16 and restated for 2014/15.

2014/15 £ (restated)	Position	2015/16 £	
22,313	Chief Finance Officer	22,484	1
67,659	Pension Fund & Treasury Manager	73,164	2
10,372	Senior Specialist Advisor	44,132	2
52,653	Senior Accountant	53,662	3
152,998		193,442	

1. 15% of time allocated to pension fund
2. 70% of time allocated to pension fund
3. 100% of time allocated to pension fund

Note 23: Custody

Custody arrangements for all securities and cash balances are provided by the fund's global custodian, The Northern Trust Company, excluding private equity investments and internally held cash. For the Fund's private equity investments, the custodial arrangements are managed by the individual private equity partnership with each custodian in charge of all private equity partnership assets, not just those of the Surrey Pension Fund.

Custodian arrangements for the managers responsible for private equity are as follows:

Private Equity Manager	Custody Provider
BlackRock	PNC Bank
Goldman Sachs	State Street Global Advisors
HG Capital	Bank of New York
Livingbridge (Formerly ISIS)	Lloyds Banking Group
Standard Life	State Street Global Advisors, Deutsche Bank & JP Morgan
Capital Dynamics	Bank of America

Note 24 : Actuarial statement for 2015/16 - 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 Surrey Pension Fund's (the Fund) Funding Strategy Statement (FSS). In summary, the key funding principles are as follows:

- to achieve and then maintain a funding target that requires assets equal to 100% on an ongoing basis of the present value of benefits based on completed service including provision for the effects of future salary growth and inflation up to retirement;
- to ensure the long-term solvency of the Fund, using a prudent long term view. This will ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment
- to ensure that employer contribution rates are reasonably stable where appropriate;
- to minimise the long-term cash contributions which employers need to pay to the Fund, by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return (NB this will also minimise the costs to be borne by Council Tax payers);
- to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from 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 below the theoretical rate required to return their portion of the Fund to full funding over 20 years if the valuation assumptions are borne out.

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 still a better than 65% chance that the Fund will return to full funding over 20 years.

Funding Position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008 was as at 31 March 2013. This valuation revealed that the Fund's assets, which at 31 March 2013 were valued at £2,559 million, were sufficient to meet 72.3% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2013 valuation was £980 million.

Individual employers' contributions for the period 1 April 2014 to 31 March 2017 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 used are described in the valuation report dated 31 March 2014

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 2013 valuation were as follows:

Financial assumptions	31 March 2013	
	% p.a. Nominal	% p.a. Real
Discount rate	4.6%	2.1%
Pay increases	3.8%	1.3%
Price inflation/Pension increases	2.5%	-

The key demographic assumption was the allowance made for longevity. As a member of Club Vita, the baseline longevity assumptions adopted at this valuation were a bespoke set of VitaCurves that were specifically tailored to fit the membership profile of the Fund. Longevity improvements were in line with standard PXA92 year of birth mortality tables, with medium cohort projections and a 1% p.a. underpin effective from 2007. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	Females
Current pensioners	22.5 years	24.6 years
Future pensioners	24.5 years	26.9 years

Copies of the 2013 valuation report and Funding Strategy Statement are available on request from Surrey County Council, the Administering Authority to the Fund.

Experience over the year since April 2013

Experience has been worse than expected since the last formal valuation (excluding the effect of any membership movements). Real bond yields have fallen dramatically placing a higher value on liabilities. The effect of this has been only partially offset by the effect of strong asset returns. Funding levels are therefore likely to have worsened and deficits increased over the period.

The next actuarial valuation will be carried out as at 31 March 2016. The Funding Strategy Statement will also be reviewed at that time.

Fellow of the Institute and Faculty of Actuaries

For and on behalf of Hymans Robertson LLP

28 April 2016

Note 25: Actuarial present value of future retirement benefits

CIPFA's Code of Practice on Local Authority Accounting 2015/16 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 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 pension fund account:

- Showing the figure in the net asset 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 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 Pension Fund's funding assumptions.

I have been instructed by the Administering Authority to provide the necessary information for the Surrey Pension Fund, which is the remainder of this note.

Balance sheet

Year ended	31 March 2015	31 March 2016
	£m	£m
Present value of promised retirement benefits	4,984	4,684

Liabilities have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2013. I estimate this liability at 31 March 2016 comprises £2,356m in respect of employee members, £873m in respect of deferred pensioners and £1,455m in respect of pensioners. The approximation involved in the roll forward model means that the split of scheme liabilities between the three classes of member may not be reliable. However, I am satisfied the aggregate liability is a reasonable estimate of the actuarial present value of benefit promises. I have not made any allowance for unfunded benefits.

The above figures include both vested and non-vested benefits, although the latter is assumed to have a negligible value.

It should be noted the above figures are appropriate for the Administering Authority only for preparation of the accounts of the Pension Fund. 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's IAS19 report as required by the Code of Practice. These are given below. I estimate that the impact of the change of assumptions to 31 March 2016 is to decrease the actuarial present value by £462m.

Financial assumptions

My recommended financial assumptions are summarised below:

Year ended	31 March 2015	31 March 2016
Inflation/pension increase rate	2.4%	2.2%
Salary increase rate	3.8%	3.7%
Discount rate	3.2%	3.5%

Longevity assumptions

As discussed in the accompanying report, the life expectancy assumption is based on the Fund's VitaCurves with improvements in line with the CMI 2010 model, assuming the current rate of improvements has reached a peak and will converge to long term rate of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	Males	Females
Current pensioners	22.5 years	24.6 years
Future pensioners*	24.5 years	26.9 years

*Future pensioners are assumed to be currently aged 45.

Commutation assumption

An allowance is included for future retirements to elect to take 25% of the maximum additional tax-free cash up to HMRC limits for pre-April 2008 service and 63% of the maximum tax-free cash for post-April 2008 service.

Professional notes

This paper accompanies my covering report titled 'Actuarial Valuation as at 31 March 2015 for IAS19 purposes' dated 15 April 2015. The covering report identifies the appropriate reliances and limitations for the use of the figures in this paper, together with further details regarding the professional requirements and assumptions.

Barry McKay FFA

28 April 2016

For and on behalf of Hymans Robertson LLP

Note 26: Additional Voluntary Contributions

Market Value 2014/15 £000	Position	Market Value 2015/16 £000
9,613	Prudential	10,207
<u>9,613</u>		<u>10,207</u>

Additional Voluntary Contributions, net of returned payments, of £2.2million were paid directly to Prudential during the year (£2.1million during 2014/15).

Note 27: Statement of investment principles

Full details of the fund's investment policy are documented in the Statement of Investment Principles. This is published in the pension fund's full annual report and on the Surrey Pension Fund website.

Note 28: Annual report

The Surrey Pension Fund Annual Report 2015/2016 provides further details on the management, investment performance and governance of the Fund.

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The Audit Findings for Surrey Pension Fund

DRAFT

This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report.

Year ended 31 March 2016

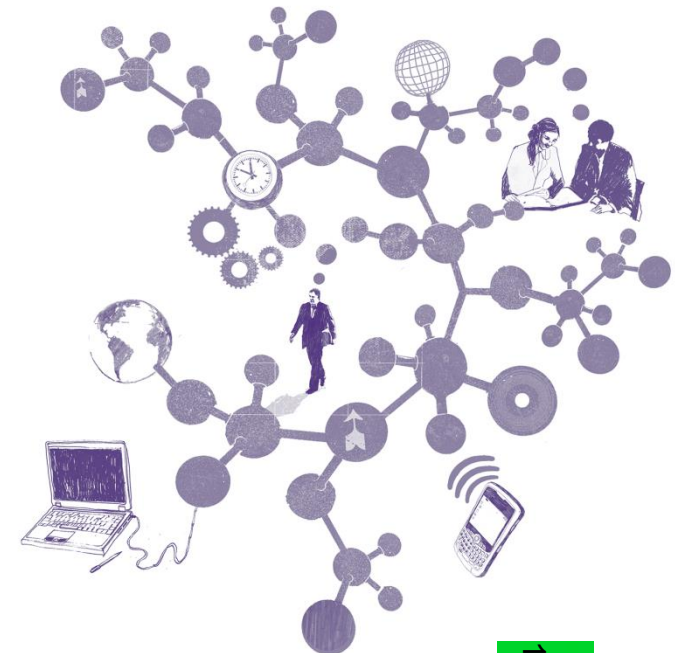
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July 2016

Dear Members of the Audit and Governance Committee

Audit Findings for Surrey Pension Fund for the year ending 31 March 2016

This Audit Findings report highlights the significant findings arising from the audit for the benefit of those charged with governance (in the case of Surrey Pension Fund, the Audit and Governance Committee), as required by International Standard on Auditing (UK & Ireland) 260, the Local Audit and Accountability Act 2014 and the National Audit Office Code of Audit Practice. Its contents have been discussed with management.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

We would like to take this opportunity to record our appreciation for the kind assistance provided by the finance team and other staff during our audit.

Yours sincerely

Emily Hill
Engagement Lead

Chartered Accountants

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Section 1: Executive summary

- 01. Executive summary
- 02. Audit findings
- 03. Fees, non audit services and independence
- 04. Communication of audit matters

Purpose of this report

This report highlights the key issues affecting the results of Surrey Pension Fund ('the Fund') and the preparation of the Fund's financial statements for the year ended 31 March 2016. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing (UK & Ireland) 260, and the Local Audit and Accountability Act 2014 ('the Act').

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Fund's financial statements give a true and fair view of the financial position of the fund and its income and expenditure for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting.

We are also required consider other information published together with the audited financial statements, whether it is consistent with the financial statements and in line with required guidance. This includes the Narrative Report and the Pension Fund Annual Report.

Introduction

In the conduct of our audit we have not had to alter or change our audit approach, which we communicated to you in our Audit Plan dated April 2016.

As at 8 July, our audit is substantially complete although we are finalising our procedures in the following areas:

- controls testing of new members
- review of the final version of the financial statements
- obtaining and reviewing the signed management letter of representation and
- updating our post balance sheet events review, to the date of signing the opinion

We received draft financial statements and accompanying working papers at the commencement of our work, in accordance with the agreed timetable.

We anticipate providing a unqualified audit opinion in respect of the financial statements (see Appendix B). We have not included our anticipated opinion on the Pension Fund Annual Report as this has yet to be prepared by management.

Key audit and financial reporting issues

Financial statements opinion

We have identified one adjustment affecting the Fund's reported financial position (details are recorded in section two of this report). The draft financial statements for the year ended 31 March 2016 recorded net assets available for benefits during the year of £3,223,628k; the audited financial statements show net assets available for benefits during the year of £3,223,663k. This change is driven by inclusion of accrued interest for short-term investments deposits that had been omitted in the draft financial statements and correction to the cash balance (both amendments are highly trivial to the financial statements). We have also recommended a small number of adjustments to improve the presentation of the financial statements.

The key messages arising from our audit of the Fund's financial statements are:

- Draft financial statements were provided for the agreed deadline of 10 June. There were a small number of omissions and inconsistencies in the accounts disclosures but these were far fewer in number than the previous year.
- Working papers were not provided at the start of fieldwork as agreed with the pensions team in April 2016. However, these were provided quickly when individually requested.
- Responses to queries were generally within the agreed timeframe and an improvement on the prior year.

We anticipate providing an unqualified opinion in respect of the Fund's financial statements.

Further details are set out in section two of this report.

Controls

Roles and responsibilities

The Fund's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to the Fund.

Findings

We draw your attention to an observation regarding controls in place for reconciling cash balances on the general ledger.

Further details are provided within section two of this report.

The way forward

Matters arising from the financial statements audit have been discussed with the Director of Finance.

We have made a number of recommendations, which are set out in the action plan at Appendix A. Recommendations have been discussed and agreed with the Director of Finance and the pensions and finance teams.

Acknowledgement

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

Grant Thornton UK LLP
July 2016

Section 2: Audit findings

01. Executive summary

02. Audit findings

03. Fees, non audit services and independence

04. Communication of audit matters

This section summarises the findings of the audit, we report on the final level of materiality used and the work undertaken against the risks we identified in our initial audit plan. We also conclude on the accounting policies, estimates and judgements used and highlight any weaknesses found as part of the audit in internal controls. As required by auditing standards we detail both adjusted and unadjusted misstatements to the accounts and their impact on the financial statements.

Materiality

In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit. The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'.

As we reported in our audit plan, we determined overall materiality to be £31,935k (being 1% of net assets from the prior year audited accounts). We have considered whether this level remained appropriate during the course of the audit and have updated the calculation to reflect net asset figures per the 2015/16 draft financial statements, leading to materiality of £32,236k.

We also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulated effect of such amounts would have a material impact on the financial statements. We have defined the amount below which misstatements would be clearly trivial to be £1,612k. Our assessment of the value of clearly trivial matters has been adjusted to reflect our revised materiality calculation.

As we reported in our audit plan, we identified the following items where we decided that separate materiality levels were appropriate. These remain the same as reported in our audit plan.

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Balance/transaction/disclosure	Explanation	Materiality level
Related party transactions	Due to public interest in these disclosures and the statutory requirement for them to be made.	Any errors identified by testing will be assessed individually, with due regard given to the nature of the error and its potential impact on users of the financial statements. We are unable to quantify a materiality level as the concept of related party transactions takes in to account what is material to both the Fund and the related party.
Cash and cash equivalents	The balance of cash and cash equivalents is usually material, and as the majority of your transactions affect the balance it is therefore considered to be material by nature also.	Any errors identified by testing in excess of £500k will be considered as to whether they would affect the users understanding of the financial statements.

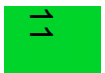
Audit findings against significant risks

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA(UK&I)315).

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	<p>The revenue cycle includes fraudulent transactions</p> <p>Under ISA(UK&I)240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>We rebutted this presumption during the interim phase of the audit and communicated this to you in our Audit Plan. We have not had reason to amend this judgement during the remainder of the audit.</p>	<p>Our audit work has not identified any material issues in respect of revenue recognition.</p>
	<p>Management over-ride of controls</p> <p>Under ISA(UK&I)240 it is presumed that the risk of management over-ride of controls is present in all entities.</p>	<p>Provide summary of work performed, e.g.</p> <ul style="list-style-type: none"> • review of entity controls • testing of journal entries • review of accounting estimates, judgements and decisions made by management • review of unusual significant transactions 	<p>Our audit work has not identified any evidence of management over-ride of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgements.</p>

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Audit findings against significant risks (continued)

We have also identified the following significant risks of material misstatement from our understanding of the entity. We set out below the work we have completed to address these risks.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
3.	<p>Level 3 Investments – Valuation is incorrect</p> <p>Under ISA(UK&I)315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end.</p>	<ul style="list-style-type: none"> • We gained an understanding of the transaction including a review of supporting documentation. • We consider and documented management's controls over the valuation of these investments. • We carried out walkthrough tests of the controls identified in the cycle. • Tested a sample of private equity investments by obtaining and reviewing the audited accounts at latest date for individual investments and agreeing these to the fund manager reports at that date. Reconciliation of those values to the values at 31 March with reference to known movements in the intervening period. • Reviewed the qualifications of fund managers as experts to value the level 3 investments at year end and gained an understanding of how the valuation of these investments has been reached. • Reviewed the nature and basis of estimated values and considered what assurance management has over the year end valuations provided for these types of investments. • Reviewed the competence, expertise and objectivity of any management experts used. 	<p>Our audit work has not identified any material issues in respect of the risk identified.</p>

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Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses are attached at appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Investment Income	Investment activity not valid. (Occurrence) Investment income not accurate. (Accuracy)	We have undertaken the following work in relation to this risk: <ul style="list-style-type: none"> Review of the reconciliation of information provided by the fund managers, the custodian and the Fund's own records and seek explanations for variances. Sample testing of investment income to fund manager reports ensure it is appropriate. Completion of a predictive analytical review for different types of investment income. 	Our audit work has not identified any material issues in respect of the risk identified.
Investment purchases and sales	Investment activity not valid. (Occurrence) Investment valuation not correct. (Valuation gross)	We have undertaken the following work in relation to this risk: <ul style="list-style-type: none"> Sample testing of material purchases and sales, agreeing these to supporting documentation. Review of the reconciliation of information provided by the fund managers, the custodian and the Fund's own records and seek explanations for variances. 	Our audit work has not identified any material issues in respect of the risk identified.
Investment values – Level 2 investments	Valuation is incorrect. (Valuation net)	We have undertaken the following work in relation to this risk: <ul style="list-style-type: none"> Review of the reconciliation of information provided by the fund managers, the custodian and the Fund's own records and seek explanations for variances. 	Our audit work has not identified any material issues in respect of the risk identified.

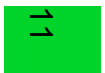
Audit findings against other risks (continued)

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Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<p>Contributions</p>	<p>Recorded contributions not correct (Occurrence)</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • Sample testing contributions from scheduled and admitted bodies to supporting documentation. • Controls testing over occurrence, completeness and accuracy of contributions. • Testing a sample of contributions to source data to gain assurance over their accuracy and occurrence, including contributions from Surrey County Council (co-ordinated with the Council's audit team). • Rationalise contributions received with reference to changes in member body payrolls and numbers of contributing pensioners to ensure that any unexpected trends are satisfactorily explained. • Monthly trend analysis of contributions received to determine whether contributions are largely consistent and investigate any anomalous results. 	<p>Our audit work has not identified any material issues in respect of the risk identified.</p>
<p>Benefits payable</p>	<p>Benefits improperly computed/claims liability understated (Completeness, accuracy and occurrence)</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • Controls testing over completeness, accuracy and occurrence of benefit payments. • Sample testing of individual pensions in payment by reference to member files. • Walkthrough tests of controls over benefit payments. • Rationalisation of pensions paid with reference to changes in pensioner numbers and increases applied in the year to ensure that any unusual trends are satisfactorily explained. • Monthly trend analysis of benefits paid to determine whether benefits are largely consistent and investigate any anomalous results. 	<p>Our audit work has not identified any material issues in respect of the risk identified.</p>





Audit findings against other risks (continued)

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<p>Member Data</p>	<p>Member data not correct. (Rights and Obligations)</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • Sample testing of changes to member data for new members, leavers and new pensioners that occurred during the year to source documentation. • Walkthrough tests of identified controls over member data. • Controls testing over annual/monthly reconciliations and verifications with individual members. • Sample testing of changes to member data for new members, leavers and new pensioners that occurred during the year to source documentation. 	<p>Subject to completion of our procedures as outlined on page 5, our audit work has not identified any material issues in respect of the risk identified.</p> <p>We will update the Audit and Governance Committee with the outcome of our work.</p> <p>As part of our controls testing of new starters, we identified that of the 11 cases tested, 52 new members did not receive the new starter letter as per the expected process. In these cases we were able to undertake additional testing and we did not identify further instances of this having taken place. This has no impact on the contribution figures in the Fund Account, nor the membership statistics included in the accounts. We have discussed the issue with the Pension Services Manager and acknowledge that this omission has been recognised and mitigating actions are planned during 2016. We have made a recommendation regarding continued implementation of this process as part of the action plan attached to Appendix A.</p>






Accounting policies, estimates and judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Fund's financial statements.

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	The Fund's policy for recognition of contributions income and investment income is set out in note 3 to the financial statements.	The revenue recognition policy is consistent with the CIPFA Code of Practice on Local Authority Accounting and the findings from our audit of the financial statements.	 (Green)
Judgements and estimates	Key estimates and judgements disclosed in the notes to the financial statements include: <ul style="list-style-type: none"> – Valuation of unquoted private equity investments – Valuation of the Pension Fund liability 	We reviewed the key estimates and judgements made by management in the material notes to the financial statements. We concluded that in all instances they are consistent with guidance per the Code.	 (Green)
Going concern	Officers have a reasonable expectation that the services provided by the Fund will continue for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.	We have reviewed officer's assessment and are satisfied with management's assessment that the going concern basis is appropriate for the 2015/16 financial statements.	 (Green)
Other accounting policies	We have reviewed the Fund's policies against the requirements of the CIPFA Code and accounting standards.	We have reviewed the Fund's policies against the requirements of the CIPFA Code of Practice. The Fund's accounting policies are appropriate and consistent with previous years.	 (Green)

Assessment

-  (Red) Marginal accounting policy which could potentially attract attention from regulators (Red)
-  (Amber) Accounting policy appropriate but scope for improved disclosure (Amber)
-  (Green) Accounting policy appropriate and disclosures sufficient (Green)

Other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

	Issue	Commentary
1.	Matters in relation to fraud	<ul style="list-style-type: none"> We have previously discussed the risk of fraud with the Audit and Governance Committee and not been made aware of any issues. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
2.	Matters in relation to related parties	<ul style="list-style-type: none"> From the work we carried out, we have not identified any related party transactions which have not been disclosed.
3.	Matters in relation to laws and regulations	<ul style="list-style-type: none"> You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
4.	Written representations	<ul style="list-style-type: none"> A standard letter of representation has been requested from the Fund.
5.	Confirmation requests from third parties	<ul style="list-style-type: none"> We requested from management permission to send confirmation requests to the Fund's bank, fund managers, custodian and actuary. This permission was granted and the requests were sent. All of these requests were returned with positive confirmation.
6.	Disclosures	<ul style="list-style-type: none"> Our review found no material omissions in the financial statements.
7.	Matters on which we report by exception	<ul style="list-style-type: none"> We are required to report by exception where the Pension Fund Annual Report is inconsistent with the financial statements. Due to statutory deadlines the Pension Fund Annual Report is not required to be published until the 1 December 2016 and therefore this has not yet been produced. We are therefore unable to give a certificate of completion on the administering authority audit until this work has been completed.

Internal controls

The purpose of an audit is to express an opinion on the financial statements.

Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. We considered and walked through the internal controls for Investment Income, Contributions, Benefits Payable and Member Data. The matters that we identified during the course of our audit are set out in the table below. These and other recommendations, together with management responses, are included in the action plan attached at Appendix A. We have reviewed the impact of this deficiency and note that we have not had to alter our audit approach as a result of this finding.

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1.

Assessment	Issue and risk	Recommendation
<p style="text-align: center;">● (Green) Deficiency - risk of inconsequential misstatement</p>	<p>Cash balances</p> <p>Our testing identified accumulated unreconciled differences in the cash balance. Whilst these differences are trivial, the reconciliation of cash is an important control and the differences have increased on those identified in the previous year. Management have previously not corrected these differences as they have deemed them to be numerically insignificant, but they have adjusted for these differences in the current year financial statements.</p>	<p>Given the potential sensitivity of cash balances, unreconciled differences on cash balances should be fully adjusted on at least an annual basis.</p>

Assessment

- (Red) Material weakness – risk of material misstatement (Red)
- (Amber) Significant deficiency – risk of significant misstatement (Amber)
- (Green) Deficiency – risk of inconsequential misstatement (Green)

Adjusted misstatements

No adjustments to the draft accounts have been identified during the audit process. We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Unadjusted misstatements

We have not identified any unadjusted misstatements as a result of our audit procedures.

Misclassifications and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Adjustment type	Value £'000	Account balance	Impact on the financial statements
1 Disclosure	Market movements: 176,328	Note 17a - Reconciliation of movements in investments and derivatives	The draft financial statements showed an understatement of the prior year change in market value figures in the note when compared with the Fund Account. The draft figure was £176,328k, as compared with the value in the Fund Account of £299,210k. In addition, the purchases and sales figures in this part of the disclosure were also understated - the reason for all three differences is that the disclosure had not been updated from the comparator figures in the 2014/15 financial statements. Management have corrected for these differences, which have a disclosure impact only.
2 Disclosure	Cash: 37,000	Net asset statement	Of the cash balance, £37,000k relating to short-term investments to a number of local authorities have been reclassified as such as they do not constitute the definition of a short-term deposit. This change has no net impact on the financial statements.

Section 3: Fees, non-audit services and independence

- 01. Executive summary
- 02. Audit findings
- 03. Fees, non audit services and independence**
- 04. Communication of audit matters



We confirm below our final fees charged for the audit and confirm there were no fees for the provision of non audit services.

Fees

	Per Audit Plan £	Actual fees £
Pension fund scale fee	27,105	27,105
Total audit fees (excluding VAT)	27,105	27,105

Fees for other services

Service	Fees £
Audit related services	Nil
Non-audit services	Nil

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

Section 4: Communication of audit matters

- 01. Executive summary
- 02. Audit findings
- 03. Fees, non audit services and independence
- 04. Communication of audit matters**

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Communication to those charged with governance

International Standards on Auditing ISA (UK&I) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by Public Sector Audit Appointments Limited (<http://www.psa.co.uk/appointing-auditors/terms-of-appointment/>)

We have been appointed as the Fund's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England at the time of our appointment. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice issued by the NAO (<https://www.nao.org.uk/code-audit-practice/about-code/>). Our work considers the Fund's key risks when reaching our conclusions under the Code of Audit Practice.

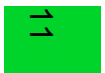
It is the responsibility of the Fund to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Fund is fulfilling these responsibilities.

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Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence.	✓	✓
Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged		
Details of safeguards applied to threats to independence		
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

Appendices

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Appendix A: Action plan

Priority

High - Significant effect on control system

Medium - Effect on control system

Low - Best practice

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Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1.	New starter letters should be sent to all new members of the pension scheme and a full review of those instances where this did not take place during 2015/16 should be undertaken.	Medium	A process review has been undertaken and an automated bulk process for generating new joiner letters has been initiated - process maps have been recorded as part of the Audit. The missing cases for 2015/16 have been identified as part of the process review and will be contacted as part of the bulk processing.	Pension Services Manager, September 2016
2.	Given the potential sensitivity of cash balances, unreconciled differences on cash balances should be fully adjusted on at least an annual basis.	High	Fund manager and custodian cash balances are currently monitored on a quarterly basis. Management will ensure that any variances will be fully adjusted as part of a quarterly reconciliation.	Senior Accountant, December 2016

Appendix B: Audit opinion

We anticipate we will provide the Fund with an unqualified audit report.

DRAFT INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SURREY COUNTY COUNCIL

We have audited the pension fund financial statements of Surrey County Council (the "Authority") for the year ended 31 March 2016 under the Local Audit and Accountability Act 2014 (the "Act"). The pension fund financial statements comprise the Fund Account, the Net Asset Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Act and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Director of Finance and auditor

As explained more fully in the Statement of Responsibilities, the Director of Finance is responsible for the preparation of the Authority's Statement of Accounts, which includes the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16, which give a true and fair view. Our responsibility is to audit and express an opinion on the pension fund financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the pension fund financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the pension fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Director of Finance; and the overall presentation of the pension fund financial statements. In addition, we read all the financial and non-financial information in the Authority's Statement of Accounts to identify material inconsistencies with the audited pension fund financial statements and to identify any information that is apparently materially incorrect

based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on the pension fund financial statements

In our opinion the pension fund financial statements:

- present a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2016 and of the amount and disposition at that date of the fund's assets and liabilities; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and applicable law.

Opinion on other matters

In our opinion, the other information published together with the audited pension fund financial statements in the Authority's Statement of Accounts is consistent with the audited pension fund financial statements.

Emily Hill
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Grant Thornton House
Melton Street
Euston Square
London NW1 2EP

DRAFT July 2016



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grant-thornton.co.uk

Grant Thornton UK LLP
Grant Thornton House
Melton Street
Euston Square
London NW1 2EP

12 July 2016

Dear Sirs

Surrey Pension Fund

Financial Statements for the year ended 31 March 2016

This representation letter is provided in connection with your audit of the financial statements of Surrey Pension Fund ('the Fund') for the year ended 31 March 2016 for the purpose of expressing an opinion as to whether the financial statements show a true and fair view of the financial transactions of the Fund during the year ended 31 March 2016, and of the amount and disposition at that date of its assets and liabilities, in accordance with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 ('the Code').

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial Statements

- 1 We have fulfilled our responsibilities for the preparation of the financial statements in accordance with proper practices as set out in the Code; which give a true and fair view in accordance therewith, and for keeping records in respect of contributions received in respect of active members.
- 2 We have complied with the requirements of all statutory directions affecting the Fund and these matters have been appropriately reflected and disclosed in the financial statements.
- 3 The Council has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.
- 4 We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
- 5 Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
- 6 We acknowledge our responsibilities for making the accounting estimates included in the financial statements. Where it was necessary to choose between estimation techniques that comply with the Code, we selected the estimation technique considered to be the most appropriate to the Fund's particular circumstances for the purpose of giving a true and fair view. Those estimates reflect our judgement based on our knowledge and experience about past and current events and are also based on our assumptions about conditions we expect to exist and courses of action we expect to take.



- 7 We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements. There are no other material judgements that need to be disclosed.
- 8 Except as disclosed in the financial statements:
- a there are no unrecorded liabilities, actual or contingent
 - b none of the assets of the Fund have been assigned, pledged or mortgaged
 - c there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.
- 9 Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of the Code.
- 10 Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of the Code.
- 11 All events subsequent to the date of the financial statements and for which the Code requires adjustment or disclosure have been adjusted or disclosed.
- 12 We have considered the misclassification and disclosures changes schedules included in your Audit Findings Report. The financial statements have been amended for these misclassifications and disclosure changes and are free of material misstatements, including omissions.
- 13 We believe that the Fund's financial statements should be prepared on a going concern basis on the grounds that current and future sources of funding or support will be more than adequate for the Fund's needs. We believe that no further disclosures relating to the Fund's ability to continue as a going concern need to be made in the financial statements.
- 14 We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

Information Provided

- 15 We have provided you with:
- a access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
 - b additional information that you have requested from us for the purpose of your audit; and
 - c unrestricted access to persons from whom you determined it necessary to obtain audit evidence.
- 16 We have communicated to you all deficiencies in internal control of which management is aware.
- 17 We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- 18 All transactions have been recorded in the accounting records and are reflected in the financial statements.
- 19 We have disclosed to you all our knowledge of fraud or suspected fraud affecting the Fund involving:

- a management;
- b employees who have significant roles in internal control; or
- c others where the fraud could have a material effect on the financial statements.

20 We have disclosed to you all our knowledge of any allegations of fraud, or suspected fraud, affecting the Fund's financial statements communicated by employees, former employees, analysts, regulators or others.

21 We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

22 We have disclosed to you the identity of all the Fund's related parties and all the related party relationships and transactions of which we are aware.

23 We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

Approval

The approval of this letter of representation was minuted by the Council's Audit and Governance Committee at its meeting on 25 July 2016.



Yours faithfully

Name.....*SHEILA LITTLE*.....

Position.....*DIRECTOR OF FINANCE*.....

Date.....*27/7/16*.....

Name.....

Position.....

Date.....

Signed on behalf of Surrey County Council as administering body of the Surrey Pension Fund



SURREY COUNTY COUNCIL

PENSION FUND COMMITTEE

DATE: 23 SEPTEMBER 2016

LEAD OFFICER: SHEILA LITTLE, DIRECTOR OF FINANCE

SUBJECT: REVISED STATEMENT OF INVESTMENT PRINCIPLES



SUMMARY OF ISSUE:

It is part of good governance that the Pension Fund Committee should review and approve its Statement of Investment Principles (SIP) and Core Belief Statement on a regular basis.

RECOMMENDATIONS:

It is recommended that the Pension Fund Committee:

- 1 Review and approve the Statement of Investment Principles as shown in Annex 1.
- 2 Review and approve the Core Belief Statement shown in Annex 2.

REASON FOR RECOMMENDATIONS:

The Pension Fund Committee must review and approve all working documents produced for the Pension Fund.

DETAILS:

Background

- 1 In accordance with Regulation 12 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009, as an administering authority, the Council must prepare and maintain a written statement of the principles governing its decisions on the investment of the pension fund. It also has to review the policy from time to time and revise it if considered necessary.
- 2 The most recent statement needs to be amended as a result of recent new private equity opportunities.

Revised Statement

- 3 The revised Statement of Investment Principles (SIP) is shown as Annex 1.

Core Belief Statement

- 4 The existing Core Belief Statement is shown as Annex 2.

Monitoring and Review

- 5 The SIP and Core Belief Statement are kept under constant review and will be submitted for approval to future Committee meetings when any revision is required.

CONSULTATION:

- 6 The Chairman of the Pension Fund has been consulted and offered full support for the proposals.

RISK MANAGEMENT AND IMPLICATIONS:

- 7 There are no risk related issues contained within the report.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

- 8 There are no financial and value for money implications.

DIRECTOR OF FINANCE COMMENTARY

- 9 The Director of Finance is satisfied that all material, financial and business issues and possibility of risks have been considered and addressed and that the SIP and Core Belief Statement offer a clear structure, reflecting the current investment strategies and beliefs approved by the Pension Fund Committee.

LEGAL IMPLICATIONS – MONITORING OFFICER

- 10 There are no legal implications or legislative requirements.

EQUALITIES AND DIVERSITY

- 11 The approval of the SIP will not require an equality analysis, as the initiative is not a major policy, project or function being created or changed.

OTHER IMPLICATIONS

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

WHAT HAPPENS NEXT

- 13 The following next steps are planned:
- Review and approval of the SIP and Core Belief Statement
 - Documents to be kept under review

Contact Officer:

Phil Triggs, Strategic Finance Manager (Pension Fund and Treasury)

Consulted:

Pension Fund Committee Chairman

Annexes:

Annex 1: Revised Statement of Investment Principles

Annex 2: Core Belief Statement

Sources/background papers:

None

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Statement of Investment Principles 2015/16

Statement of Investment Principles

1. Overall Responsibility

The County Council is the designated statutory body responsible for administering the Surrey Pension 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. The content of this Statement reflects the County Council's compliance with the requirements of the Myners Review of Institutional Investment, which can be found at Annex 2.

The Local Government Pension Scheme (England and Wales) (Amendment) (No 2) Regulations 2005 came into effect on 14 December 2005. The Regulations provide the statutory framework within which LGPS administering authorities are required to publish a governance policy statement.

A copy of the Surrey Pension Fund's current governance policy statement can be found on the County Council's website. www.surreypensionfund.org

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

- six nominated members of the County Council;
- two representatives from the Borough/District Councils nominated by the Surrey Local Government Association;
- one representative from the external employers;
- one representative of the members of the Fund.

The Pension Fund Committee is advised by a representative of the Fund's professional investment advisor, an independent advisor, the Director of Finance and the Strategic Finance Manager (Pension Fund and Treasury). The Pension Fund Committee meets on a quarterly basis.

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

- four employer representatives;
- four employee representatives;
- two independent representatives.

The Local Pension Board is advised by the Director of Finance and the Senior Specialist Advisor.

The Local Pension Board meets on a half yearly basis.

2. Investment Objectives

The Pension Fund Committee seeks to ensure that the Pension 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 depending as they do both on investment market levels and on estimates of liability values, so the long-term strategy needs to be capable of steering a steady 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 Fund's liabilities.
- iii) To appoint managers that the Committee believes can consistently achieve the performance objectives set 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.
- vi) To achieve an overall Fund return 1% per annum in excess of the overall benchmark over rolling three-year periods.

3. Investment Style and Management

The Committee has delegated day-to-day management of various parts of the Fund to external fund managers each of which has been given an explicit benchmark and performance objective. The Committee retains responsibility for ensuring the mix of managers and by implication the overall asset allocation is suitable for the long-term objectives defined above.

The Committee has appointed two different types of manager: 'Index Relative' who seek to achieve a return relative to a market index within a specified asset type and 'Absolute Return' who seek to achieve a desired return outcome by moving between different asset types.

Index Relative managers

The managers in this category have been set differing performance targets and will take accordingly differing levels of risk relative to the benchmark index they are given.

Passive mandates seek to replicate the market index as closely as possible and are expected to take very little relative risk. Typically, such portfolios will have the largest number of individual holdings each of which will be close to the index weighting. The expected performance should be within 0.5% of the index return in any year.

Core active mandates seek to achieve a performance between 0.75% per annum and 2% per annum ahead of the relevant market index. Typically, core active mandates have diversified portfolios and take medium levels of relative risk. Most managers will only be appointed to manage a single asset class (for example, global equities, bonds or property).

Concentrated active mandates seek to outperform their relevant index by 3% per annum or more and take larger relative risks by owning a smaller number of individual holdings. The Pension Fund Committee usually confines such mandates to specialist managers in regional equities.

Absolute Return managers

The managers in this category are all expected to achieve returns well ahead of cash or inflation in the long-term.

Diversified Growth managers use a very broad range of asset classes and actively vary allocations between asset types depending on investment market conditions. They will also use derivatives from time to time to limit the scope for large falls in value. The expected returns from such mandates will be close to the long term return from equity markets but with much less volatility.

Absolute return managers also seek to achieve good long term returns with dampened down volatility, but typically they are focused on a particular investment area. The desired outcome is similar to Diversified Growth mandates but with possibly greater variability across mandate types and usually with a much smaller amount invested in each capability.

Fees

The level of fees paid to managers varies greatly according to the complexity of the mandate and the geographic area involved. Fees are usually expressed as a proportion of assets under management. There may also be additional performance related fee charges.

Fees for passive mandates tend to be very low, particularly in developed markets where information is readily available. Fees are higher for mandates that require greater manager skill. Typically a concentrated active mandate will have a higher fee rate than a core active manager and a small absolute return mandate will have a higher fee rate than a larger diversified growth mandate.

Current Manager Structure

The table below shows the current asset allocation and manager structure of the Fund.

	Category	Allocation Policy %	Fund %	Review Range% +/-
Equities			63.0	+/-3.0
UK			29.0	
<i>Legal and General</i>	<i>Passive</i>	10.0		
<i>Majedie</i>	<i>Concentrated Active</i>	11.0		
<i>UBS</i>	<i>Core Active</i>	8.0		
Overseas			34.0	
<i>Legal and General</i>	<i>Passive</i>	14.0		
<i>Marathon</i>	<i>Concentrated Active</i>	12.0		
<i>Newton</i>	<i>Core Active</i>	8.0		
Property			6.5	+/-3.0
<i>CBRE</i>	<i>Core Active</i>	6.5		
Alternatives			12.0	+/-3.0
<i>Standard Life</i>	<i>Diversified growth</i>	8.0		
<i>Baillie Gifford</i>	<i>Diversified growth</i>	4.0		
Bonds			18.5	+/-3.0
Index linked gilts			5.8	
<i>Legal and General</i>	<i>Passive</i>	5.8		
Investment Grade Credit			5.5	
<i>Western</i>	<i>Core Active</i>	5.5		
Total Return			2.6	
<i>Franklin Templeton</i>	<i>Unconstrained</i>	2.6		
Multi Asset Credit			4.6	
<i>Western</i>	<i>Unconstrained</i>	4.6		
Total			100.0	

The Fund also has a commitment to invest up to 5% of the fund in private equity. This allocation is achieved by investing both in fund of funds and direct funds, managed by a number of private equity specialists. The investments are funded through cash flow. The Pension Fund Committee reviews the private equity strategy on an annual basis and makes commitments in order to achieve the target commitment level of 5% of the Fund.

Fees paid to managers vary due to the levels of risk taken and the geographic areas in which the manager is invested. Fees are generally expressed as a proportion of assets under management. Performance fees are in place for a number of the Fund's managers.

Name	Currency	Inception	Commitment
UK Funds			£/€/ \$m
HG Capital MUST 3	£	2001	2.0
HG Capital MUST 4	£	2002	3.0
HG Capital 5	£	2006	10.0
HG Capital 6	£	2009	10.0
HG Capital 7	£	2013	15.0
ISIS II	£	1999-2002	12.0
ISIS III	£	2003	14.0
ISIS IV	£	2007	15.0
ISIS Growth Fund	£	2013	10.0
Darwin Property Fund	£	2013	20.0
Capital Dynamics LGPS CPEV	£	2016	24.0
Euro Fund of Funds			
Standard Life ESP II	€	2004	10.0
Standard Life ESP 2006	€	2006	15.0
Standard Life ESP 2008	€	2008	15.0
Standard Life ESF	€	2011	17.5
Standard Life SOF I	\$	2013	20.0
Standard Life SOF II	\$	2014	20.0
Standard Life SOF III	\$	2016	25.0
US Fund of Funds			
Blackrock Div PEP I	\$	2001	5.0
Blackrock Div PEP II	\$	2003	5.0
Blackrock Div PEP III	\$	2005	17.5
GSAM PEP 2000	\$	2000	10.0
GSAM PEP 2004	\$	2004	10.0
GSAM PEP 2005	\$	2006	17.0
GSAM PEP X	\$	2008	18.0
GSAM PEP XI	\$	2011	18.0
GSAM Vintage Fund VI	\$	2013	20.0
US Funds			
Capital Dynamics US Solar Fund	\$	2011	25.0
Capital Dynamics Energy/Infra	\$	2013	25.0

4.

P

Policy on Kinds of Investment

The Pension Fund Committee, having regard to funding levels, cash needs and risk tolerance, determines the overall Fund asset mix. The following table shows the strategic asset allocation benchmark for both the managed Fund (i.e. excluding private equity) and the total fund:

	Target Allocation exc. Private Equity	Target Allocation inc. Private Equity
Bonds	%	
Multi Asset Credit	4.6	4.4
Investment Grade Credit	5.5	5.3
Index-Linked gilts	5.8	5.5
Unconstrained	2.6	2.4
Property	6.5	6.2
Total Bonds/Property	25.0	23.8
UK Equity	29.0	27.5
Overseas Equity	34.0	32.3
Global	30.0	28.5
Emerging markets	4.0	3.8
Total Equity	63.0	59.8
Diversified Growth	12.0	11.4
Private Equity	n/a	5.0
TOTAL	100.0	100.0

Acceptable asset classes are:

- UK Equities
- UK Fixed Interest
- UK Index Linked Gilts
- UK Property through pooled funds
- Overseas Equities, major classes being:
 - North America
 - Europe
 - Pacific Rim including Japan
 - Emerging Markets
- Global Bonds
- Overseas Index Linked Stocks
- Unquoted Equities via Pooled Funds
- Emerging Market Equities via Pooled Funds, unless specifically authorised
- Direct investment in private equity funds or fund of funds

The use of derivatives and other financial instruments is permitted within pre-agreed limits for specific purposes such as asset allocation switches and currency hedging. Underwriting is permitted provided that the underlying stock is suitable on investment grounds and complies with existing investment criteria.

Stock lending is permitted. The Pension Fund Committee approved Northern Trust's appointment to operate the Pension Fund's lending programme in order to generate an additional income stream for the Pension Fund within approved risk parameters.

There are statutory limits on the proportion of the Fund that can be invested in certain types of investment as determined by the Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 2013.

5. Investment Performance Targets and Benchmarks

Manager	Portfolio	Benchmark Index	Performance Target
UBS	UK Equities	FTSE All Share	+2.0% p.a. (gross of fees) over rolling 3-year periods
Marathon	Global Equities	MSCI AC World	+2.0% p.a. (gross of fees) over rolling 3-year periods
Majedie	UK Equities – Long Only UK Equities – Directional Long/Short	FTSE All Share FTSE All Share	+2.5% p.a. (gross of fees) over rolling 3-year periods Absolute return focused, but aims to out-perform the FTSE All Share Index by an unspecified amount over the long term
Newton	Global Equities	MSCI AC World	+2.0% p.a. (gross of fees) over rolling 3-year periods
Western	Investment Grade Credit Multi Asset Credit	100.0%: Merrill Lynch Sterling Non-Gilts Index Total return benchmark	+0.75% p.a. (gross of fees) over rolling 3-year periods +5% to 7% per annum over the market cycle
Franklin Templeton	Unconstrained Global Fixed Income	Barclays Multiverse Index	+4% to 7% p.a. (gross of fees) over rolling 3-year periods
LGIM	Multi-Asset Equities and Bonds N - UK Equity Index RX - World (ex UK) Dev Equity Index HN – World Emerging Markets Equity Index CN - AAA-AA-A Bonds - All Stocks Index	FTSE All Share FTSE AW – Dev'd World (ex UK) FTSW AW – All Emerging Markit iBoxx GBP Non Gilts ex BBB All stock	To track the performance of the respective indices within a lower level of tracking deviation (gross of fees) over rolling 3-year periods

	Index-Linked Gilts	Portfolio of single stock funds structured by reference to Fund liabilities	
CBRE	Property	IPD UK All Balanced Funds	+0.5% p.a. (gross of fees) over rolling 3-year periods
Baillie Gifford	Diversified Growth	UK Base Rate	+3.5% p.a. (net of fees) over rolling 3-year periods
Standard Life	Diversified Growth 70:30 GARS:GFS	6 month LIBOR	+5.75% p.a. (gross of fees) over rolling 3-year periods
Internal	Private Equity	MSCI World Index	+5% p.a. (net of fees) over the life of the contract
Internal	Cash	LIBID 7-day rate	LIBID 7 day rate

The overriding aim is to run the Pension Fund in accordance within the relevant legislation and subject to the following performance target: “to outperform the Surrey benchmark by 1% per annum over rolling 3-year periods, with a maximum underperformance of -2% in any one year.”

The overall Surrey benchmark is shown below in detail.

Type of funds	Level of Risk	Target Return Out-Performance p.a.
Passive (index-tracker)	Low	0 – 0.5%
Core Active	Medium	0.75% - 2.0%
Concentrated Active	High	2.0% - 2.5%
Diversified growth	Medium	3.5% - 5%
Unconstrained	Medium	4% - 7%
Total	Medium	1%

The performance target for the private equity Funds is to outperform returns on quoted UK Equities (FTSE All Share Index) by 2% per annum.

6 Risk Measurement and Management

There are a number of risks to which any investment is exposed. The Pension Fund 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 appropriate overall level of investment risk, the Pension Fund Committee seeks to spread risks across a range of different sources, believing that diversification limits the impact of any single risk. The Pension Fund Committee aims to take on those risks for which a reward, in the form of excess returns, is expected over time.

The following risks are recognised and considered by the Pension Fund Committee:

Mismatch risk: the primary risk upon which the Pension Fund Committee focuses is the arising of a mismatch between the Fund's assets and its liabilities.

Sponsor Covenant risk: the financial capacity and willingness of the sponsoring employers to support the Fund is a key consideration of the Pension Fund Committee and is reviewed on a regular basis.

Diversification risk: the Pension Fund 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 Pension Fund Committee aims to ensure that the asset allocation policy results in an adequately diversified portfolio.

Concentration risk: the Pension Fund Committee is also aware of 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 Pension Fund Committee recognises that there is liquidity risk in holding assets that are not readily marketable and realisable. Given the long term investment horizon, the Pension Fund 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 Pension Fund 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 hedging policy in place: 50% of its exposure to the US dollar, Euro and Yen.

The documents governing the appointment of each investment manager include a number of guidelines which, among other things, are designed to ensure that only suitable investments are held by the Fund. The Investment Managers are prevented from investing in asset classes outside their mandate without the Pension Fund Committee's prior consent.

Arrangements are in place to monitor the Fund's investments to help the Pension Fund Committee check that nothing has occurred that would bring into question the continuing suitability of the current investments. To facilitate this, the Pension Fund Committee meets with the Investment Managers from time to time, and receives regular reviews from the Investment Managers and its investment advisors.

The safe custody of the Fund's assets is delegated to professional custodians (either directly or via the use of pooled vehicles).

Should there be a material change in the Fund's circumstances, the Pension Fund Committee will review whether and to what extent the investment arrangements should be altered; in particular whether the current risk exposure remains appropriate.

7 Policy on Balance Between Different Kinds of Investment

The Council has set target asset allocation ranges for each kind of investment within the overall benchmark. Fund Managers are required to report quarterly their current country, sector or asset allocation positions, whichever is relevant, against their strategy, and to seek approval for variations to their strategies.

8 Policy on Realisation of Investments

Fund Managers are required to maintain portfolios that consist of assets that are readily realisable. Any investment within an in-house or pooled fund, which is not readily tradable, requires specific approval.

9 Monitoring and Review

The target funding level is set triennially, consequent upon the actuarial review. The statutory requirement is to move towards 100% funding over a period of time, agreed with the Fund Actuary as the average expected future working lifetime of the scheme membership (20 years).

Investment strategy will be reviewed annually, with a major review taking place no later than every five years. The SIP will also be reviewed annually. A review of investment management arrangements is carried out at least every three years.

Investment management performance is reviewed annually upon receipt of the third party performance information. The individual manager's current activity and transactions are presented quarterly in discussion with the Pension Fund Committee.

An Annual Meeting is held in November each year and is open to all Fund employees.

10 Stewardship and Responsible Investment

The Council wishes to have an active influence on issues of environmental, social or governance (ESG) 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., ESG or reputational issues that could bring a particular investment decision into the public arena.

Whilst the Fund has no specific policy on investing or divesting in stock with regard to ESG issues, in comparing potential investment decisions, and where differences in predicted returns are deemed immaterial, external fund managers could deploy ESG considerations in deciding upon selection.

The Pension Fund also holds expectations of its fund managers to hold companies to account on the highest standards of behaviour and reputational risk management which may damage long term performance, and for those issues to be part of their stock selection criteria.

The Fund wishes to be an active shareholder and exercise its voting rights to promote and support good corporate governance principles. Share voting is undertaken in-house, after consultation with fund managers, and consultation with the Pension Fund Committee on potentially contentious issues. A quarterly report will be posted to the Fund website.

The Fund is a member of the Local Authority Pension Fund Forum (LAPFF), a membership group of LGPS funds that campaigns on corporate governance issues, thus demonstrating a commitment to sustainable investment and the promotion of high standards of corporate governance and responsibility.

11 Custody

Managers are required to hold cash and stocks in an account managed by Northern Trust, the Fund’s independent global custodian, or by agreement otherwise as appropriate. The Pension Fund aims to hold only a minimum working cash balance. A separate bank account is in place to hold any excess funds held by the administering authority for the purpose of day-to-day cash management of the pension fund.

12 Administration

Funds officers prepare a quarterly report to the Pension Fund Committee, preparing the audited annual report and financial statements in line with statutory deadlines, and maintain an up to date record of cash balances at Surrey to ensure surplus cash is invested promptly and resources are available to meet the benefit outflow as it arises.

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 Pension Fund Committee and Local Pension Board are supported in their decision making/assisting roles by the Director of Finance, the Strategic Finance Manager (Pension Fund and Treasury) and the Senior Specialist Advisor.

Members of both the Committee and Local Pension 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 Statement of Investment Principles.

The content of the Funding Strategy Statement reflects discussions held with individual scheme 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 following 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 target outperformance for the Fund as a whole is specified within the Statement of Investment Principles. The Fund performance is also assessed with reference to the local authority peer group.

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

Consideration has been given to quantitative measures to assess the performance of the Pension Fund 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 statement of investment principles.
- 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:

- 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
- 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 and stewardship policy, funding strategy statement and statement of investment principles. The annual report can be found on the council's website together with standalone versions of each of these documents.

Quarterly reports to the Pension Fund 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.

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Core Belief Statement

This is the Core Belief Statement of the Surrey Pension Fund, which is administered by Surrey County Council (“the Administering Authority”).

The objective of the Statement is to set out the Fund’s key investment beliefs. These beliefs will form the foundation of discussions, and assist decisions, regarding the structure of the Fund, strategic asset allocation and the selection of investment managers.

1 Investment Governance

- 1.1 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, such as private equity and cash.
- 1.2 Investment consultants, independent advisors and officers are a source of expertise and research to inform and assist Pension Fund Committee decisions.
- 1.3 The Fund is continuously improving its governance structure through bespoke training in order to implement tactical views more promptly, but acknowledges that achieving optimum market timing is very difficult.
- 1.4 There can be a first mover advantage in asset allocation and category selection, 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.

2 Long Term Approach

- 2.1 The strength of the employers’ covenant and the present cash flow positive nature of the Fund allow a long term deficit recovery period and enable the Fund to take a longer term view of investment strategy than most investors.
- 2.2 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 low, stable contribution rates for employers.
- 2.3 Illiquidity and volatility are shorter term 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.
- 2.4 Participation in economic growth is a major source of long term equity return.
- 2.5 Over the long term, equities are expected to outperform other liquid assets, particularly government bonds and cash.
- 2.6 Well governed companies that manage their business in a responsible manner will produce higher returns over the long term.

3 Appropriate Investments

- 3.1 Allocations to asset classes other than equities and government bonds (e.g., corporate bonds, private equity and property) offer the Fund other forms of risk premia (e.g., additional solvency risk/illiquidity risk).
- 3.2 Diversification across asset classes and asset types that have low correlation with each other will tend to reduce the volatility of the overall Fund return.
- 3.3 In general, allocations to bonds are made to achieve additional diversification. When the Fund approaches full funding level, it may also use bond based strategies to mitigate liability risks and thus dampen the volatility of the Fund's actuarial funding level.

4 Management Strategies

- 4.1 A well-balanced portfolio has an appropriate mix of passive and active investments.
- 4.2 Passive, index-tracker style management provides low cost exposure to equities and bonds, and is especially attractive in efficient markets.
- 4.3 Active managers 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.
- 4.4 The long term case for value investing is compelling, but it may result in prolonged periods of over and underperformance in comparison to a style neutral approach.
- 4.5 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.
- 4.6 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.
- 4.7 Employing a range of management styles can reduce the volatility of overall Fund returns but can also reduce long term outperformance.

SURREY COUNTY COUNCIL

PENSION FUND COMMITTEE

DATE: 23 SEPTEMBER 2016

LEAD OFFICER: SHEILA LITTLE, DIRECTOR OF FINANCE

SUBJECT: ACTUARIAL ASSUMPTIONS: 2016 VALUATION



SUMMARY OF ISSUE:

Members are required to have knowledge of the actuarial assumptions to be used in the next actuarial valuation of the Pension Fund as at 31 March 2016.

RECOMMENDATIONS:

It is recommended that:

The Pension Fund Committee note this report and approve the actuarial assumptions as set out in the report.

REASON FOR RECOMMENDATIONS:

To comply with best actuarial valuation practice.

INTRODUCTION:

- 1 In line with the Regulations, the Local Government Pension Scheme (LGPS) funds undergo an actuarial valuation every three years. The last triennial valuation of the LGPS assets and liabilities was as at 31 March 2013 and the current actuarial process aligns with data as at 31 March 2016.
- 2 The Regulations require that an actuarial valuation should assess the liabilities of the benefits accrued and set the contribution rates required to fund any shortfall in assets and the ongoing cost of future service.
- 3 There is a variety of differing actuarial methodologies which underpin the valuation assumptions. This paper explores and recommends the primary assumptions to be applied to the 2016 triennial valuation.
- 4 The following assumptions are key for the 2016 valuation:
 - Salary increases;
 - Pension increases;
 - Longevity;
 - Discount rate and Asset Outperformance Assumption (AOA).

DETAILS:**Salary Increases**

- 5 The change to the accumulation of member pension benefits from a final salary to a career average revaluated earnings (CARE) basis will gradually reduce the importance of the salary increase assumption as member benefits will be tied to the annual consumer prices index (CPI) level of inflation rather than to final salary.
- 6 The majority of liabilities accrued to date, however, are still final salary linked benefits and, given significant accrued final salary service and built in protections as part of LGPS 2014, the final salary assumption remains of long term significance.
- 7 In the past two actuarial valuations, the Fund has used the market derived inflation retail prices index (RPI) value plus an additional percentage to establish a long term estimate of salary increases. RPI is calculated as the difference between the yield on long dated fixed interest gilts and long dated index-linked gilts.
- 8 The salary increase assumption for 2016 is expressed as a single rate of RPI less 0.7% and is equivalent to 1.5% p.a. for the next five years followed by RPI going forward. This approach represents ongoing budgetary pressures in UK local authorities.

Valuation	Methodology	Salary Increase Assumption
31 March 2013	RPI + 0.5%	3.8%
31 March 2016	RPI – 0.7%	2.4%

Pension Increases

- 9 Annual pension increases and CARE increases are determined by consumer price index (CPI) inflation. To establish a long term CPI assumption, the actuary uses a market expectation for RPI and applies a discount based upon the historical deviation between RPI and CPI. The variance between the two measures of inflation has widened recently with the actuary predicting a difference of -1.0%.
- 10 The recommended pension increase assumption of 2.1% p.a. is calculated as a geometric deduction of 1% p.a. from the above RPI.

Valuation	Methodology	Pensions Increase Assumption
31 March 2013	RPI – 0.8%	2.5%
31 March 2016	RPI – 1.0%	2.1%

Longevity

- 11 The assumption regarding improvements in longevity is based upon latest industry standards and information derived from the Fund's membership of Club Vita (provided by the Fund actuary), such as observed mortality rates.

- 12 The longevity assumption is predicated upon the idea that the very strong improvements in life expectancy observed amongst those born in the 1930s will start to tail off, resulting in less rapid increases in longevity for subsequent generations.
- 13 The expectation is that for the longer term, longevity improvements will stabilise at one additional year for every decade.

Assumed Life Expectancy at 65 (years)	Actives		Pensioners	
	Male	Female	Male	Female
31 March 2013	24.5	26.9	22.5	24.6
31 March 2016	24.3	26.7	22.6	24.7

Discount Rate and Asset Outperformance Assumption (AOA)

- 14 The Committee has chosen to adopt a CPI plus approach to setting the discount rate for the valuation of the Fund as at 31 March 2016 and all actuarial calculations going forward.
- 15 The level of CPI will be dynamic and therefore updated on a quarterly basis. It is proposed that the level of CPI should be updated based on the value at the end of each calendar quarter (i.e. 31 March, 30 June, 30 September, 31 December).
- 16 The level of CPI will be calculated as the level of RPI, with a geometric deduction of 1% p.a., with the level of RPI being the difference between the long term yield on fixed interest and index-linked government bonds.
- 17 The discount rate at 31 March 2016 will be set as CPI plus 2.1%. Going forward, the level of CPI will be updated on a quarterly basis, with the discount rate derived by adding the same excess return of 2.1% above CPI during the inter-valuation period to 31 March 2019. This excess return will be reviewed as part of the next formal valuation.

Valuation	Methodology	Discount Rate
31 March 2013	Gilt Rate + 1.6%	4.6%
31 March 2016	CPI + 2.1%	4.2%

- 18 This method for deriving the discount rate and CPI will be used for ongoing employer work, including setting contributions for new employers and assigning assets to them. The Navigator Funding Update report for the whole Fund as provided on a quarterly basis will also use this method for setting the discount rate.
- 19 The move to this method will achieve the Pension Fund Committee's aim of a more stable liability value and should therefore result in a more stable funding level. However, it should be noted that this depends on the movement in the value of the Fund's assets relative to the liabilities.

- 20 The approach for setting the discount rate for cessation valuations for any employer exiting the Fund will be reviewed as part of the Funding Strategy Statement (FSS) review later in the year and will incorporate the new CPI plus approach where appropriate. The FSS will be presented to the Committee at the February 2017 meeting.

CONSULTATION:

- 21 The Chairman of the Pension Fund has been consulted on the report.

RISK MANAGEMENT AND IMPLICATIONS:

- 22 There are no risk related issues contained within the report.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

- 23 There are no financial and value for money implications contained within the report.

DIRECTOR OF FINANCE COMMENTARY

- 24 The Section 151 Officer (Director of Finance) is satisfied that the recommended actuarial methodology and assumptions employed represent an appropriate and prudent mechanism for valuing the liabilities of the Fund.

LEGAL IMPLICATIONS – MONITORING OFFICER

- 25 There are no legal implications or legislative requirements associated with this report.

EQUALITIES AND DIVERSITY

- 26 The review of the Fund's private equity programme will not require an equality analysis, as the initiative is not a major policy, project or function being created or changed.

OTHER IMPLICATIONS

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

WHAT HAPPENS NEXT

- 28 The following next steps are planned:
- Officers will continue to work with the actuary to prepare for the 2016 actuarial valuation.
 - Following the completion of the valuation process, the Committee will receive a final outcome report and FSS for approval at the February 2017 committee meeting.

Contact Officer:

Phil Triggs, Strategic Finance Manager (Pension Fund and Treasury)

Consulted:

Hymans Robertson Actuary
Pension Fund Committee Chairman

Annexes:

None

Sources/background papers:

None

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SURREY COUNTY COUNCIL**PENSION FUND COMMITTEE****DATE: 23 SEPTEMBER 2016****LEAD OFFICER: SHEILA LITTLE, DIRECTOR OF FINANCE****SUBJECT: STATEMENT OF POLICY FOR ADMINISTERING AUTHORITY PENSION DISCRETIONS****SUMMARY OF ISSUE:**

This report provides details of a written policy statement in respect of the discretions that can be exercised by the Administering Authority (AA) in relation to the Local Government Pension Scheme (LGPS) Regulations.

RECOMMENDATIONS:

It is recommended that the Pension Fund Committee:

- 1 Note the report and approve in principle the draft AA Discretions Statement of Policy, included as Annex 1.
- 2 Approve the publication of the AA Discretions Statement of Policy for consultation with the Fund's Scheme Employers with a further report to be brought back to the Pension Fund Committee with the results of the consultation, and a final statement of policy (including any amendments arising from the consultation exercise) for approval.

REASON FOR RECOMMENDATIONS:

The Pension Fund Committee must be aware of the discretions that can be exercised by the administering authority under the LGPS Regulations. The publication of an AA Discretions Statement of Policy allows the AA to demonstrate a transparent decision making process and clarity of governance.

DETAILS:**Introduction**

- 1 The AA is required to formulate and keep under review a statement of policy on discretions in accordance with:
 - The LGPS Regulations 2013
 - The LGPS (Transitional Provisions, Savings and Amendment) Regulations 2014
 - The LGPS (Benefits, Membership and Contributions) Regulations 2007
 - The LGPS (Administration) Regulations 2008
 - The LGPS (Transitional Provisions) Regulations 2008
 - The LGPS Regulations 1997
 - The LGPS Regulations 1995

- 2 The Pension Fund Committee was established by Council on 19 March 2013 under Section 101 of the Local Government Act 1972 to:
- Undertake statutory functions on behalf of the Local Government Pension Scheme (LGPS) and ensure compliance with legislation and best practice; and
 - Determine policy for the investment, funding and administration of the pension fund. **This includes the exercise of administering authority pension discretions.**
- 3 Under the Council's scheme of delegation for pension functions, the following delegations are made to the Strategic Manager (Pensions & Treasury) and the Lead Pensions Manager:
- Strategic Manager (Pensions & Treasury):
 - where a policy on the matter has been agreed by the Pension Committee and included in the Discretionary Pension Policy Statement published by the Council
 - decisions relating to "admitted body status" and
 - decisions relating to individual cases as provided for in the separate delegation to the Pensions Services Manager.
 - Lead Pensions Manager:
 - To exercise discretion in relation to the LGPS on the following matters in individual cases:
 - allocation of death grants
 - determining co-habitation
 - determining whether a child meets criteria for a child's pension
 - allocation of pension for persons incapable of managing their own affairs
 - commutation, transfer in and forfeiture decisions
 - extension of time limits for decisions to be made by scheme members
 - minimum contribution levels for additional payments
 - determining reviews and effective dates of ill-health benefits
 - write offs up to £250
- 4 Delegations to the Strategic Manager (Pensions & Treasury) and the Lead Pensions Manager are subject to any limitations imposed and confirmed in writing from time to time by the Director of Finance.
- 5 It is not a statutory requirement to publish an AA Discretions Statement of Policy. However, it is recommended that a written statement is produced and approved for the following reasons:
- A single AA Discretions Statement of Policy document provides guidance on the AA's exercise of discretions, including the scheme of delegation for decisions appropriate to the AA's current organisational structure.
 - A written document enables all of the AA discretion policies to be captured in a single transparent governance reference document.

- The creation of a written document will provide clarity and ease of access for scheme employers, scheme members and their beneficiaries and recognised trade unions regarding the AA's exercise of discretions.
- 6 AA discretions contained in the AA Discretions Statement of Policy have either previously been adopted directly by the Pension Fund Committee or provide a written clarification of how discretions are exercised by delegated officers.
- 7 The AA Discretions Statement of Policy will be made available to all Scheme employers electronically on 26 September 2016 (and by hard copy on request) as part of the consultation process. The consultation period will be for one month.

CONSULTATION:

- 8 The Chairman of the Pension Fund Committee has been consulted on the report.

RISK MANAGEMENT AND IMPLICATIONS:

- 9 Risk related issues are contained within the report.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

- 10 Financial and value for money implications are discussed within the report.

DIRECTOR OF FINANCE COMMENTARY

- 11 The Section 151 Officer (Director of Finance) is satisfied that all material, financial and business issues and possibility of risks have been considered and addressed.

LEGAL IMPLICATIONS – MONITORING OFFICER

- 12 There are a number of areas within the LGPS Regulations that provide the AA with flexibility over how particular pension provisions are exercised (known as the 'Administering Authority Discretions'). In some cases there is a specific requirement for a policy decision in relation to such provisions to be published. While there is no legal requirement to publish a full list of the AA Discretions, as set out in paragraph 4 of the report, it is a matter of good governance to do so.
- 13 The AA is acting on behalf of all of the Fund's Scheme Employers in making determinations on the discretions under the various LGPS Regulations. As such, it is appropriate to consult with them on the contents of the policy statement and take into consideration any views put forward.
- 14 In approving this draft policy the AA is required under the LGPS Regulations to have regard to the extent to which exercising its functions in accordance with its discretions policy could lead to a serious loss of confidence in the public service.

EQUALITIES AND DIVERSITY

- 15 No equality analysis is required, as there is no major policy, project or function being created or changed.

OTHER IMPLICATIONS

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

WHAT HAPPENS NEXT

- On approval by the Pension Fund Committee, the draft Administering Authority Discretions – Statement of Policy will be sent to Scheme Employers for consultation
- A further report will be brought back to the Pensions Committee with the outcome of the consultation exercise and the final proposed Administering Authority Discretions – Statement of Policy for approval.

Contact Officer:

Phil Triggs, Strategic Finance Manager (Pension Fund and Treasury)

Consulted:

Pension Fund Committee Chairman

Annexes:

Annex 1: Administering Authority Discretions – Statement of Policy

Sources/background papers:

The LGPS Regulations 2013

The LGPS (Transitional Provisions, Savings and Amendment) Regulations 2014

The LGPS (Benefits, Membership and Contributions) Regulations 2007

The LGPS (Administration) Regulations 2008

The LGPS (Transitional Provisions) Regulations 2008

The LGPS Regulations 1997

The LGPS Regulations 1995



Statement of Policy for Administering Authority Pension Discretions

Introduction

Surrey County Council, as administering authority to the Surrey County Council Pension Fund, has determined this policy in accordance with the Local Government Pension Scheme (LGPS) Regulations 2013, as amended, and related legislation. We will apply this policy to all current members in the Active Funds, regardless of who their employer is.

We will base our decisions relating to these discretionary provisions using the current policy at the time of the relevant event. In the event of a conflict between a discretion as written in this policy and the governing regulations, we will apply the governing regulations.

We retain the right to change the policy at any time. Any changes to the policy will be published within one month of their effective date. This policy does not give, nor shall it be deemed to give, any contractual rights to any member of the Fund, or to any other person whatsoever.

Key principles of discretions

We will observe the following principles when reviewing discretions:

- We will exercise all discretions reasonably and in good faith. All relevant factors will be considered and all irrelevant factors ignored.
- We will formally record all decisions and report them to the Surrey County Council Pension Fund Committee and Local Pension Board as appropriate.

Exercise of discretions

The Surrey County Council Pension Fund Committee is the body responsible for exercising administering authority discretions. Subject to the terms of this policy, the Pensions Committee may delegate these administering authority discretions to its sub-groups or specific officers and we have highlighted where this is the case in the policy decisions below.

Nothing in this Policy will cause the Pension Committee's capacity to exercise its discretionary powers to be unlawfully fettered or restricted in any way.

We will exercise these discretions in line with the provisions of the various LGPS Regulations and other legislation. Nothing within this statement can overwrite the legal requirements within those provisions.

Key to regulation references

The Local Government Pension Scheme

- **13** – The Local Government Pension Scheme Regulations 2013
- **TP14** – The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014
- **07** – The Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007
- **08** – The Local Government Pension Scheme (Administration) Regulations 2008
- **TP08** - The Local Government Pension Scheme (Transitional Provisions) Regulations 2008
- **97** – The Local Government Pension Scheme Regulations 1997
- **95** – The Local Government Pension Scheme Regulations 1995

References to old provisions (e.g. The Local Government Pension Scheme Regulations 1997) generally apply in relation to scheme members who left under those provisions.

1. Administering authority discretions exercised in relation to funding strategy and scheme employers

No	Relevant discretion	Regulation	Statement of the Administering authority	Delegated authority
1.1	Decide on Funding Strategy for inclusion in funding strategy statement	13 (58)	The Funding Strategy Statement for the Surrey Pension Fund is published at http://www.surreypensionfund.org	The Strategic Finance Manager (Pension Fund & Treasury)
1.2	Whether to agree to an admission agreement with a Care Trust, NHS Scheme employing authority or Care Quality Commission	13 (4(2)(b))	The approach of the Surrey Pension Fund to this discretion is laid out in the Surrey Pension Fund Funding Strategy Statement which is published at http://www.surreypensionfund.org	The Strategic Finance Manager (Pension Fund & Treasury)
1.3	Whether to agree to an admission agreement with a body applying to be an admission body	13 (3(5) & Sch 2, Part 3, para 1)	The approach of the Surrey Pension Fund to this discretion is laid out in the Surrey Pension Fund Funding Strategy Statement which is published at http://www.surreypensionfund.org	The Strategic Finance Manager (Pension Fund & Treasury)
1.4	Whether to terminate a transferee admission agreement in the event of: - insolvency, winding up or liquidation of the body - breach by that body of its obligations under the admission agreement - failure by that body to pay over sums due to the Fund within a reasonable period of being required to do so.	13 (Sch 2, Part 3, para 9(d))	The approach of the Surrey Pension Fund to this discretion is laid out in the Surrey Pension Fund Funding Strategy Statement which is published at http://www.surreypensionfund.org	The Strategic Finance Manager (Pension Fund & Treasury)
1.5	Define what is meant by "employed in connection with"	13 (Sch 2, Part 3, para 12(a))	"Employed in connection with" shall mean employed for at least 60% of normal working time in connection with the relevant service (as defined in the admission agreement or participation agreement).	The Strategic Finance Manager (Pension Fund & Treasury)

1.6	Whether to require any strain on Fund costs to be paid “up front” by employing authority following payment of benefits.	13 (68(2)), TP14 (Sch 2, para 2(3)) & 97 (80(5))	Strain costs will normally be invoiced quarterly after payment of benefits. However, the Surrey Pension Fund reserves the right to require strain costs to be settled prior to the payment of benefits.	The Strategic Finance Manager (Pension Fund & Treasury)
1.7	Whether to set up a separate admission agreement fund	13 (54(1))	The Surrey Pension Fund will not normally set up a separate admission agreement fund.	The Strategic Finance Manager (Pension Fund & Treasury)
1.8	Whether to have a written pensions administration strategy and, if so, the matters it should include	13 (59(1) & (2))	The Surrey Pension Fund has a written Pensions Administration Strategy. This is published at http://www.surreypensionfund.org	The Strategic Finance Manager (Pension Fund & Treasury)
1.9	Whether to suspend, for up to three years, an employer’s obligation to pay an exit payment where the employer is again likely to have active members within the specified period of suspension.	13 (64 (2A))	This decision will be made after consultation with relevant scheme employer and the Fund actuary, taking in to account the impact on the covenant between the relevant scheme employer and the Surrey Pension Fund.	The Strategic Finance Manager (Pension Fund & Treasury)
1.10	Whether to obtain revision of employer’s contribution rate if there are circumstances which make it likely a Scheme employer will become an exiting employer	13 (64(4))	This decision will be made after consultation with relevant scheme employer and the Fund actuary, taking in to account the impact on the covenant between the relevant scheme employer and the Surrey Pension Fund.	The Strategic Finance Manager (Pension Fund & Treasury)
1.11	Decide frequency of payments to be made over to Fund by employers and whether to make an administration charge.	13 (69(1)) & 97 (81 (1))	The frequency of employer payments will be at least monthly. Administration charges are laid out in the Pensions Administration Strategy. This is published at http://www.surreypensionfund.org	The Strategic Finance Manager (Pension Fund & Treasury)
1.12	Decide form and frequency of information to accompany payments to the Fund	13 (69(4)) & 97 (81 (5))	The scheme employer should include the Surrey Pension Fund contribution form to accompany payments in accordance with the	The Strategic Finance Manager (Pension Fund & Treasury)

			frequency stated in regard to discretion 1.12.	
1.13	Whether to issue employer with notice to recover additional costs incurred as a result of the employer's level of performance	13 (70) & TP14 (22(2))	The approach of the Surrey Pension Fund to this discretion is laid out in the Pensions Administration Strategy. This is published at http://www.surreypensionfund.org	The Strategic Finance Manager (Pension Fund & Treasury)
1.14	Whether to charge interest on payments by employers which are overdue	13 (71(1)) & 97 (82 (1))	The approach of the Surrey Pension Fund to this discretion is laid out in the Pensions Administration Strategy. This is published at http://www.surreypensionfund.org	The Strategic Finance Manager (Pension Fund & Treasury)
1.15	Agree to bulk transfer payment	13 (98(1)(b))	The approach of the Surrey Pension Fund to this discretion is laid out in the Surrey Pension Fund Funding Strategy Statement which is published at http://www.surreypensionfund.org	The Strategic Finance Manager (Pension Fund & Treasury)
1.16	Decide policy on abatement of pensions in payment following re-employment	TP14 (3(13)), 08 (70(1))* , 08 (71(4)(c)), TP08 (12) & 97 (109* & 110(4)(b))	Surrey County Council will not abate pensions in payment following re-employment.	The Pension Fund Committee
1.17	Agree to pay annual compensation on behalf of an employer and recharge payments to employer	DC 2000 (31(2))	As a general rule the Surrey Pension Fund will not pay annual compensation on behalf of an employer and recharge payments to the employer, however, it reserves the right to.	The Strategic Finance Manager (Pension Fund & Treasury)
1.18	Timing of pension increase payments by employers to fund (pre April 2008 leavers)	97 (91(6))	Pension increase payments will be collected on a monthly basis.	The Strategic Finance Manager (Pension Fund & Treasury)

2. Administering authority discretions exercised in relation to the administration of scheme benefits

No	Relevant discretion	Regulation	Applicable to	Statement of the Administering authority	Delegated authority
2.1	Whether to turn down a request to pay an APC/SCAPC over a period of time where it would be impractical to allow such a request (e.g. where the sum being paid is very small and could be paid as a single payment)	13 (16(1))	Post April 2014 members	As a general rule the Surrey Pension Fund will not turn down any requests, however, it reserves the right to.	The Lead Pensions Manager
2.2	Whether to require a satisfactory medical report before agreeing to an application to pay an APC / SCAPC	13 (16(10))	Post April 2014 members	A medical report will not be required where a member applies to pay an APC / SCAPC to buy pension lost during a relevant period of authorised unpaid leave. In all other cases we will only accept an application from an employee to purchase additional pension if accompanied by a medical report provided by a registered medical practitioner stating that the employee is in reasonably good health. The cost of obtaining such a report must be met by the employee.	The Pension Fund Committee
2.3	Whether to turn down an application to pay an APC / SCAPC if not satisfied that the member is in reasonably good health.	13 (16(10))	Post April 2014 members	The Surrey Pension Fund will not agree to an application to pay an APC / SCAPC if it is not satisfied that the member is in reasonably good health after due consideration of a medical report.	The Lead Pensions Manager
2.4	Whether to charge member for provision of estimate of additional pension that would be provided by the Scheme in return for transfer of in house AVC / SCAVC funds (where AVC / SCAVC arrangement was entered into before 01/04/14)	TP14 (15(1)(d)) & 08 (28(2))	Active members	The Surrey Pension Fund will not recover the administrative costs relating to the estimate of a transfer of an in house AVC / SCAVC fund if the number of requested estimates does not exceed two per calendar year. The Surrey Pension Fund reserves the right to charge for estimates in excess of two per calendar year.	The Lead Pensions Manager

2.5	Decide to whom any AVC / SCAVC monies (including life assurance monies) are to be paid on death of the member	13 (17(12))	Post April 2014 members	Decisions on the payment of AVC / SCAVC monies will be made after taking into account all relevant considerations and documentary evidence, including the deceased's Expression of Wish or will.	The Lead Pensions Manager
2.6	Pension account may be kept in such form as is considered appropriate	13 (22(3)(c))	Post April 2014 members	The Surrey Pension Fund will determine the form that a pension account must be kept in.	The Lead Pensions Manager
2.7	Decide, in the absence of an election from the member within 12 months of ceasing a concurrent employment, which ongoing employment benefits from the concurrent employment which has ceased should be aggregated (where there is more than one ongoing employment)	TP14 (10(9))	Active members	Employment benefits will be aggregated with the main ongoing employment benefits, unless this is inequitable.	The Lead Pensions Manager
2.8	Whether to extend the time limits within which a member must give notice of their election to draw benefits before normal pension age or upon flexible retirement	13 (32(7))	Post April 2014 members	There will be no general adoption of this discretion.	The Lead Pensions Manager
2.9	Decide whether to commute small pension	13 (34(1)), 07 (39), TP08 (14(3)) & 97 (49 & 156)	All members	The Pension Fund will seek to comply with member's wishes (or the wishes of the member's beneficiary/ies in the case of a trivial commutation lump sum death benefit), if eligibility conditions have been met.	The Lead Pensions Manager
2.10	Approve medical advisors used by employers (for ill health benefits)	13 (36(3)), 08 (56(2)) & 97 (97 (10))	All members	Medical advisors will be approved if they are independent practitioners who are registered with the General Medical Council and: - hold a diploma in occupational health medicine (D Occ Med) or an equivalent qualification issued by a competent authority in an EEA state; and for the	The Lead Pensions Manager

				<p>purposes of this definition, "competent authority" has the meaning given by section 55(1) of the Medical Act 1983, or</p> <ul style="list-style-type: none"> - are an Associate, a Member or a Fellow of the Faculty of Occupational Medicine or an equivalent institution of an EEA state. 	
2.11	Decide to whom death grant is paid	<p>TP14 (17(5) to (8)), 13 (40 (2), 43 (2) & 46 (2)), 07 (23 (2), 32(2), 35 (2)), TP08 (Sch1), 97 (38 (1) & 155 (4)) & 95 (E8)</p>	All members	<p>Decisions on the payment of a death grant will be made after taking in to account all relevant considerations and documentary evidence, including the deceased's Expression of Wish and will.</p>	The Lead Pensions Manager
2.12	Decide, in the absence of an election from the member, which benefit is to be paid where the member would be entitled to a benefit under two or more regulations in respect of the same period of Scheme membership	<p>13 (49(1)(c)) & 07 (42 (1) (c))</p>	Post April 2008 members	The Pension Fund will pay benefits in the most equitable way that it can determine.	The Lead Pensions Manager
2.13	Whether to pay a death grant due to personal representatives or anyone appearing to be beneficially entitled to the estate without need for grant of probate / letters of administration	<p>13 (82(2)), 08 (52(2)) & 97 (95)</p>	All members	The Pension Fund will pay a death grant due to personal representatives or anyone appearing to be beneficially entitled to the estate without need for grant of probate / letters of administration if it is satisfied that claim is legitimate and the beneficiary is appropriate.	The Lead Pensions Manager
2.14	Whether, where a person is incapable of managing their affairs, to pay the whole or	<p>13 (83) & 08 (52A)</p>	Post April 2008	The Pension Fund will pay the whole or part of that person's pension benefits to	The Lead Pensions

	part of that person's pension benefits to another person for their benefit.		members	another person for their benefit if it is satisfied that the individual is incapable of managing their own affairs and that the other person is appropriate.	Manager
2.15	Extend normal time limit for acceptance of a transfer value beyond 12 months from joining the LGPS	13 (100(6))	Active members	There will be no general adoption of this discretion.	The Strategic Finance Manager (Pension Fund & Treasury)
2.16	Allow transfer of pension rights into the Fund	13 (100(7))	Active members	Transfers will be permitted within the first 12 months of membership of the Surrey Pension Fund.	The Lead Pensions Manager
2.17	Where member to whom the use of the average of three years pay for final pay purposes applies, dies before making an election, whether to make that election on behalf of the deceased member.	TP14 (3(6), 4(6)(c), 8(4), 10(2)(a), 17(2)(b)) & 07 (10(2))	Post April 2008 members	The Pension Fund will pay benefits in most equitable way that it can determine.	The Lead Pensions Manager
2.18	Make election on behalf of deceased member with a certificate of protection of pension benefits i.e. determine best pay figure to use in the benefit calculations (pay cuts / restrictions occurring pre April 2008.)	TP14 ((6), (6)(c), 8(4), 10(2)(a), 17(2)(b) & Sch 1) & 97 (23(9))	All members	The Pension Fund will pay benefits in most equitable way that it can determine.	The Lead Pensions Manager
2.19	Decide to treat a child as being in continuous full-time education or vocational training despite a break	13 (Sch 1), TP14 (17(9)(a), 07 (26 (5)), 97 (44 (5)))	All members	A child will be treated as being in continuous full-time education or vocational training despite a break if the break is for 12 months or less. If the break is for over 12 months the decision will be made after taking in to account all relevant considerations.	The Lead Pensions Manager

2.20	Decide evidence required to determine financial dependence of cohabiting partner on scheme member or financial interdependence of cohabiting partner and scheme member	13 (Sch 1) , TP14 (17(9)(b)) & 07 (25)	Post 2008 members	For each case the surviving cohabiting partner will be asked to produce evidence of financial dependency or interdependency. Decisions to determine financial dependence of cohabiting partner on scheme member or financial interdependence of cohabiting partner and scheme member will be made after taking into account all relevant considerations.	The Lead Pensions Manager
2.21	Extend time period for capitalisation of added years contract	TP14 (15(1)(c)), TP08 (Sch1) & 97 (83(5))	Post April 2014 members	There will be no general adoption of this discretion.	The Lead Pensions Manager
2.22	Outstanding employee contributions can be recovered as a simple debt or by deduction from benefits	08 (45(3)) & 97 (89(3))	Pre April 2014 members	The method of recovery will be decided after consultation with the relevant member.	The Lead Pensions Manager
2.23	Whether to pay the whole or part of a child's pension to another person for the benefit of that child	07 (27(5)), 97 (47 (2)) & 95 (G11(2))	Pre April 2014 members	The whole or part of a child's pension will normally be paid to a surviving parent or guardian if the child is under the age of 18, or directly to the child if the child is aged 18 or over.	The Lead Pensions Manager
2.24	Apportionment of children's pension amongst eligible children	97 (47(1)) & 95 (G11(1))	Pre April 2008 members & councillors	The Surrey Pension Fund will apportion the children's pension equally amongst the relevant children.	The Lead Pensions Manager
2.25	Commute benefits due to exceptional ill-health (councillor members, pre April 2008 leavers and pre April 2008. Pension Credit members)	97 (50 and 157)	Pre April 2008 members & Councillors	Decisions to commute benefits due to exceptional ill-health will be made after taking into account all relevant considerations and after consultation with Occupational Health and the relevant member.	The Lead Pensions Manager
2.26	Date to which benefits shown on annual	97	All members	Date to which benefits shown on annual	The Lead

	deferred benefit statement are calculated	(106A(5))		deferred benefit statement are calculated is the effective date of the annual increase.	Pensions Manager
2.27	Discharge Pension Credit liability (in respect of Pension Sharing Orders for councillors and pre April 2008 Pension Sharing Orders for non-councillor members)	97 (147)	Pre April 2008 members & Councillors	Pension credit liabilities will be discharged by conferring pension credit rights to individual entitled to the pension credit.	The Lead Pensions Manager
2.28	Whether to pay spouse's pensions for life for pre April 1998 retirees / pre April 1998 deferreds who die on or after April 1998. (rather than ceasing during any period of remarriage or co-habitation)	95 (F7)	Pre April 1998 members	The pension spouse's pension will continue to be paid for life.	The Lead Pensions Manager

3. Administering authority discretions exercised as a proxy for scheme employers who have ceased participation in the Fund

No	Relevant discretion	Regulation	Applicable to	Statement of the Administering authority	Delegated authority
3.1	Whether to grant application for early payment of deferred benefits on or after age 55 and before age 60 for pre April 2014 leavers. (if the scheme employer has become defunct)	07 (30(2))	Leavers 2008 to 2014	The Surrey Pension Fund will apply the policy of the scheme employer immediately before it ceased to be a scheme employer. If this is not possible we will apply the policy of Surrey County Council	This discretion will be applied in accordance with the Surrey County Council Policy on Employer Discretions
3.2	Whether to grant an application for early payment of a suspended tier 3 ill health pension on or after age 55 and before age 60 (if the scheme employer has become	07 (30A(3))	Leavers 2008 to 2014	The Surrey Pension Fund will apply the policy of the scheme employer immediately before it ceased to be a scheme employer. If this is not possible we will apply the policy of Surrey County Council	This discretion will be applied in accordance with the Surrey County Council

	defunct)				Policy on Employer Discretions
3.3	Whether to waive, on compassionate grounds, the actuarial reduction applied to deferred benefits paid early under 07(30) & 07(30(A)) (if the scheme employer has become defunct)	07 (30(5) & 30A(5))	Leavers 2008 to 2014	The Surrey Pension Fund will apply the policy of the scheme employer immediately before it ceased to be a scheme employer. If this is not possible we will apply the policy of Surrey County Council	This discretion will be applied in accordance with the Surrey County Council Policy on Employer Discretions
3.4	Whether to waive, in whole or in part, actuarial reduction on benefits which a member voluntarily draws before normal pension age (where the member only has post April 2014 membership (if the scheme employer has become defunct))	13 (30(8))	Post April 2014 members	The Surrey Pension Fund will apply the policy of the scheme employer immediately before it ceased to be a scheme employer. If this is not possible we will apply the policy of Surrey County Council, as the largest employer in the Fund.	This discretion will be applied in accordance with the Surrey County Council Policy on Employer Discretions
3.5	Whether to “switch on” the 85 year rule for post April 2014 leavers voluntarily drawing benefits on or after age 55 and before age 60 (if the scheme employer has become defunct)	TP14 (Sch 2, para 1(2))	Post April 2014 members	The Surrey Pension Fund will apply the policy of the scheme employer immediately before it ceased to be a scheme employer. If this is not possible we will apply the policy of Surrey County Council, as the largest employer in the Fund.	This discretion will be applied in accordance with the Surrey County Council Policy on Employer Discretions
3.6	Whether to waive any actuarial reduction for a member voluntarily drawing benefits before normal pension age (where the member has both pre April 2014 and post April 2014 membership) on a) on compassionate grounds (pre April 2014 membership) and in whole or in part	TP14 (3(1), Sch 2, para 2(1)) & 07 (30(5),30A(5))	Post April 2014 members	The Surrey Pension Fund will apply the policy of the scheme employer immediately before it ceased to be a scheme employer. If this is not possible we will apply the policy of Surrey County Council, as the largest employer in the Fund.	This discretion will be applied in accordance with the Surrey County Council Policy on Employer Discretions

	<p>on any grounds (post April 2014 membership) if the member was not in the Scheme before October 2006,</p> <p>b) on compassionate grounds (pre April 2014 membership) and in whole or in part on any grounds (post April 2014 membership) if the member was in the Scheme before October 2006, will not be 60 by April 2016 and will not attain 60 between April 2016 and April 2020</p> <p>c) on compassionate grounds (pre April 2016 membership) and in whole or in part on any grounds (post April 2016 membership) if the member was in the Scheme before October 2006 and reached age 60 before 1 April 2016</p> <p>d) on compassionate grounds (pre April 2020 membership) and in whole or in part on any grounds (post April 2020 membership) if the member was in the Scheme before October 2006, was not 60 by April 2016 and attained 60 between 1 April 2016 and 31 March 2020 (if the scheme employer has become defunct)</p>				
3.7	Decide whether deferred beneficiary meets permanent ill health and reduced likelihood of gainful employment criteria (if the scheme employer has become defunct)	07 (31(4))	Pre April 2014 members	The Surrey Pension Fund will apply the policy of the scheme employer immediately before it ceased to be a scheme employer. If this is not possible we will apply the policy of Surrey County Council	This discretion will be applied in accordance with the Surrey County Council Policy on Employer Discretions

3.8	Decide whether deferred beneficiary meets criteria of being permanently incapable of former job because of ill health and is unlikely to be capable of undertaking gainful employment before normal pension age or for at least three years, whichever is the sooner. (if the scheme employer has become defunct)	13 (38(3))	Post April 2014 members	The Surrey Pension Fund will apply the policy of the scheme employer immediately before it ceased to be a scheme employer. If this is not possible we will apply the policy of Surrey County Council, as the largest employer in the Fund.	This discretion will be applied in accordance with the Surrey County Council Policy on Employer Discretions
3.9	Decide whether a suspended ill health tier 3 member is permanently incapable of undertaking any gainful employment (if the scheme employer has become defunct)	07 (31(7))	Pre April 2014 members	The Surrey Pension Fund will apply the policy of the scheme employer immediately before it ceased to be a scheme employer. If this is not possible we will apply the policy of Surrey County Council	This discretion will be applied in accordance with the Surrey County Council Policy on Employer Discretions
3.10	Decide whether a suspended ill health tier 3 member is unlikely to be capable of undertaking gainful employment before normal pension age because of ill health (if the scheme employer has become defunct)	13 (38(6))	Post April 2014 members	The Surrey Pension Fund will apply the policy of the scheme employer immediately before it ceased to be a scheme employer. If this is not possible we will apply the policy of Surrey County Council, as the largest employer in the Fund	This discretion will be applied in accordance with the Surrey County Council Policy on Employer Discretions
3.11	Whether to use a certificate produced by an IRMP under the 2008 Scheme for the purposes of making an ill health determination under the 2014 Scheme for post April 2008 leavers. (if the scheme employer has become defunct)	TP14 (12(6))	Post April 2014 members	The Surrey Pension Fund will apply the policy of the scheme employer immediately before it ceased to be a scheme employer. If this is not possible we will apply the policy of Surrey County Council, as the largest employer in the Fund.	This discretion will be applied in accordance with the Surrey County Council Policy on Employer Discretions

4. Administering authority discretions exercised in relation to Fund governance

No	Relevant discretion	Regulation	Statement of the Administering authority	Delegated authority
4.1	<p>Governance policy must state whether the administering authority delegates their function or part of their function in relation to maintaining a pension fund to a committee, a sub-committee or an officer of the administration authority and, if they do so delegate, state:</p> <ul style="list-style-type: none"> - the frequency of any committee or sub-committee meetings - the terms, structure and operational procedures appertaining to the delegation - whether representatives of employing authorities or members are included and, if so, whether they have voting rights <p>The policy must also state</p> <ul style="list-style-type: none"> - the extent to which a delegation, or the absence of a delegation, complies with Sec of State guidance and, to the extent it does not so comply, state the reasons for not complying, and - the terms, structure and operational procedures appertaining to the Local Pensions Board 	13 (55)	<p>The Governance Compliance Policy and Statement for the Surrey Pension Fund is published at http://www.surreypensionfund.org</p>	The Pension Fund Committee
4.2	<p>Communication policy must set out the policy on provision of information and publicity to, and communicating with, members, representatives of members,</p>	13 (61)	<p>The Communications Policy Statement for the Surrey Pension Fund is published at www.</p>	The Pension Fund Committee

	prospective members and Scheme employers; the format, frequency and method of communications; and the promotion of the Scheme to prospective members and their employers.			
4.3	Decide the procedure to be followed by administering authority when exercising its stage two IDRPs functions and decide the manner in which those functions are to be exercised	13 (76(4)), 08 (60(8)) & 97 (99)	The approach of the Surrey Pension Fund to this discretion is laid out in the Surrey County Council Pension Disputes Procedure which is published at http://www.surreypensionfund.org and the Scheme of Delegation to Officers which is published at http://mycouncil.surreycc.gov.uk/documents	The Strategic Finance Manager (Pension Fund & Treasury)
4.4	Whether the administering authority should appeal against employer decision (or lack of a decision)	13 (79(2)), 08 (63(2)) & 97 (105 (1))	Decisions on whether the Surrey Pension Fund should appeal against employer decision (or lack of a decision) will be made after taking in to account all relevant considerations.	The Strategic Finance Manager (Pension Fund & Treasury)
4.5	Specify information to be supplied by employers to enable administering authority to discharge its functions	13 (80(1)(b)), TP14 (22(1)) & 08 (64(1)(b))	The approach of the Surrey Pension Fund to this discretion is laid out in the Pension Administration Strategy which is published at http://www.surreypensionfund.org	The Strategic Finance Manager (Pension Fund & Treasury)
4.6	Decide whether to delegate any administering authority functions under the Regulations	13 (105(2))	This decision will be in accordance with the Surrey County Council Scheme of Delegation to Officers which is published at http://mycouncil.surreycc.gov.uk/documents	The Pension Fund Committee
4.7	Decide whether to establish a joint local pensions board (if approval has been	13 (106(3))	The Full Council of Surrey County Council has decided not to establish a	Surrey County Council Full Council

	granted by the Secretary of State)		joint local pension board.	
4.8	Decide procedures applicable to the Local Pension Board	13 (106(6))	Authority is delegated to the Director of Finance in consultation with the Chairman of the Pension Committee create such policies and procedures applicable to the local pension board. The Terms of Reference of the Local Pension Board is published at http://www.surreypensionfund.org	The Director of Finance
4.9	Decide appointment procedures, terms of appointment and membership of the Local Pension Board	13 (107(1))	Authority is delegated to an appointment panel of officers and members to oversee the Local Pension Board recruitment process and for the People, Performance and Development Committee to appoint members of the Local Pension Board following recommendations from the appointment panel. Appointment and Termination Policy of the Local Pension Board is published at http://www.surreypensionfund.org	The People, Performance & Development Committee of Surrey County Council

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SURREY COUNTY COUNCIL

PENSION FUND COMMITTEE

DATE: 23 SEPTEMBER 2016

LEAD OFFICER: SHEILA LITTLE, DIRECTOR OF FINANCE

SUBJECT: CONSULTATION ON AMENDMENTS TO THE LOCAL GOVERNMENT PENSION SCHEME REGULATIONS: RESPONSE OF THE COUNCIL



SUMMARY OF ISSUE:

This report summarises the proposed changes to the Local Government Pension Scheme (LGPS) Regulations included in the consultation document issued by the Department for Communities and Local Government (DCLG) in May 2016. It also provides details of the response to this consultation by the Director of Finance on behalf of the Council.

RECOMMENDATIONS:

It is recommended that the Pension Fund Committee:

Note the report.

REASON FOR RECOMMENDATIONS:

The Pension Fund Committee must be aware of all LGPS Regulations for the administration of the Surrey Pension Fund.

DETAILS:

Background

- 1 In May 2016, the DCLG consulted on proposed changes to the LGPS Regulations. The proposed changes include consideration of the impact on the LGPS of Government policies on the reformed way of delivering the Fair Deal for staff pensions policy.
- 2 The provisions contained in the draft Regulations also take into account the day-to-day experience of applying the 2013 Regulations since 1 April 2014.
- 3 The draft Regulations revise existing provisions to add clarity and address other issues raised as part of good stewardship of the regulatory framework of the Scheme created by the 2013 Regulations.
- 4 The consultation is shown as Annex 1.

Draft Regulations in respect of the Fair Deal policy

- 5 Fair Deal for Staff Pensions sets out how pension issues are to be dealt with when staff are compulsorily transferred from the public sector to independent providers delivering public services.
- 6 The Treasury published its revised guidance, Fair Deal for Staff Pensions: staff transfers from central Government, in October 2013.
- 7 In local government, the Best Value Staff Transfers (Pensions Direction) 2007 sets out the current level of pension protection for employees where the provision of services are contracted out, and staff transferred under TUPE to an independent provider. The Pensions Direction ensures that the employee has the right to acquire pension benefits that are the same as or count as being broadly comparable to or better than those that he had as an employee of the authority. It is now proposed that the 2013 Regulations will contain provisions to permit all transferring members to remain in the Scheme. The Pensions Direction will be revoked in due course and the associated primary legislation will be repealed.

Further Provisions in the Draft Regulations

- 8 Further draft regulations were contained in the consultations to take into account the day to day experience of applying the 2013 Regulations since 1 April 2014 where areas for clarification have been sought or a change in approach has been requested in regard to the calculation and payment of benefits.
- 9 In addition there were draft regulations concerning the management of employers in LGPS funds. These included:
 - Regulation 64: the allowance for a funding surplus to be paid to exiting employers
 - Regulation 68(2): the inclusion of the event when a pension strain is incurred when an employer consents to the early retirement amongst the occasions when funds can require employers to make additional payments
 - Schedule 2, Part 3: the allowance of admission agreements to have retrospective effect

Response of Surrey County Council to the Consultation

- 10 The Director of Finance responded to the consultation on 15 August 2016, after conferring with the Chairman of the Pension Fund Committee.
- 11 The response expressed the support of the Council in respect of the benefit regulations and noted in paragraphs 7 and 8 of this report.
- 12 In relation to the Fair Deal proposals, noted in paragraphs 5 to 7 of this report, the council offered broad support, but, sought assurance on:
 - the possible impact of Fair Deal on bodies not currently included in Pension Direction should be considered;

- concerns that there appears to be no protection for the Fund through a guarantee from the connected scheme employer, if for any reason it is not possible to obtain all or part of the exit payment due from a 'protected transferee' employer, as exists in the Regulations 64, (3), (a) in relation to Part 3, Schedule 2, 1 (d) employers.

13 An alternative solution to Fair Deal was also proposed, whereby contractor employers paid a fixed regular contribution rate and for all pension risk to be retained by the contracting employer (a pass-through arrangement);

"...we believe that allowing this financial analysis to be part of the procurement process offers the opportunity to make the tender process more transparent and allows contractors to price contracts more competitively, with the clear benefit this offers to taxpayers."

14 The consultation response is shown as Annex 2.

CONSULTATION:

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

RISK MANAGEMENT AND IMPLICATIONS:

16 Risk related issues are contained within the report.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

17 Financial and value for money implications are discussed within the report.

DIRECTOR OF FINANCE COMMENTARY

18 The Section 151 Officer (Director of Finance) is satisfied that all material, financial and business issues and possibility of risks have been considered and addressed.

LEGAL IMPLICATIONS – MONITORING OFFICER

19 There are no legal implications or legislative requirements.

EQUALITIES AND DIVERSITY

20 No equality analysis is required, as there is no major policy, project or function being created or changed.

OTHER IMPLICATIONS

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

WHAT HAPPENS NEXT

22 We await a response from DCLG.

Contact Officer:

Phil Triggs, Strategic Finance Manager (Pension Fund and Treasury)

Consulted:

Pension Fund Committee Chairman

Annexes:

Annex 1: Consultation on the I LGPS (Amendment) Regulations

Annex 2: Consultation response of Surrey County Council

Sources/background papers:

None



Department for
Communities and
Local Government

Local Government Pension Scheme

Consultation : Local Government Pension Scheme Regulations



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The Consultation Process and how to Respond

Scope of the consultation

Topic of this consultation:	<p>The Local Government Pension Scheme (Amendment) Regulations 2016</p> <p>These draft regulations amend the Local Government Pension Scheme Regulations 2013 (SI/2356), and the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (SI/525) in order to provide clarifications that have been requested by practitioners and improve the operation of the regulations.</p> <p>They introduce the Fair Deal for Staff Pensions for staff in the Local Government Pension Scheme who are compulsorily transferred to another service provider. The Treasury 'Fair Deal for Staff Pensions' policy issued in October 2013¹ sets out new requirements for securing pension protection for staff transferring out of the public sector. This consultation seeks comments on proposals to ensure that local government and participating employers in the Local Government Pension Scheme, provide the appropriate level of pension provision as set out in the new Fair Deal guidance.</p>
Scope of this consultation:	<p>Section 21 of the Public Service Pensions Act 2013 requires consultation with parties that may be affected by the scheme regulations. This consultation seeks responses from interested parties on amendments to Local Government Pension Scheme Regulations 2013 and the Local Government Pensions Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 which came into force on 1 April 2014.</p>
Geographical scope:	<p>England and Wales.</p>
Impact Assessment:	<p>No impact assessment is needed because the affect of these amendments are outside the scope of the Better Regulation Framework. While the provisions relating to the Fair Deal may require private, voluntary and charitable organisations to become employers in the Scheme if they secure contracts that involve local government service delivery, Fair Deal does not compel businesses to enter into contracts that would involve the transfer of Scheme members.</p> <p>The Impact Assessment² for the Public Service Pensions Bill (which became the Public Service Pensions Act 2013) addressed the issue of Fair Deal, and it concluded that 'By offering transferred staff the right to remain members of the public service scheme private, voluntary and social enterprise providers will no longer be required to take on the risks of their own defined benefit pension schemes. The new schemes will be more affordable than the cost of equivalent provision purchased in the market. This may increase competition for public service contracts for smaller organisations.'</p> <p>These regulations also introduce additional ways in which a scheme member can access their Additional Voluntary Contribution 'pots', as part of the</p>

1

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/262490/PU1571_Fair_Deal_for_staf_pensi_ons.pdf

2

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/205841/Public_Sector_Pensions_impact_analysis.pdf

	<p>Government's 'Freedom and Choice in Pensions' policy This has no affect on the member's employer, whether they are in the private, charity or voluntary sectors. The Impact Assessment³ for the Pension Scheme Bill (which became the Pension Scheme Act 2015) addressed the issues around the additional flexibilities for Defined Contribution benefits.</p> <p>Equalities</p> <p>Under section 149 of the Equality Act 2010, the Department is required to give due regard to the impact of any policy decisions that it enacts on persons with protected characteristics. The protected characteristics are:</p> <ul style="list-style-type: none"> • Age; • Disability; • Gender Reassignment; • Pregnancy and Maternity; • Race; • Religion or belief; • Sex; • Sexual Orientation; and • Marriage and Civil Partnership (but only in respect of the first aim of the Equality Duty: eliminating unlawful discrimination). <p>The general public sector equality duty requires public authorities to have 'due regard' to the need to:</p> <p>a) Eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Equality Act 2010;</p> <p>b) Advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it; and</p> <p>c) Foster good relations between persons who share a relevant protected characteristic and persons who do not share it.</p> <p>None of the policies or amendments proposed in this consultation would adversely impact on a protected group, and all of the protected groups and people not in a protected group will benefit from the amendments equally.</p> <p>The introduction of 'Fair Deal' will result in fewer scheme members leaving public service pensions schemes, including the Local Government Scheme. HM Treasury published a central Equalities Impact Assessment for the Public Service Pensions Act 2013⁴. In addition the Department published an Equalities Impact Assessment for the scheme as a whole.⁵</p>
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Basic Information

To:	This consultation is aimed at Local Government Pension Scheme interested parties. The department publishes a list of bodies that it would normally expect to consult ⁶
Body/bodies	The Secretary of State for Communities and Local Government

³ <http://www.parliament.uk/documents/impact-assessments/IA14-13A.pdf>

⁴ <http://www.parliament.uk/documents/impact-assessments/IA12-024.pdf>

⁵

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/244257/Local_Government_Pension_scheme_-_Equality_Statement.pdf

⁶ <https://www.gov.uk/government/publications/local-government-pension-scheme-regulations-information-on-who-should-be-consulted/local-government-pension-scheme-regulations-information-on-persons-to-be-consulted>

responsible for the consultation:	
Duration:	This is a 12 week consultation which starts on 27 May and will conclude on 20 August
Enquiries:	For enquiries and to respond to this consultation, please e-mail Vincent.kiddell@communities.gsi.gov.uk
How to respond:	When responding, please ensure you have the words Local Government Pension Scheme Amendment Regulations or Fair Deal in your reply. Alternatively you can write to: Vincent Kiddell Workforce, Pay and Pensions Department for Communities and Local Government SE Quarter Fry Building 2 Marsham Street London SW1P 4DF For more information, please see https://www.gov.uk/government/organisations/department-for-communities-and-local-government
Additional ways to become involved:	As this is a largely technical issue with specialist interests following discussions with those affected, this will be a purely written exercise
After the consultation:	The Government's response will be published along side the substantive amending regulations
Compatibility with the Consultation Principles:	This consultation complies with the Cabinet Office's consultation principles.

Background

Getting to this stage:	Following the implementation of the reforms of the Local Government Pension Scheme from 1 April 2014, work has continued with practitioners to identify areas in the regulations that require clarification and correction. These amending regulations are the product of that work and contain other policy developments such as provisions as a result of the Pension Schemes Act 2015 and measures relating to Fair Deal.
Previous engagement:	There continues to be regular engagement with the Local Government Association and other Scheme practitioners, to identify amendments needed including a meeting with business, trades unions and the LGA on the Fair Deal provisions.

About this consultation

This consultation document and consultation process have been planned to adhere to the Consultation Principles issued by the Cabinet Office.

Representative groups are asked to give a summary of the people and organisations they represent and, where relevant, who else they have consulted in reaching their conclusions when they respond.

Information provided in response to this consultation, including personal information, may be published or disclosed in accordance with the access to information regimes (these are primarily the Freedom of Information Act 2000 (FOIA), the Data Protection Act 1998 (DPA) and the Environmental Information Regulations 2004).

If you want the information that you provide to be treated as confidential, please be aware that, under the FOIA, there is a statutory Code of Practice with which public authorities must comply and which deals, amongst other things, with obligations of confidence. In view of this it would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding on the department.

The Department for Communities and Local Government will process your personal data in accordance with DPA and in the majority of circumstances this will mean that your personal data will not be disclosed to third parties. Individual responses will not be acknowledged unless specifically requested.

Your opinions are valuable to us. Thank you for taking the time to read this document and respond.

Are you satisfied that this consultation has followed the Consultation Principles? If not or you have any other observations about how we can improve the process please contact CLG Consultation Co-ordinator.

Department for Communities and Local Government
Fry Building
2 Marsham Street
London
SW1P 4DF
or by e-mail to: consultationcoordinator@communities.gsi.gov.uk

Chapter 1

Introduction

1. The Secretary of State for Communities and Local Government is consulting on these proposed regulations which will be made under the powers conferred by sections 1 and 3 of, and Schedule 3 to, the Public Service Pensions Act 2013. Under Section 3(5) of the 2013 Act, the Regulations require the consent of HM Treasury before being made. Draft regulations 3 to 22 amend the Local Government Pension Scheme Regulations 2013 (“the 2013 Scheme Regulations”), and draft regulations 24 to 29 amend the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) regulations 2014 (“the Transitional Regulations”).
2. The provisions contained in the draft regulations take into account the day to day experience of applying the 2013 Regulations since 1 April 2014 where areas for clarification have been sought or a change in approach has been requested. Recent Government policies have been taken into account such as Freedom and Choice in Pensions and the reformed way of delivering the Fair Deal policy. These draft regulations revise existing provisions to add clarity and address other issues raised as part of good stewardship of the regulatory framework of the Scheme created by the 2013 Regulations (“the Scheme”).
3. Your comments are invited on the set of draft regulations at **Annex A**
4. **The closing date for responses on the draft regulations at Annex A, and the related questions in Chapter 3 is 20 August 2016.**

Chapter 2

The 'Fair Deal' proposals

1. Fair Deal for Staff Pensions sets out how pension issues are to be dealt with when staff are compulsorily transferred from the public sector to independent providers delivering public services. The Government announced in December 2011 that the Fair Deal policy, introduced in 1999, was to be retained but delivered in a different way. Staff transferring from the public sector will have continued access to their public service pension scheme rather than being offered a broadly comparable private pension scheme, as was previously the case.
2. The Treasury published its revised guidance, Fair Deal for Staff Pensions: staff transfers from central Government, in October 2013. It covers central Government departments and their agencies, the NHS, schools that are not local authority maintained, academies, and any other parts of the public sector under the control of Ministers where staff are eligible to be members of a public service pension scheme.
3. In local government, the Best Value Staff Transfers (Pensions Direction) 2007 sets out the current level of pension protection for employees of English best value authorities (and Welsh police authorities) where the provision of services are contracted out, and staff transferred under TUPE to an independent provider. The Pensions Direction ensures that the employee has the right to acquire pension benefits that are the same as or count as being broadly comparable to or better than those that he had as an employee of the authority. It is now proposed that the 2013 Regulations will contain provisions to permit all transferring members to remain in the Scheme. The Pensions Direction will be revoked in due course and the associated primary legislation will be repealed.
4. When considering how best to implement the reformed Fair Deal in the Local Government Pension Scheme, account was taken of the existing admitted body regulatory framework which has been operating for over 15 years. The admitted body status framework includes safeguards to protect other employers in the Scheme by requiring appropriate risk assessments and the need for a bond, indemnity or guarantee where risks are identified. Admitted bodies are required to pay the appropriate amounts to the Scheme to meet the pensions that accrue for the members they employ. In view of this, the draft regulations build on admitted body status. **However, if there are better ways to adopt the reformed Fair Deal in local government, consultees are invited to recommend an alternative approach and say why they consider this to be preferable.**
5. Employees who would be covered by these draft regulations are those eligible for the Scheme and compulsorily transferred from local authorities and other employers listed on the face of the 2013 Regulations. This includes those employees who are designated as eligible and employees of other bodies that participate in the Scheme through an admission agreement (admitted bodies).

Higher and Further Education Institutions and other exempt bodies

6. Fair Deal does not apply to higher and further education institutions, which are classified as private sector bodies, as the Fair Deal policy applies to transfers from the public sector. Police and Crime Commissioner are not required to adopt Fair Deal, as they are not best value authorities like a Police Authority. A PCC would not be precluded from adopting the principles of Fair Deal should they wish to.

Introducing a protected transferee and a protected transferee employer

7. The category of person covered by Fair Deal is an employee of a current Scheme employer referred to in paragraphs 5 and who is compulsorily transferred to an independent service provider who does not offer a public service pension scheme. This category of member will be a 'protected transferee' and would remain so as long as that member remains wholly or mainly employed on the delivery of the service or function transferred.
8. The regulations introduce a new category of Scheme employer, a 'protected transferee employer' who is obliged to participate in the Scheme under the 2013 Regulations for those staff they receive that are 'protected transferees'. These employers will, generally, be providing a service or function under contract with a Scheme employer and can be profit-making bodies as well as not-for-profit or voluntary organisations.
9. It is envisaged that a 'protected transferee employer' can itself transfer staff to a new provider and these staff would also be regarded as 'protected transferees'. The original 'protected transferee employer' will be regarded as a Scheme employer for these purposes as will the receiving second 'protected transferee employer'.

Admitted body status

10. Admitted body status arrangements have been a feature of the Scheme for many years and is the means for independent service providers to become employers in the Scheme. The 2013 Regulations will be amended to align more closely with the provisions in the Public Service Pensions Act 2013 ("the 2013 Act") dealing with eligibility for membership of a public service pension scheme. For local government, a person will be eligible for membership if actually employed in local government service; if deemed by the regulations to be employed in local government service; or if, despite not being employed in local government service, is subject to a "determination" under section 25(5) of the 2013 Act.
11. A determination under section 25(5) of the 2013 Act is made when an administering authority enters into an admission agreement with an independent provider of services. Alignment of the 2013 Regulations with the provisions in the 2013 Act will require no changes to the existing process for entering into admission agreements and no alteration to the status of any existing admission agreements.
12. Under the proposed regulations, independent service providers will be obliged to enter into an admission agreement so that the protected transferee can retain their eligibility for the Scheme. The costs of providing a local government pension to transferring staff should be clearly set out in the tender documentation. Those seeking to provide public services or functions for the first time will be obliged to offer membership of the Scheme for staff they receive under the compulsory transfer but all bidding organisations would be under the same pension obligations.

13. There are already provisions in the Scheme to mitigate the risks of participating employers falling into insolvency or simply failing to meet their financial obligations under the Scheme Regulations which could have the effect of requiring other employers sharing the debt left by the failing body or, ultimately, financial pressures on local tax payers. The risk assessment regime is provided for in the 2013 Regulations in Schedule 2, Part 3, paragraphs 6 – 8 and, if the level of risk identified by the assessment based on actuarial advice requires it, the protected transferee employer would have to provide a bond, indemnity or a guarantee. This will apply to a ‘protected transferee employer’ as it would apply to any admission body and provides a proportionate means to mitigate any risks identified and this is permitted by section 25(8) of the 2013 Act.
14. The provisions dealing with ceasing participation in the Scheme, for example when a contract ends, would apply to this category of Scheme employer as it does to other employers in the Scheme. This means that when the amounts needed to meet all liabilities falling to the exiting employer cannot be made by the assets held in the administering authority’s pension fund, an exit payment must be paid to that administering authority to address the shortfall.

Retenders of contracts involving members who were previously transferred out to a new provider and joined the provider’s broadly comparable pension scheme

15. A member who has moved out of the Scheme under an earlier transfer may still be in that provider’s broadly comparable pension arrangement permitted under the Best Value Authorities (Pensions) Direction 2007 (see paragraph 3 above) and retains the Pensions Direction protections when a contract is retendered. The Treasury code: Fair Deal for Staff Pensions states that contracting authorities should (where this is compatible with their obligations under the Public Contracts Regulations 2006) require bidders to provide them with access to the appropriate public service scheme. The legal position is not the same for local government as it would require explicit statutory powers to achieve this. The draft regulations do not include a requirement that, at retender, the formerly transferred member becomes a protected transferee member and the successful bidder becomes a protected transferee employer. This is because the individual is not being transferred out of the public sector at that point as they are employed by the current external provider. It will remain the case that new providers at a retender can access the Scheme should they wish to by seeking admitted body status but it is not proposed that they will be required to do so.
16. **Views are sought on whether this is the right approach.** If consultees recommend an alternative approach, they are asked to say why that approach should be considered and how that might be achieved from a practical perspective eg how would accrued rights transfer from the provider’s Scheme to the Local Government Pension Scheme?

Publishing lists of members participating in the Scheme

17. Section 25(5) of the 2013 Act, requires the publication of a list of persons to whom the Scheme relates and the list must be kept up to date. This does not require publication of the names of individual members of the Scheme but would be a list of the determinations that have been made under that section (that is to say admission agreements entered into). The draft Regulations delegate the obligations to publish this list to the relevant administering authority. The provision in the 2013 Regulations in Schedule 2, Part 3,

paragraph 11 (which requires individual notification of admission agreements to the Secretary of State) is no longer required and will be removed.

Chapter 3

Changes to the 2013 Scheme Regulations

1. We are also consulting on specific draft regulations that would provide members with more options for using their Additional Voluntary Contributions in the Scheme following the introduction of the Government's policy 'Freedom and Choice in Pensions'. Other draft regulations deal with how the Scheme operates within the Public Sector Transfer Club, while there are a number of draft amending regulations that are intended to improve the administration of the Scheme.

Local Government Service and Fair Deal – Draft Regulations 3 to 5

2. Draft Regulation 3 would amend Regulation 2 of the Local Government Pension Scheme Regulations 2013, to deem certain categories of person to be in local government service for the purposes of the Regulations, aligning the Scheme with Schedule 1 of the Public Service Pensions Act 2013, and requiring contractors who have entered into arrangements to deliver local government service to be admitted to the Scheme.
3. Draft Regulation 4 proposes an amendment to Regulation 3 (active membership) by broadening the categories of persons eligible to be an active member of the Scheme in an employment, to include a member deemed to be or potentially eligible for membership if they are a protected transferee as a result of a compulsory transfer to a new provider. It delegates the function of making a determination under section 25(5) of the Act to administering authorities. The requirement to publish, and keep up to date, a list under section 25(9) of the Act is delegated to administering authorities.
4. Draft Regulation 5 proposes a new Regulation 3B requiring a protected transferee employer and the appropriate administering authority to enter into an admission agreement with the relevant administering authority, when the admission agreement comes into effect and who should be included in the admission agreement.

Temporary Reduction in Contributions- Draft Regulation 6

5. A member may elect to pay contributions at half the rate specified in the 2013 regulations, and accrue earned pension at half the normal rate. It is proposed that Regulation 10(5)(a) is amended to make it clear that a member's election to pay reduced contributions is cancelled due to either the automatic re-enrolment process, or going on to no pay as a result of sickness or injury, rather than both those conditions having to be met.

Contributions During absence from work - Draft Regulation 7

6. Regulation 11(4) specifies that a member remains an active member whilst absent from work on child related leave, reserve forces service leave, leave due to illness,

injury or a trade dispute, or leave with permission from their employer. It is proposed that the words after paragraph (c) will be deleted as they are unnecessary.

Additional Voluntary Contributions (AVC) - Draft Regulation 8 & 9

7. In order to meet the aims of the Government's pension reform 'Freedom and Choice in Pensions'⁷, it is proposed to amend regulation 17 and introduce new Regulation 17A, setting out a new set of options for accessing benefits accrued through the Scheme's additional voluntary contribution arrangements. A member who has accrued benefits under these arrangements may, depending on when they access those benefits, use them for one or more lump sums, to purchase additional pension, to purchase an annuity, or transfer the benefits into another appropriate pension arrangement.

Assumed Pensionable Pay- Draft Regulation 10

8. The current method of calculating assumed pensionable pay can produce anomalous results for a member whose pay varies over time. The amount of ill health pension payable to a member, or the amount of death grant payable to their survivor, is currently dependant on how much pay they received in the 12 weeks or 3 months before their death or illness. In some cases, where the member's pay was relatively high in that period then the value of the benefit to be paid will be inappropriately high but, in other cases, including those where the member was not in receipt of pay or on reduced pay due to any of the specified absences, the benefits due to them will be inappropriately low and potentially nil. Regulation 21 is, therefore, being amended to allow the employer the discretion to use a different pensionable pay figure that more closely reflects the normal pay of the member over longer periods of time, resulting in a more equitable rate of ill health pensions and death grant.
9. In addition, a new paragraph (5B) is proposed in regulation 21 which provides that returning officer fees are averaged over a three year period. Currently, the calculation for death grant and ill-health pension does not take into account returning officer fees that were received more than 3 months before their death, illness or injury. However, if they do receive fees in the 3 months before their death, illness or injury then the current assumed pensionable pay calculation will result in a disproportionately large benefit. Therefore, we are proposing that returning officer fees are averaged over a period of 3 years, as this will result in death grants and ill-health pensions that more accurately reflect the member's pay.

Pension Accounts- Draft Regulation 11

10. Currently, when a member with a deferred pension account becomes an active member again, the two accounts are automatically aggregated and the member has 12 months to opt to separate the former deferred account from the new active

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https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/332714/pensions_response_online.pdf

account. This has proved to be complex to administer and to allocate earned pension into the correct tax year as the 12 month option period can mean decisions are made outside specific tax years. To remedy the position, it is proposed that Regulation 22(8) is amended to give the member the option to aggregate their deferred and active pension accounts within 12 months of becoming an active member. This prevents situations occurring where automatically aggregated pensions accounts have to be disaggregated and follows the policy in the 2008 Scheme which worked more smoothly.

Retirement Benefits - Draft Regulation 12

11. Currently, regulation 30(7)(b) has the unintended consequence of requiring that a member with both deferred and active pensions accounts has to take benefits relating to both accounts where employment is terminated due to redundancy or business efficiency and the member is required to take retirement benefits because they are aged over 55. It is proposed to amend this requirement so that the member is required to take only benefits from the active pension account in those circumstances.

Election for Lump Sum instead of pension – Draft Regulation 13

12. As a consequence of the introduction of new Regulation 17A referred to in paragraph 7, it is proposed to amend Regulation 33 so that all lump sum payments are taken into account when identifying the limit on taking benefits in the form of a lump sum.

Survivor Benefits - Draft Regulation 14

13. Regulations 39(1)(a) and (2)(a) provide that a tier 1 or 2 ill health pension that a member may receive is based on the earned pension that the member would have received had they continued in work until normal pension age. It is proposed that regulations 47(4)(a), 48(4)(a), 48(5)(a), 48(9)(a) and 48(10)(a) are amended so that the amount of pension that a surviving partner or child of a member who was in receipt of a tier 1 or 2 pension before death is based on the pension the member received rather than on the amount of pay that the member earned before award of the ill health pension.

Special Circumstances Where Revised Actuarial Valuations and Certificates Must Be Obtained - Draft Regulation 15

14. It is proposed to amend Regulation 64 to allow for exit credits to be paid to employers that no longer have active members in a pensions fund which was not previously provided for. This will give more flexibility for administering authorities to manage liabilities when employers leave the Scheme.

Employer's Further Payments - Draft Regulation 16

15. To complete the list of circumstances when an administering authority can require an employer to make payments in addition to regular employer contributions, it is proposed to amend regulation 68(2) to include occasions when a member takes

early retirement and the employer has waived the actuarial reduction to the member's benefits that would otherwise have been made.

Rights to payments out of the pension fund, and inward transfers of pension rights – Draft regulations 17 & 18

16. The Public Sector Transfer Club allows easier movement of staff mainly within the public sector, by making sure that employees receive broadly equivalent credits when they transfer their pensionable service to their new scheme. As the Scheme participates in the Club, it is proposed to amend regulation 96 so that the relevant administering authority calculates the transfer in accordance with provisions in the Club Memorandum, during both the transfer out and the transfer in of the accrued rights.

Effect of acceptance of a transfer value – draft regulation 19

17. Where there has been an inward transfer of pension rights, Regulation 101 is being amended to require that the amount of earned pension is calculated either in accordance with the Club Memorandum if the transfer is under the Public Sector Transfer Club and in any other case, in accordance with actuarial guidance issued by the Secretary of State.

Interpretation – Draft Regulation 20

18. The proposed amendments to Schedule 1 introduce the necessary definitions relating to the Public Sector Transfer Club and associated revaluation arrangements, and a protected transferee and protected transferee employer. In addition, the definition of statutory pay is amended to include statutory sick pay, and the definition of partner is no longer restricted to partners of active members.

Scheme employers - Draft Regulation 21

19. Paragraph 5 of Part 2 of Schedule 2 refers to 'An entity connected with a local authority listed in paragraphs 1 to 5 of [Part 1 of this Schedule](#)'. However joint boards, bodies and committees and Mayoral development corporations are not local authorities, so the proposed amendment corrects the position.

20. The proposed amendment to Part 3 of Schedule 2 is intended to put beyond doubt that administering authorities are able to agree that an admission agreement can have retrospective effect. Also, it is proposed that administering authorities are no longer required to inform the Secretary of State when they enter into admission agreements, this will no longer be necessary as draft regulation 4 requires administering authorities to publish a list of admission agreements that they have entered into.

Pension funds Draft Regulation 22

21. A reference to 'the local authority or local authorities' is removed from the table in Part 2 of Schedule 3, as this is no longer needed following the amendment to paragraph 5 of Part 2 of Schedule 2 (see Draft regulation 20).

Amendments to the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014

Membership before 1st April 2014 - Draft Regulation 24

22. Draft Regulation 24 proposes to remove the need for an employer or former employer to give their consent when a member aged between 55 and 60 wishes to have early payment of benefits under Regulations 30(2) and 30A (3) of the 2007 Benefits Regulations. As these benefits will be actuarially reduced there is no cost to the employer, and the proposal gives the member more options about how to access their benefits which is in line with the Government's Freedom and Choice in Pensions policy
23. **Consultees are invited to comment on whether the Regulations should be further amended to remove the requirement for employer's consent for members aged between 55 and 60 with deferred benefits under earlier revoked regulations and how that might be achieved.**
24. It is also proposed to amend regulation 3 to specify that the normal pension age for deferred benefits accrued before 1 October 2006 is age 65. Without such an amendment, a member would be in a better position under the 2013 Scheme Regulations than he would have been had the 2007 Benefits and Contribution Regulations remained in force, and that was not the intention.

Transfers - Draft Regulation 25

25. Regulation 4 of the Transitional Regulations describes the person to whom the statutory underpin applies. The proposed amendment to Transitional Regulation 9 establishes that a person to whom the underpin applies and has any protected benefits accrued under another public service pension scheme, is treated as if the person had been an active member of the 2008 Scheme. This will ensure that the member is in a no worse position under the 2014 Scheme than they would have been had the member joined the final salary arrangement under the 2008 Scheme.

Interfund Adjustments etc. - Draft Regulation 26

26. It is proposed to amend Regulation 10 to give a member, with deferred benefits accrued before 1 April 2014 and who became a member of the 2014 Scheme on a date after 1st April 2014, 12 months, or such longer period as the employer permits, to elect to receive a transfer value payment in relation to the deferred benefits into their active pension account. This would be consistent with regulation 22 of the 2013 Regulations, and regulation 5(5) of the Transitional Regulations.

Contributions - Draft Regulation 27

27. Contributions returned to members under regulation 18 of the 2013 Regulations should include additional contributions made under Earlier Schemes that have been aggregated into an active account. It is proposed to amend regulation 14(2) to make this clear.

Additional Contributions – Draft Regulation 28

28. It is the intention that the additional options for taking benefits accrued by making additional voluntary contributions as detailed in draft regulations 7 and 8 above, are replicated for benefits accrued by additional contributions made before 1 April 2014. It is proposed that Regulation 15 is amended to achieve that.

Rule of 85 - Draft Regulation 29

29. As specified in paragraph 4 of Schedule 2, members whose age plus length of membership in the Scheme (and Earlier Schemes) is equal to 85 years or more, may receive unreduced benefits when taking retirement benefits early. To ensure consistency with members between the ages of 55 and 59 who take early retirement under regulation 30(5) of the 2013 Regulations, members between the ages of 55 and 59 who choose to take early pension under regulations 30(1) or 30A of the Local Government Pension Scheme (Benefits, Membership and Contributions) 2007, may also benefit from the 'rule of 85' with their employer's consent.

Transitional Provisions- Draft Regulation 30

30. This Regulation makes it clear that admission agreements that continue when these regulations come into force are deemed to be a determination under section 25 (5) of the Public Service Pensions Act 2013 and each administering authority has 12 months to publish a list of admissions agreements that they have entered into at the time that these regulations come into force.

Annex A: Draft regulations

STATUTORY INSTRUMENTS

2016 No.

PUBLIC SERVICE PENSIONS, ENGLAND AND WALES

The Local Government Pension Scheme (Amendment) Regulations 2016

<i>Made</i>	- - - -	***
<i>Laid before Parliament</i>		***
<i>Coming into force</i>	- -	***

These Regulations are made in exercise of the powers conferred by sections 1, 3 and 25 of, and Schedule 3 to the Public Service Pensions Act 2013⁽⁸⁾.

In accordance with section 21 of that Act, the Secretary of State has consulted the representatives of such persons as appeared to the Secretary of State to be likely to be affected by these Regulations.

In accordance with section 3(5) of that Act, these Regulations are made with the consent of the Treasury.

The Secretary of State makes the following Regulations:

Citation, commencement and extent

1.—(1) These Regulations may be cited as the Local Government Pension Scheme (Amendment) Regulations 2016.

(2) These Regulations come into force on [xxx] but have effect as follows [xxx].

(3) These Regulations extend to England and Wales.

Amendment of the Local Government Pension Scheme Regulations 2013

2. The Local Government Pension Scheme Regulations 2013⁽⁹⁾ are amended in accordance with regulations 3 to 22.

3. In Regulation 2 (introductory) after paragraph (1) insert—

⁽⁸⁾ 2013 c. 25

⁽⁹⁾ S.I. 2013/2356; those Regulations have been amended by S.I. 2014/44, S.I. 2014/525, S.I. 2014/1146, S.I. 2015/57 and S.I. 2015/755.

“(1A) A person employed by a person specified in—

- (a) Part 2 of Schedule 2 (scheme employers) who is designated or who belongs to a class of employees that is designated by that body as being eligible for membership of the Scheme, or
 - (b) column 1 of the table in Part 4 of Schedule 2,
- is deemed to be working in local government service for the purpose of these Regulations.

(1B) The Scheme may potentially relate to a person employed by an admission body.”.

4.—(1) In regulation 3⁽¹⁰⁾ (active membership) for paragraph (1) substitute—

“(1) Subject to regulation 4 (restriction on eligibility for active membership), a person is eligible to be an active member of the Scheme—

- (a) if working in local government service;
- (b) if deemed by regulation 2(1A) (introductory: deemed local government service) to be working in local government service;
- (c) if—
 - (i) by virtue of regulation 2(1B) (introductory: potential eligibility for membership) the Scheme may potentially relate to that person;
 - (ii) a determination under section 25(5) of the Public Service Pensions Act 2013 has been made in respect of that person; and
 - (iii) that person’s employer has designated that person, or a class of employees to which that person belongs as being eligible for membership of the Scheme.”.

(2) After paragraph (1) insert—

“(1A) The functions of making a determination under section 25(5) of the Public Service Pensions Act 2014 (“a determination”), in relation to persons of the description in regulation 2(1B) and of publishing a list under section 25(9) of that Act of the persons to whom the Scheme relates by virtue of a determination, are delegated to administering authorities.

(1B) An administering authority must make a determination and accordingly enter into an admission agreement with the employer of a person, where an application for a determination is received in relation to a person who is or who is to become a protected transferee.

(1C) A protected transferee for the purposes of these Regulations is an active member or a person who is eligible to be an active member and who was employed by—

- (a) a Scheme employer specified in Parts 1 or 2 of Schedule 2 (Scheme employers) other than a person within paragraphs 6, 7 or 14 of Part 1 of that Schedule 2 (police and further or higher education employers); or
- (b) an admission body,

immediately before that person’s employment was compulsorily transferred to a different employer who does not offer membership of another public service pension scheme, for so long as that person remains wholly or mainly employed on the delivery of the service or function transferred.”.

(3) In paragraph (2) for “by virtue of paragraph 1(d)” substitute “by virtue of regulation 2(1A)(b)”.

5.—(1) After regulation 3A⁽¹¹⁾ (civil servants etc engaged in probation provision) insert the following regulation—

“Fair Deal in local government

3B.—(1) A protected transferee employer must enter into an admission agreement with the administering authority which was the appropriate administering authority for the protected transferees immediately before the transfer of their employment.

⁽¹⁰⁾ There are amendments to regulation 3 which are not relevant to these Regulations.

⁽¹¹⁾ Regulation 3A was inserted by S.I. 2014/1146.

(2) The admission agreement mentioned in paragraph (1) must take effect from the date of the transfer of employment of the protected transferees and must relate to all of the protected transferees.

(3) A person who would be a protected transferee but for the fact that the person's new employer is a person listed in Part 2 of Schedule 2 (scheme employers who can designate employees as eligible for membership) is deemed to be a protected transferee for the purposes of this regulation.

(4) A person listed in Part 2 of Schedule 2 which following a compulsory transfer of employment, becomes the employer of a protected transferee, must designate that person, or a class of employee that includes that person, as being eligible for membership of the Scheme from the date of the transfer of employment.”.

6. In regulation 10(5) (temporary reduction in contributions) at the end of sub-paragraph (a) for “and” substitute “or”.

7. In regulation 11(4) (contributions during absence from work) omit the words after sub-paragraph (c).

8. In regulation 17⁽¹²⁾ (additional voluntary contributions)—

- (a) omit paragraphs (7) to (10);
- (b) in paragraph (12)(e) for “made an election under paragraph (7)(b)(ii)” substitute “made an election to purchase an annuity under regulation 17A (use of additional voluntary contribution benefits)”; and
- (c) in paragraph (15) for “an annuity purchased under paragraph (7)(b)(ii) substitute “an annuity purchased under regulation 17A”.

9. After regulation 17 (additional voluntary contributions) insert—

“Use of additional voluntary contribution benefits

17A.—(1) This regulation sets out the ways in which the realisable value in an AVC arrangement under regulation 17 (additional voluntary contributions) (“AVC benefits”) may be taken.

(2) A member under the age of 75 may transfer the whole of that member's AVC benefits to one or more registered pension schemes or qualified recognised overseas pension schemes.

(3) A member aged 55 or over and under the age of 75 may take AVC benefits wholly or in part as one or more uncrystallised funds pension lump sums.

(4) A member who starts to draw benefits under these Regulations may at the time of drawing those benefits—

- (a) take AVC benefits wholly or in part as a pension commencement lump sum;
- (b) use some or all of the AVC benefits to purchase additional pension under the Scheme, the amount of which is to be determined by the administering authority in accordance with actuarial guidance issued by the Secretary of State;
- (c) use some or all of the AVC benefits to purchase an annuity from one or more insurance companies (within the meaning of section 275(1) of the Finance Act 2004); or
- (d) transfer some or all of the member's AVC benefits to one or more registered pension schemes or qualified recognised overseas pension schemes.

(5) A member who starts to draw benefits under these Regulations may defer taking AVC benefits until reaching the age of 75 and at any time before that date may—

- (a) take up to 25% of the AVC benefits as a pension commencement lump sum;
- (b) take AVC benefits wholly or in part as one or more uncrystallised funds pension lump sums;
- (c) use some or all of the AVC benefits to purchase an annuity from one or more insurance companies (within the meaning of section 275(1) of the Finance Act 2004); or
- (d) transfer some or all of the member's AVC benefits to one or more registered pension schemes or qualified recognised overseas pension schemes.

⁽¹²⁾ Regulation 17 was amended by S.I. 2015/755.

(6) If a member reaches the age of 75 without having taken all AVC benefits accrued, those benefits must be paid to the member in such lawful manner as the member requests or if no request is made, in such manner as the administering authority considers reasonable.

(7) In this regulation—

“pension commencement lump sum” has the same meaning as in paragraph 1 of Schedule 29 to the Finance Act 2004⁽¹³⁾; and

“uncrystallised funds pension lump sum” has the same meaning as in paragraph 4A of that Schedule.”.

10. In regulation 21⁽¹⁴⁾ (assumed pensionable pay)—

(a) in paragraph (4), for “The annual rate of assumed pensionable pay” substitute “Subject to paragraphs (5A) and (5B), the annual rate of assumed pensionable pay”; and

(b) after paragraph (5) insert—

“(5A) Where the pensionable pay received by a member during the period specified in paragraph (4)(a)(i) or (4)(b)(i) was in the opinion of the Scheme employer, materially lower than that member normally received, for the purposes of this regulation the Scheme employer may substitute for the pensionable pay the member received, a higher level of pensionable pay to reflect the level of pensionable pay that the member would normally have received.

(5B) Where any pensionable pay that has been received by a member includes fees of the kind listed in regulation 20(2)(j)(i) to (iv) (returning officer fees), for the purposes of this regulation the annual rate of pensionable pay relating to those fees for the period specified in paragraph (4)(a)(i) or (4)(b)(i) is the annual average of that pay during the three years preceding the date the ill-health retirement or death occurred.”.

11. In regulation 22⁽¹⁵⁾ (pension accounts) for paragraph (8) substitute—

“(8) Where a deferred member again becomes an active member (other than where a member becomes entitled to deferred benefits as a consequence of a notice served under regulation 5(2) (ending active membership)), the benefits in the deferred member’s pension account may be aggregated with those in the active member’s pension account if—

(a) within 12 months of the active member’s pension account being opened; or

(b) such longer time as the Scheme employer in relation to that active member’s pension account permits,

the member makes an election to the appropriate administering authority to aggregate those accounts.”.

12. In regulation 30(7)(b) (retirement benefits) for “that employment” substitute “that active member’s pension account”.

13. In regulation 33 (election for lump sum instead of pension) for paragraph (2) substitute—

“(2) But the total amount of a member’s commuted sum must not exceed 25% of the capital value of the member’s accrued rights under all local government pension provision in relation to that benefit crystallisation event including those under regulation 17A(3), (4)(a), (5)(a) or (5)(b) (use of additional contribution benefits).”.

14. In regulations 47(4)(a), 48(4)(a), 48(9)(a) and 48(10)(a) (survivor benefits: partners and children of pensioner members) after the words “earned pension” insert “(including any amount added under regulations 39(1)(a) or 39(2)(a) (enhancement of member’s Tier 1 and Tier 2 benefits))”.

15. In regulation 64 (special circumstances where revised actuarial valuations and certificates must be obtained)—

⁽¹³⁾ Schedule 29 has been amended by the Finance Acts 2005, 2006, 2007, 2011, 2013 and 2014 and S.I. 2006/572; Paragraph 4A (which inserts the definition of uncrystallised funds pension lump sum) was inserted by the Taxation of Pensions Act 2014 (c.30).

⁽¹⁴⁾ Regulation 21 was amended by S.I. 2015/755.

⁽¹⁵⁾ Regulation 22 was amended by S.I. 2015/755.

- (a) in paragraph (1)⁽¹⁶⁾ at the end add “or entitled to receive an exit credit”;
- (b) in paragraph (2)(b) after “exit payment due from the exiting employer” insert “or exit credit payable to the exiting employer”;
- (c) after paragraph (2) insert—

“(2ZA) If an exit credit is payable to an exiting employer the appropriate administering authority must pay the amount payable to that employer within one month of the date when that employer ceases to be a Scheme employer, or such longer time as the administering authority and the exiting employer agree.”;
- (d) in paragraph (7) after the definition of “exiting employer” insert—

““exit credit” means the amount required to be paid to the exiting employer by the administering authority to meet the excess of assets in the fund relating to that employer over the liabilities specified in paragraph (2)(a).”.

16. In regulation 68(2) (employer’s further payments) for “regulation 30(6) (flexible retirement or (7) (early leavers on grounds of redundancy or business efficiency)” substitute “regulation 30(5) (early retirement), (6) (flexible retirement) or (7) (early leavers on grounds of redundancy or business efficiency)”.

17. In regulation 96 (rights to payments out of pension fund) after paragraph (1) insert—

“(1A) Where a transfer under paragraph (1) is a Club Transfer, the administering authority must comply with the provisions in the Club Memorandum in relation to that transfer.”.

18. In regulation 100 (inward transfers of pension rights), at the end insert—

“(8) Where a relevant transfer is a Club Transfer, the administering authority must comply with the provisions in the Club Memorandum in relation to that transfer.”.

19. In regulation 101 (effect of acceptance of transfer value) for paragraph (2) substitute—

“(2) The calculation of the appropriate amount of earned pension for the purposes of paragraph (1) is—

- (a) in the case of a transfer of employment between members of the Public Sector Transfer Club, in accordance with the Club Memorandum; and
- (b) in any other case in accordance with actuarial guidance issued by the Secretary of State.”.

20. In Schedule 1⁽¹⁷⁾ (interpretation)—

- (a) after the definition of “children’s pension” insert—

““Club Memorandum” means the memorandum published by the Cabinet Office under the title “The Public Sector Transfer Club – memorandum by the Cabinet Office” issued in March 2015 but effective from 1st April 2015⁽¹⁸⁾;

““Club Transfer” means a transfer of employment between members of the Public sector Transfer Club;”

- (b) for the definition of “local government service” substitute “means employment with a body specified in Part 1 of Schedule 2 (scheme employers)”;
- (c) in the definition of “partner” omit “in relation to an active member”;
- (d) after the definition of “permanently incapable” insert—

““protected transferee” has the meaning given in regulation 3(1C);

““protected transferee employer” means a body which is not a Scheme employer specified in Part 1 of Schedule 2 which becomes the employer of a protected transferee;

⁽¹⁶⁾ Regulation 64(1) was substituted by S.I. 2015/755.

⁽¹⁷⁾ There are amendments to Schedule 1 which are not relevant to these Regulations.

⁽¹⁸⁾ The Club Memorandum is published on the Cabinet Office website and can be accessed at the following address <http://www.civilservicepensionscheme.org.uk/media/95083/club-memorandum-march-2015.pdf>; a hard copy may be obtained from [xxx].

“Public Sector Transfer Club” means the arrangements approved by the Secretary of State and detailed in the Club Memorandum as providing reciprocal arrangements between the Scheme and other registered occupational pension schemes for making and receiving transfer value payments;”;

- (e) for the definition of “revaluation adjustment”⁽¹⁹⁾ substitute—
 ““revaluation adjustment” means—
 (a) in the case of a balance transferred under a Club Transfer, the adjustment that would have applied to that balance if it had not been transferred; and
 (b) in any other case the percentage specified as the change in prices in the relevant Treasury order made under section 9(2) of the Public Service Pensions Act 2013 which is to be applied to a sum in a pension account at the beginning of the next scheme year.”;
- (f) in the definition of “statutory pay”⁽²⁰⁾ for “statutory maternity, paternity, shared parental or adoption pay” substitute “statutory sick, maternity, paternity, shared parental or adoption pay”.

21. In Schedule 2⁽²¹⁾ (Scheme employers)—

- (a) in paragraph 5 of Part 2, for “local authority listed in paragraphs 1 to 5 of Part 1 of this Schedule” substitute “body listed in paragraphs 1 to 5 of Part 1 of this Schedule”;
- (b) In Part 3—
 (i) after paragraph 1(e) insert—
 “(f) a protected transferee employer.”;
- (ii) omit paragraph 11; and
 (iii) at the end add—

“14. An admission agreement may take effect on a date before it is executed.”.

22. In the table in Part 2 of Schedule 3⁽²²⁾ (pension funds), in the 7th row (relating to an employee of a Scheme employer listed in paragraphs 5 or 6 of Part 2 of Schedule 2), in column 2 omit the words “the local authority or authorities, or”.

Amendment of the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014

23. The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014⁽²³⁾ are amended in accordance with regulations 24 to 29.

24. In regulation 3 (membership before 1st April 2014)—

- (a) after paragraph (5) insert—
 “(5A) Notwithstanding paragraph (1)(a), regulations 30(2) and 30A(3)⁽²⁴⁾ of the Benefits Regulations (requirements for member aged between 55 and 60 to obtain consent for early payment of pension) cease to have effect.”
- (b) at the end of paragraph (6) add “but notwithstanding paragraph (1)(a), the normal pension age in relation to deferred benefits accrued before 1st October 2006 is age 65”.

25. In regulation 9 (transfers)—

- (a) in paragraph (1)—
 (i) omit “before 1st April 2015”; and

⁽¹⁹⁾ The definition of “revaluation adjustment” was amended by S.I. 2015/755.

⁽²⁰⁾ The definition of “statutory pay” was amended by S.I. 2014/3255.

⁽²¹⁾ Schedule 2 was amended by S.I. 2014/1146 and 2015/755.

⁽²²⁾ The table in part 2 of Schedule 3 was amended by S.I. 2014/1012, 2014/1146 and 2015/755.

⁽²³⁾ S.I. 2014/525.

⁽²⁴⁾ Regulation 30A was inserted by S.I. 2010/2090.

(ii) at the end add “since ceasing active membership in the scheme from which the transfer payment is received”;

(b) after paragraph (1) insert—

“(1A) Regulation 4 (statutory underpin) applies to a person of the description in paragraph (1) as if that person had been an active member of the 2008 Scheme in respect of the service in the different public service pension scheme.”.

26. In regulation 10 (interfund adjustments etc) for paragraph (6) substitute—

“(6A) A member with deferred benefits relating to the Earlier Schemes, who did not become a member of the 2014 Scheme by virtue of regulation 5(1) of these Regulations (membership of the 2014 Scheme), but who subsequently becomes an active member of the 2014 Scheme may—

- (a) within 12 months of the active member’s pension account being opened, or
- (b) such longer time as the Scheme employer permits,

elect to receive a transfer value payment in relation to the deferred benefits to be credited to the active member’s account to purchase earned pension in accordance with actuarial guidance issued by the Secretary of State.

(6B) Where the appropriate administering authority in relation to the active member’s pension account mentioned in paragraph (6A) (“the current authority”) is different to the administering authority which is the appropriate administering authority in relation to the deferred benefits (“the previous authority”), the previous authority must make the transfer value payment to the current authority.”.

27. In regulation 14(2) (contributions) after “refund of contributions” insert “(including additional contributions)”.

28. In regulation 15 (additional contributions)—

(a) omit paragraph (1)(b);

(b) for paragraph (1)(d) substitute—

“(d) regulation 14 (election in respect of additional pension) and 14A⁽²⁵⁾ (election to pay additional contributions: survivor benefits) of the Benefits Regulations and regulations 23, 24, 24A and 24B of the Administration Regulations⁽²⁶⁾ (payment, discontinuance and use of additional contributions) as they apply to a member who has elected before 1st April 2014 to pay additional contributions under those regulations.”.

(c) after paragraph (2) insert—

“(2A) Regulations 17 and 17A of the 2013 Regulations (additional voluntary contributions) apply to an AVC arrangement entered into before 1st April 2014 as they apply to an AVC arrangement entered into on or after that date save that—

- (a) the normal pension age in an AVC arrangement entered into before 1st April 2014 is the normal retirement age under the 2008 Scheme; and
- (b) regulation 66(8) of the 1997 Regulations (persons making elections in relation to AVCs prior to 13th November 2001) continues to have effect in relation to persons of the description in that regulation.”;

(d) omit paragraph (4);

(e) in paragraph (5) for “paragraph (4)” substitute “paragraph (2A)”.

29. In Schedule 2 (rule of 85) in paragraph 1(1)(c)⁽²⁷⁾ after “of the 2013 Regulations” insert “, or regulations 30(1) (choice of early pension) or 30A (choice of payment of pension: pensioner member with deferred benefits) of the Benefits Regulations,”.

⁽²⁵⁾ Regulation 14A was inserted by S.I. 2009/3150 and was amended by S.I. 2010/2090 and S.I. 2012/1989.

⁽²⁶⁾ Regulations 24A and 24B were inserted by S.I. 2009/3150.

⁽²⁷⁾ There are amendments to Schedule 2 which are not relevant to these Regulations.

Transitional Provision

30.—(1) Any admission agreement which subsists at the date these Regulations come into force remains in force and is treated as if it had been the subject of a determination under section 25(5) of the Public Service Pensions Act 2013⁽²⁸⁾.

(2) Each administering authority must, within 12 months of the date these Regulations come into force, include in its list published under section 25(9) of the Public Service Pensions Act 2013, details of the persons included in admission agreements to which it is a party, to whom the Scheme relates by virtue of the provision in paragraph (1).

We consent to the making of these Regulations

Date *Names*
Two of the Lords Commissioners of Her Majesty's Treasury

Signed by authority of the Secretary of State for Communities and Local Government

Name
Parliamentary Under Secretary of State
Department for Communities and Local Government

EXPLANATORY NOTE

(This note is not part of the Regulations)

These Regulations amend the Local Government Pension Scheme Regulations 2013 (“the 2013 Regulations”) and the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (“the Transitional Regulations”). Both sets of regulations came substantively into effect on 1st April 2014 and the amendments in these Regulations mostly take effect from that date. Section 3(3)(b) of the Public Service Pensions Act 2013 provides that scheme regulations may make retrospective provision.

Regulations 3 to 5 implement the Government’s “Fair Deal” policy for local government workers with the effect that members of the Local Government Pension Scheme who are compulsorily transferred to another employer retain the right to membership of the Scheme. Amendments are made to the 2013 Scheme to align the categories of person eligible for membership more closely with the regime contained in section 25 of the Public Service Pensions Act. Regulations 21(b) and (c) and 22(b)(i) make consequential amendments to the admission body regime.

Regulations 6 and 7 make minor clarifications to provisions in the 2013 Regulations relating to contributions.

Regulations 8 and 9 introduce flexibilities into the manner in which AVC benefits may be taken.

Regulation 10 permits employers to adopt a higher reference figure for the calculation of assumed pensionable pay where it would otherwise be unfairly low and identifies how irregularly- received income from fees for acting as a returning officer are to be included in calculation of assumed pensionable pay.

Regulation 11 changes the default position as regards aggregation of benefits when a former member of the Scheme resumes active membership.

Regulations 12, 14 and 16 make minor clarifications to provisions in the 2013 Regulations relating to the calculation of pensions.

⁽²⁸⁾ 2013 c. 25.

Regulation 13 makes changes consequential to the introduction of a new regulation 17A into the 2013 Regulations and clarifies that all lump sum payments are taken into account when identifying the limit on taking benefits in the form of a lump sum.

Regulation 15 makes provision for employers to receive credit for any surplus assets in a fund upon ceasing to be a Scheme employer.

Regulations 17 to 19 and 20(a) make provision for the Scheme to comply with its membership obligations of the Public Sector Transfer Club.

Regulation 20(c) amends the definition of “partner” and regulation 20(f) provides for statutory sick pay to come within the definition of “statutory pay”.

Regulation 21(b) clarifies that an admission agreement may be backdated and removes the requirement for details of admission agreements to be sent to the Secretary of State.

Regulation 22 amends provisions in Schedule 3 (pension funds) to clarify which is the appropriate administering authority for employees of entities wholly owned by bodies listed in paragraphs 1 to 5 of Part 1 of Schedule 2.

Regulation 24 amends the Transitional Regulations to remove the requirement for persons aged between age 55 and 60 to obtain their employer’s consent to draw benefits early.

Regulation 25 ensures that members of other public service pension schemes who are entitled to transitional protection under those schemes and who are continuing to accrue final salary benefits can obtain final salary benefits within the Local Government Pension Scheme if they transfer those benefits in and can benefit from the statutory underpin.

Regulation 26 introduces a 12 month time limit (which is capable of extension by the employer) if a former member of the Earlier Schemes takes up active membership of the Scheme and wishes to aggregate the benefits.

Regulation 27 clarifies that the term “contributions” includes additional contributions when used in regulation 14 of the Transitional Regulations.

Regulation 28 has the effect that the administration of AVC benefits is carried out under the provisions in regulation 17 of the 2013 Regulations irrespective of when the AVC arrangement was established.

Regulation 29 makes an amendment to the provisions in Schedule 2 to the Transitional Regulations (“the rule of 85”) consequential to the amendment made by regulation 20, which removes the requirement for employer consent for members aged between 55 and 60 to draw benefits.

Regulation 30 is a transitional provision giving administering authorities 12 months to include details of existing admission agreements in their notices of details of persons to whom the Scheme relates by virtue of a determination under section 25(5) of the Public Service Pensions Act 2013.

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Our Ref: LGPS (Amendment) Regulations 2016
Your Ref:

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15

Vincent Kiddell
Workforce Pay & Pensions
Department of Communities and Local Government
SE Quarter Fry Building
2 Marsham Street
London
SW1P 4DF

15 August 2016

Dear Vincent,

RE: Consultation on the Local Government Pension Scheme (Amendment) Regulations 2016

Surrey County Council (Surrey) welcomes the opportunity to respond to the Government's consultation on the Local Government Pension Scheme (LGPS (Amendment)) Regulations 2016, including the 'Fair Deal' proposals.

Surrey is the Administering Authority for the Surrey Pension Fund (the Fund) as part of the Local Government Pension Scheme (LGPS). The Fund has assets of over £3billion and includes more than 200 employers.

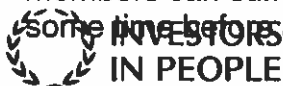
Special circumstances where revised actuarial valuations and certificates must be obtained

We are supportive of the proposed amendment to the LGPS 2013 Regulations (Regulation) 64, to allow for exit credits to be paid to employers that no longer have active members in a pension fund.

The current situation is inequitable as it allows for deficit repayment to be charged to, but, no corresponding surplus to be credited to exiting employers. We do however believe that a deadline of one month, by which the administering authority should make any exit credit due, is too short a time period and does not allow for administrative, actuarial or disinvest delays. ***We propose that any relevant surplus should be paid in a maximum of three months.***

Scheme employers – Draft Regulation 21

We welcome the proposal to allow administering authorities to progress with admission body applications without a finalised admission agreement being in place. Scheme members can suffer unnecessary distress, if they have transferred their employment some time before an admission agreement is finalised.



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It is nonetheless not desirable for the completion of admission agreements to be delayed for a significant period of time, not least due to the risk it can pose to the administering authority, transferring scheme employer and admission body. ***It is proposed that an undertaking be signed between all parties to abide by the regulations while the admission agreement is being finalised.***

Early payment of pension for members aged 55 and older – Draft Regulation 24

We support the proposed change that would allow members who left the LGPS with a deferred benefit under the 2007 Benefits Regulations to elect to receive an actuarially reduced pension between the ages of 55 and 59 without requiring their employer's consent.

We also support extending this to all other deferred members of the LGPS, incorporating the 1995 and 1997 Regulations. ***We believe this will provide for consistent treatment of all deferred LGPS members.***

Fair Deal in Local Government (Draft Regulations 3 – 5)

We broadly support the Government's proposals on how to deal with pension issues when staff are compulsorily transferred from bodies providing services connected to local government to replace the existing Best Value Staff Transfers (Pensions Direction) 2007 and compliment Fair Deal for staff employed in public sector pension schemes. However, we do have some queries, seek some further clarification and also see the proposals as an opportunity lost in its current form.

Protected transferee employers

Although we welcome the introduction of the new "protected transferee" category of employer in the Regulations we do have some comments and seek clarification on a number of areas:

1. In the Draft Regulations, 4, (2), b, the definition of eligibility for membership of the LGPS as part of a protected transferee admission body is;

"...for so long as that person remains wholly or mainly employed on the delivery of the service or function transferred".

This significantly expands the scope of Fair Deal and the current Best Value Direction and would appear to automatically include all sub-contracting by new employers (whereas this would not necessary be the case under the existing legislation).

Under current regulations community admission bodies that designated membership of the LGPS through an admission body, would not necessarily be required to ensure continued protection of that eligibility in a contracting out scenario.

However, under the proposed amendment regulations it appears that these bodies could find themselves having to guarantee continued access to the LGPS for staff, even if the service has no connection to a public service contract.

Is this the intention of the government and has account been taken of the potential knock on effect it could have in contract pricing and value for money to tax payers?

2. We seek further guidance or regulation on a standard definition of what constitutes “wholly or mainly employed on the delivery of the service or function”.

This definition appears to go beyond the existing definition, under the Regulations 20, Schedule 2, Part 3, 12 (a), of being;

“...employed in connection with the provision of the service or assets...”

The application of this definition is currently exercised by an administering authority discretion, but, we would welcome further guidance on the new definition of eligibility for the LGPS as a ‘protected transferee’ employer.

3. We welcome the inclusion of the requirement, under the proposed amendment regulations, to allow a mitigation of risk posed by the new ‘protected transferee’ employer through the extension of the provision of a bond, indemnity or guarantee, should the risk be considered to require it. This mirrors current practice for Schedule 2, Part 3, 1 (d) employers, as contained in the Regulations, Schedule 2, Part 3, 6-8.

We are, however, concerned that there is no corresponding protection for the Fund through a guarantee from the connected scheme employer, if for any reason it is not possible to obtain all or part of the exit payment due from a ‘protected transferee’ employer, as exists in the Regulations 64, (3), (a) in relation to Part 3, Schedule 2, 1 (d) employers.

We hope this is an oversight, in the draft amendment regulations, which will be amended before the statutory instrument is laid. If this is not the case it will severely impact the covenant strength of ‘protected transferee’ employers.

A proposed alternative approach to adopting the reformed Fair Deal in Local Government

The consultation asks for a recommendation of alternative approaches to adopting a reformed Fair Deal in local government. It is our contention that Fair Deal for local government should provide the best possible value for taxpayers and that this can be better achieved by more closely aligning it with how Fair Deal operates for other unfunded public sector schemes.

Fair Deal for unfunded public sector schemes does not encounter the issue of uncertainty of pension liabilities for contractors. Employer contributions are set by the national scheme and do not have a deficit repayment element.

The proposed Fair Deal for local government continues the current practice of leaving transferring scheme employers and contractor employers to negotiate pension risk at a local level.

Experience shows that, where contractor employers have unquantifiable pension liabilities included as part of the initial tender negotiations and potential material pension liabilities on their balance sheet during the contract term, any estimated or actual cost is invariably passed back to the transferring scheme employer (normally a local authority), sometimes at an inflated premium.

We do not believe this offers the best value for money for local taxpayers.

Our alternative solution would be for contractor employers to pay a fixed regular contribution rate and for all pension risk to be retained by the contracting employer; this is sometimes known as a pass-through arrangement.

It is acknowledged that this would require an assessment of the financial pension risk that the contracting authority was to retain and for this to be reflected in the contract pricing.

However, we believe that allowing this financial analysis to be part of the procurement process offers the opportunity to make the tender process more transparent and allows contractors to price contracts more competitively, with the clear benefit this offers to taxpayers.

Surrey is largely supportive of the proposed amendments to the LGPS Regulations and many aspects of the Fair Deal proposals. However, we do contend that a failure to remove pension risk from the tender process would be a wasted opportunity.

Yours sincerely



Sheila Little
Director of Finance

SURREY COUNTY COUNCIL**PENSION FUND COMMITTEE****DATE: 23 SEPTEMBER 2016****LEAD OFFICER: SHEILA LITTLE, DIRECTOR OF FINANCE****SUBJECT: CONSULTATION ON DEVELOPING AN INSOLVENCY REGIME FOR HIGER EDUCATION COLLEGES: RESPONSE OF THE COUNCIL****SUMMARY OF ISSUE:**

This report summarises the proposed development of an insolvency regime for the further education sector within a consultation document issued by the Department for Business, Innovation and Skills (DBIS) on 6 July 2016. This report also provides details of the response to this consultation by the Council.

RECOMMENDATIONS:

It is recommended that the Pension Fund Committee:

Note the report.

REASON FOR RECOMMENDATIONS:

The Pension Fund Committee must be aware of the risks presented to the Fund by the potential insolvencies of the employers within the Surrey Pension Fund.

DETAILS:**Background**

- 1 On 6 July 2016, the DBIS consulted on the proposed development of an insolvency regime for the further education sector (FE sector).
- 2 Colleges in the FE sector are statutory corporations incorporated under the Further and Higher Education Act 1992 (the Act). They are also exempt charities regulated by the DBIS and the Department for Education (DfE) respectively.
- 3 Under the Act, FE sector colleges are able to transfer their “property, assets and liabilities” to another willing party in order to dissolve. However, the Act does not provide for what should happen if there is no such willing party, most likely because the liabilities of the dissolving college exceed its assets.
- 4 In practice, Exceptional Financial Support (EFS) has been used to protect learners and avoid disorderly closures where prior interventions have been unsuccessful or creditors move on college debts. However, there is no obligation on government to provide such exceptional funding.

- 5 The DBIS proposal is to bring insolvency procedures for the FE sector in line with those provided for companies under the Insolvency Act 1996, including administration and liquidation.
- 6 Employees of FE sector employers are eligible for membership of the Local Government Pension Scheme (LGPS) under Schedule 2, Part 1 of the LGPS regulations.
- 7 In the event of the full closure of a FE sector college, where the college has no active members in the relevant Local Government Pension Scheme (LGPS) fund, the college becomes an exiting employer. Regulation 64 of the LGPS 2013 requires an exiting employer to pay an exit payment
- 8 The Surrey Fund includes 18 employers in the FE sector.
- 9 The consultation is shown as Annex 1.

The DBIS proposals for an insolvency regime

- 10 The proposals closely mirror the insolvency arrangements afforded to companies under the Insolvency Act 1986 and the proposed regime would include:
- Company Voluntary Arrangement
 - Administration
 - Compulsory Liquidation
 - Creditors' Voluntary Liquidation
- 11 In addition, it is proposed to establish a Special Administration Regime (SAR) for FE sector colleges which would be triggered where a college becomes insolvent and the Secretary of State deems it appropriate to apply for a SAR.
- 12 The SAR will allow more time than normal insolvency procedures to mitigate the risk that a FE sector college is wound up quickly and in a way which, by focusing only on creditors, would be likely to damage learners. In addition, it will protect taxpayers by not propping up failing colleges indefinitely.

Response of Surrey County Council to the Consultation

- 13 The Director of Finance responded to the consultation on 4 August 2016, after conferring with the Chairman of the Pension Fund Committee.
- 14 The response expressed the support of the Council for the proposals to develop an insolvency regime for the FE sector.
- 15 The response goes on to consider the relative merits of each of the insolvency options outlined in the consultation from the perspective of the pension fund as a potential unsecured creditor.
- 16 With regard to the proposed SAR, specific assurances are sought in respect of the continued obligation of FE sector colleges to maintain pension payment obligations during the SAR process and that any resulting Transfer Scheme would not override the third party rights or security of the pension fund.

- 17 The response provides three options for the government to consider, which it contends will support LGPS pension funds and local taxpayers, whilst simultaneously supporting the FE sector. These are:
- A change in the LGPS regulations to mandate the provision of security to LGPS funds by FE sector colleges
 - The removal of FE sector colleges from the LGPS
 - The provision of a government guarantee for FE sector colleges
- 18 The consultation response is shown as Annex 2.

CONSULTATION:

- 19 The Chairman of the Pension Fund Committee has been consulted on the report.

RISK MANAGEMENT AND IMPLICATIONS:

- 20 Risk related issues are contained within the report.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

- 21 Financial and value for money implications are discussed within the report.

DIRECTOR OF FINANCE COMMENTARY

- 22 The Section 151 Officer (Director of Finance) is satisfied that all material, financial and business issues and possibility of risks have been considered and addressed.

LEGAL IMPLICATIONS – MONITORING OFFICER

- 23 There are no legal implications or legislative requirements.

EQUALITIES AND DIVERSITY

- 24 No equality analysis is required, as there is no major policy, project or function being created or changed.

OTHER IMPLICATIONS

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

WHAT HAPPENS NEXT

- 25 A response is now due from DBIS and DfE.

Contact Officer:

Phil Triggs, Strategic Finance Manager (Pension Fund and Treasury)

Consulted:

Pension Fund Committee Chairman

Annexes:

Annex 1: Consultation on developing an insolvency regime for the FE sector

Annex 2: Consultation response of Surrey County Council

Sources/background papers:

None



Department
for Business
Innovation & Skills

**Further Education and Sixth Form
Colleges**

Consultation on Developing an
Insolvency Regime for the Sector

JULY 2016

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Consultation on Developing an Insolvency Regime for the Sector

This consultation seeks comments on proposals to introduce procedures for further education and sixth form colleges which become insolvent (unable to pay their debts). The proposals include a Special Administration Regime which would give extra protection to ensure continuity of service.

The insolvency regime would be designed to:

- Protect learners from disruption to their courses;
- Help the rehabilitation of the college, where possible; and
- Provide an orderly winding up procedure if a college becomes insolvent.

We are proposing insolvency procedures for colleges in line with those provided for companies under the Insolvency Act 1996, including administration and liquidation.

Issued: Wednesday 6 July 2016

Respond by: Friday 5 August 2016

Enquiries to:

Benjamin Dance
Department for Business, Innovation and Skills
Vocational Education Directorate
Orchard 1
2nd Floor
1 Victoria Street
London
SW1H 0ET
Tel: 0207 215 4839
Email: FEconsultation@bis.gsi.gov.uk

This consultation is relevant to:

- Further Education and Sixth Form Colleges, their staff and students
- Creditors of Further Education and Sixth Form Colleges

1. Foreword

Further education and sixth form colleges are critical in helping to improve national productivity by responding to local employers' needs and providing skilled workers for the labour force. This includes their role in delivering on our 3 million apprenticeship commitment by 2020.



The college sector is undergoing change with Area Reviews seeking to meet each area's educational and economic needs and to put the sector on a sustainable footing and to build financial resilience supported by a Restructuring Facility.

Colleges need to be able to access the appropriate legal mechanisms to address financial issues and to make arrangements appropriate to their commercial situation. Equally, learners are entitled to education and training from strong, responsive and high quality institutions.

The Government is rightly supporting the sector through this transition. Once the Area Review recommendations have been implemented, colleges, learners, creditors and taxpayers need to know that the corporations will continue to operate on an autonomous basis both financially and operationally.

Currently, the legal regime for colleges does not make clear how insolvent institutions should be dealt with. This anomaly cannot continue indefinitely. After the Area Reviews, colleges will need a legal framework within which to manage their finances independently and flexibly, with opportunities to restructure and protections for learners. Any framework will need to make provision for corporations to exit the market when appropriate and without undue detriment to learners, creditors and taxpayers.

The regulation of further education and sixth form colleges must evolve to champion independence and financial resilience, to protect learners and taxpayers and to provide clarity for college creditors. We plan to establish a comprehensive insolvency regime for the sector with a clear remit to provide flexibility where colleges can be rescued and clarity of process where they cannot.

This proposal reflects our mission to create resilient, responsive and independent further education and sixth form corporations and to protect our learners.

I encourage everyone with an interest in further education to feed in their views.

A handwritten signature in black ink, appearing to read 'Nick Boles', written in a cursive style.

Nick Boles, Minister of State for Skills

2. Executive summary

1. This document seeks comments on options for clarifying the statutory framework relating to further education and sixth form college insolvency, including a Special Administration Regime (SAR) which is designed to protect learner provision and to provide orderly winding-up procedures in the event of a college becoming insolvent.
2. The further education (FE) and sixth form (SF) college¹ sector is in a period of transition. Following changes in the Education Act 2011, colleges have become more autonomous, with greater freedoms and flexibility to take decisions and respond to the needs of learners and employers, and more independent in financial decision making. Many colleges swiftly adapted by reducing their costs and increasing their incomes from other sources, including higher education provision, apprenticeships and bespoke training schemes. A large majority are currently rated as having at least “satisfactory” financial health and operate competitively as providers of high quality education. However, a significant minority responded less effectively to these changes, with some colleges rated as having inadequate financial health.
3. In 2015, a programme of Area Reviews was launched across England with the aim of ensuring high quality, sustainable provision capable of meeting the future needs of learners and employers. A key objective of the reviews is to facilitate any structural changes required to deliver institutions which are financially viable, sustainable, resilient and efficient, and provide maximum value for public investment. A Restructuring Facility is being made available to support colleges in implementing the recommendations of Area Reviews where that is required².
4. The Government has also signalled its commitment to the sector by protecting the Adult Education Budget and 16-18 funding in the recent Spending Review and through its strong support for apprenticeships and Advanced Learner Loans; giving colleges a strategic opportunity to further diversify their funding base. Government – including both central Government and local Combined Authorities – will continue to have a strong interest in the financial resilience and sustainability of the college sector going forward. It will remain the provider of a large proportion of the sector’s funding, and will continue to have legal duties in respect of provision.
5. The Area Review process should significantly reduce the possibility of a financial failure in future, but it does not remove it altogether. It is important that arrangements for dealing with future insolvency are clear, and that learners are protected.
6. At present, the Further and Higher Education Act 1992 makes no provision for the treatment of insolvent colleges. Where a college is insolvent, another provider may still step in to accept its assets and liabilities to allow it to dissolve, but this is unlikely in practice. Where a recipient provider does not come forward, it is unclear whether insolvency law relating to compulsory winding-up currently applies to colleges. If it

¹ For the purposes of this document, the terms “college(s)” and “corporation(s)” are used interchangeably and include both further education and sixth form colleges. The existing legislative framework provides for a different position in relation to disposal of assets for certain sixth form colleges designated under section 33J of the Further and Higher Education Act 1992

² <https://www.gov.uk/government/publications/post-16-education-and-training-institutions-area-based-reviews>

does, it would be possible for a college to be wound up by the court. However, this is untested; and in any event would not provide the range of procedures that would offer flexibility for colleges and their creditors or protections for their learners.

7. This uncertainty creates the risk of disorderly closures and potential detriment for learners as their courses are interrupted or terminated, as well as potential adverse outcomes for creditors, and the taxpayer. It can also result in distorted incentives for colleges when making commercial decisions.
8. It is important that any new insolvency regime provides an orderly process for insolvent colleges to close, protects learners from disruption to their courses, respects existing independence of colleges and enables colleges to be rescued where possible.
9. The proposed insolvency regime for further education and sixth form colleges will establish a clear and well understood framework for the benefit of colleges, learners, creditors and taxpayers. We are proposing to establish a full suite of insolvency procedures for colleges, broadly in line with those afforded to companies under the Insolvency Act 1986 (IA86), including: administration and voluntary arrangements, so facilitating the rehabilitation of a college where possible; and where not, an orderly winding-up through voluntary or compulsory liquidation. It is intended that under the proposed college SAR, continuity of service will be protected for learners.

3. How to Respond

10. When responding, please state whether you are responding as an individual or representing the views of an organisation. If you are responding on behalf of an organisation, please make it clear who the organisation represents by selecting the appropriate interest group on the consultation form and, where applicable, how the views of members were assembled.

You can reply to this consultation online at:

<https://bisgovuk.citizenspace.com/ve/consultation-on-developing-an-insolvency-regime-fo>

Consultation opened on: 06 July 2016

Last date for responses is: 05 August 2016

11. The consultation response form is available electronically on the consultation page. The form can be submitted online/by email or by letter to:

Benjamin Dance
Department of Business, Innovation and Skills
Vocational Education Directorate
Orchard 1
2nd Floor
1 Victoria Street
London
SW1H 0ET
Tel: 0207 215 4839
Email: FEconsultation@bis.gsi.gov.uk

12. A list of those organisations and individuals consulted is in Annex 2. We would welcome suggestions of others who may wish to be involved in this consultation process.
13. You may make printed copies of this document without seeking permission.

The standard electronic version is at:

<https://www.gov.uk/government/consultations/developing-an-insolvency-regime-for-the-further-education-and-sixth-form-sector>

14. Versions of the document in Braille, other languages or audio-cassette are available on request.

4. Confidentiality and Data protection

15. Information provided in response to this consultation, including personal information, may be subject to publication or release to other parties or to disclosure in accordance with the access to information regimes (these are primarily the Freedom of Information Act 2000 (FOIA), the Data Protection Act 1998 (DPA) and the Environmental Information Regulations 2004). If you want information, including personal data that you provide to be treated as confidential, please be aware that, under the Freedom of Information Act, there is a statutory Code of Practice with which public authorities must comply and which deals, amongst other things, with obligations of confidence.
16. In view of this it would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding on the Department.

5. Help with Queries

17. Questions about the policy issues raised in the document can be addressed to:

Benjamin Dance
Department of Business, Innovation and Skills
Vocational Education Directorate
Orchard 1
2nd Floor,
1 Victoria Street
London
SW1H 0ET
Tel: 0207 215 4839
Email: FEconsultation@bis.gsi.gov.uk

18. The consultation principles are at Annex 1.

6. Background

19. Further education (FECs) and sixth form (SFCs) colleges are statutory corporations incorporated under the Further and Higher Education Act 1992. They are also exempt charities regulated by the Secretary of State for Business, Innovation and Skills (SoS BIS) and the Secretary of State for Education (SoS DfE) respectively. There are currently 241 further education colleges and 92 sixth form colleges providing education and training to people in England (education is a devolved matter in Scotland, Wales and Northern Ireland).
20. The further education and sixth form college sector in England is in a period of transition. Since 2010, the sector has become increasingly independent. The Education Act 2011 reflected the Government's policy of freedom and flexibility for colleges by removing some restrictions and controls to enable them to respond more effectively to the needs of learners and employers in sourcing funding and making decisions on day-to-day operations. Many colleges responded swiftly and a large majority are currently rated as having at least "satisfactory" financial health. They adapted by reducing their costs and increasing their incomes from other sources, including apprenticeships and bespoke training schemes. However, some colleges are rated as having inadequate financial health, demonstrating that a significant minority have not responded effectively to changes within the sector.
21. Looking to the future, the post-16 education sector is critical to our strategy of raising productivity and economic growth. England needs strong education and training institutions which have high status and are genuine centres of expertise capable of providing quality learning and delivering three million apprenticeships by 2020. On that basis, the Area Reviews were established in September 2015 to support restructuring of the post-16 education and training sector by assessing the structural changes required to improve local provision, including mergers or closure of colleges. The Area Reviews seek to ensure that the further education and sixth form colleges meet their local area's education and economic needs and that they are financially viable, sustainable, resilient and efficient. The reviews commenced in 2015 and are due to conclude in 2017 with full implementation expected in 2018.
22. Under the Further and Higher Education Act 1992, colleges³ are able to transfer their "property, assets and liabilities" to another willing party in order to dissolve. However, the Act does not provide for what should happen if there is no such willing party, most likely because the liabilities of the dissolving college exceed its assets. We no longer consider that the existing arrangements under the Act adequately address the solvency issues that colleges may face; nor does it provide for an orderly process to wind up insolvent colleges. There is a need for a clear insolvency regime which protects colleges' learners and creditors should the college fail. The sector's capacity to operate effectively is compromised where there are barriers to exit and commercial decisions are not directly linked to financial implications. It impinges the long-term success of the sector and delivers sub-optimal outcomes for learners, creditors and taxpayers.

³ As mentioned above, the existing legislative framework provides for a different position in relation to disposal of assets for certain sixth form colleges designated under section 33J of the Further and Higher Education Act 1992.

23. In practice, Exceptional Financial Support (EFS)⁴ has been used to protect learners and avoid disorderly closures where prior interventions have been unsuccessful or creditors move on college debts. There is no obligation on government to provide such exceptional funding however; and whilst the Area Reviews are expected to leave colleges in a more stable position, we cannot assume colleges will never become insolvent.
24. The corporate insolvency regime seeks to provide equal, fair and orderly procedures by which to handle the affairs of insolvent companies, providing mechanisms for rescuing businesses and for ensuring an equitable distribution of the assets amongst creditors. It also seeks to minimise delay and expense and where appropriate enable both debtors and creditors to be involved in resolving the insolvency. The proposed regime for colleges builds on these principles to ensure protection of learner provision, as well as clarity and rights for creditors which are comparable with the position applying to companies.
25. It is unclear whether insolvency legislation currently applies to further education and sixth form colleges. Section 221 of the Insolvency Act 1986 (IA86) provides that an “unregistered company” can be wound up by the court. However, it is unclear whether a further education and sixth form college falls within the definition of “unregistered company” under Section 220 of the IA86. The legal arguments are finely balanced and ultimately only a court can determine the issue. If further education and sixth form colleges are to be regarded as “unregistered companies” then they would be subject to the compulsory winding-up procedures in the IA86, leading to a reasonably orderly regime on normal insolvency principles including, where there are sufficient funds, *pari passu*⁵ distribution to unsecured⁶ creditors. If not, there would likely be a disorderly outcome in the event of the insolvency of a college, with unsecured creditors claiming on an unequal “first past the post” basis.
26. The proposed insolvency regime will build on the existing legislative framework, based on the process of administration and liquidation with appropriate changes to tailor the procedures to the requirements of the sector. Some of the main factors influencing and underlying the proposals are:
- Establishment of an orderly process which provides protections for creditors comparable with other relevant UK insolvency regimes
 - Protection of the interests of learners by promoting continuity of provision
 - Retention of independence and freedoms of colleges (as expanded by the Education Act 2011) whilst removing or mitigating any expectation of additional exceptional public funding
 - Support for local and national education and training needs

⁴ Link to policy document: <https://www.gov.uk/government/publications/further-education-colleges-financial-intervention-and-exceptional-support>

⁵ On an equal basis, proportionately to amounts owed

⁶ Unsecured creditors have no security over the insolvent corporation’s assets in respect of the debt due to them

- In cases where it is feasible, facilitation of the rescue of the FEC / SFC as a going concern, including access to new financing
 - Maintaining and maximising the value of the assets of the FEC / SFC
 - Creating a legislative context in which commercial lenders will continue to look to lend to colleges on appropriate terms.
27. The proposed regime is technical in nature and this document therefore provides a general overview and explores certain technical details. We would welcome your views on both the overall design of the regime and the technical details.
28. In particular, the consultation considers the:
- Need for legislation and an insolvency regime for colleges in England;
 - Entry routes to the insolvency regime;
 - Proposed Special Administration Regime objective;
 - Options for protecting service provision; and
 - Exit routes from insolvency.

Timing

29. The proposed insolvency regime would require primary legislation. Subject to the consultation outcome, we would seek to introduce measures to legislate when Parliamentary time allows.

Scope

30. It is envisaged that the proposals contained in this consultation will apply to further education and sixth form colleges in England only. However insolvency is a matter for Westminster in relation to England and Wales and any proposed changes to insolvency legislation could also be applied to colleges in Wales. We are consulting with the Welsh Government and would welcome views from colleges and other stakeholders in Wales on whether to apply these provisions to colleges in Wales.
31. We do not propose to legislate in relation to Scotland or Northern Ireland as different legislation governs this matter in these territories.

Specialist Designated Institutions (DIs)

32. The proposals relating to colleges do not cover specialist designated institutions. Some FE bodies have been designated under section 28 of the Further & Higher Education Act 1992 as institutions “grant-aided or eligible to receive aid by way of grant if it is maintained by persons other than local education authorities.”⁷ They are registered as charities with the Charity Commission, and subject to the provisions of the Charity Acts.
33. These bodies have different legal form to further education and sixth form colleges. The majority of designated institutions are companies and as such are already subject to insolvency procedures. We propose to allow the SAR to be applied to those designated institutions that are companies, should they become insolvent.
34. We also considered whether to extend the proposed insolvency regime, including the SAR, to the three designated institutions that are not companies. However, given the way that they are structured and funded, it would seem unlikely that they would fall into a position of insolvency. Due to their legal nature, the application of a SAR to these specific DIs would be significantly more complex than its application to either colleges or DIs that are companies. A SAR would also be limited in its potential application to these types of DI because of their high degree of specialisation, making it difficult to transfer learners at these institutions to suitable alternative providers. For these reasons we only propose to extend the SAR provisions to those designated institutions that are companies.

Question 1: Do you agree that only the SAR element of this regime should be applied only to Designated Institutions that are companies? Please give reasons for your answer.

⁷ <http://www.legislation.gov.uk/ukpga/1992/13/section/28>

7. Proposals

7.1 Need for a legislative Approach

35. The Government has made clear⁸ that going forward it would expect that only colleges who actively ensure that they are financially sustainable and can deliver good quality provision for learners and employers should receive public funding.
36. Colleges are independent institutions. Government provides much of their funding and has no additional commitment or liability to protect the integrity of institutions with unsustainable debts, or their creditors. Without any change in legislation, insolvent colleges could be brought directly and unpredictably through the courts by their creditors, facing what may be a long and costly process to deal with remaining assets and close the college's business. In such a situation, and without a specific provision in place, Government's overarching principle would still be to seek to protect learners as far as possible, but this would be made more difficult by the lack of a specific regime and ultimately the courts would determine the outcome.
37. The risk of unmanaged change is recognised and in developing these proposals we have reflected on non-legislative routes by which learners could be supported. This could include potential preferred-creditor protection arrangements for students in the event of insolvency with possible bonds providing security to learners or escrow arrangements protecting learner fees paid in advance by setting them aside in trust. We have also considered establishing insurance packages to protect students' fees and allow for their funding to be transferred to another college to continue their learning without it being lost to settle other debts. We consider such arrangements for learners would be prohibitively expensive and it would require tighter regulation of the sector to ensure compliance. It would do nothing to protect continuity of provision of learners generally and would also impose costs on financially stronger colleges, as well as weaker colleges.
38. Given Government's over-riding objectives of providing for learner protection without the need to financially support non-viable colleges, whilst also providing for orderly processes and rescue mechanisms for colleges which fail financially, we do not consider that there are any other measures that would offer equal or better protection to learners who have been placed in difficulty as a result of an institution becoming insolvent and meet these other key objectives. We therefore consider that in order to protect learners in the event of a college becoming insolvent and meet the other objectives, it is necessary to introduce an insolvency regime for FE and sixth form colleges that addresses the specific characteristics of the sector.

⁸ See: www.gov.uk/government/publications/post-16-education-and-training-institutions-review and www.gov.uk/government/uploads/system/uploads/attachment_data/file/459845/BIS-15-526-reviewing-post-16-education-and-training-institutions-guidance-on-area-reviews.pdf

7.2 Proposals for an insolvency regime

39. This policy aims to deliver options for the rehabilitation of a college where possible and if not, to promote an orderly winding up with protections for learners and creditors. We believe it is in the best interests of colleges, learners and creditors, to have the flexibility of a number of options in the event of insolvency including rescue and voluntary or compulsory wind up. The proposals closely mirror the insolvency arrangements afforded to companies under the Insolvency Act 1986 and would be provided through new primary and secondary legislation.
40. The proposed regime would include:
- Company Voluntary Arrangement⁹
 - Administration
 - Compulsory Liquidation
 - Creditors' Voluntary Liquidation
41. In addition, we propose to establish a Special Administration Regime (SAR) for colleges which will sit alongside the above options. It would be triggered where a college becomes insolvent and the Secretary of State¹⁰ deems it appropriate to apply for a SAR to protect learner provision.

Company Voluntary Arrangement (CVA)

42. A CVA provides for an arrangement on debts between a company and its creditors to allow the company to avoid liquidation by entering an agreement binding at least on all unsecured creditors. A CVA can be used as part of a wider arrangement or restructuring. It is often used for short-term or one-off debt problems and is supervised by an insolvency practitioner.
43. CVAs would be an attractive option for colleges because they do not, as a matter of course, require court intervention and would potentially give more control to both the college (as the college governors would remain in control) and the unsecured creditors (as they can vote against the agreement if they wish). In a CVA, the insolvency practitioner only monitors the arrangement (as supervisor); control would lie with the college at all times (unless already in administration or liquidation).

Administration

44. Administration provides for a number of possible outcomes: the college could be reorganised (including via a CVA), it could be sold as a going concern in its entirety or in part, or the administrator could decide to put the college into liquidation. If the administrator recommends that the college enter liquidation, it can do so via compulsory or creditors' voluntary liquidation.

⁹ The official name for this process is Company Voluntary Arrangement. We continue to use this title as it is well understood, but have considered how it could apply to colleges.

¹⁰ For further education colleges it will be SoS Business, Innovation and Skills and for sixth form colleges, it will be SoS Education

45. Administration for colleges would operate, as for companies, subsequent to or in place of a CVA. An insolvency practitioner (“IP”) would be appointed as administrator to replace the governors and could either retain or change the principal, and ensure the college still operates (at least for a period while proposals are worked up by the administrator). A statutory moratorium would be automatically imposed which would prevent creditors enforcing claims and provide breathing space to allow the administrator to reorganise the college’s affairs or sell assets, whichever they deem most appropriate, without immediate pressure from the creditors.
46. The administrator would prepare a statement of proposals to share with the creditors and college governors. In some circumstances, the college’s creditors would then get to vote on the proposals. If asked, over 50% (in value), must vote in favour to approve the proposals. If approved, the proposals would be taken forward and the college would continue to operate under the administrator. If rejected, the administrator would look to the court on how to proceed.
47. In an administration there is no automatic termination of employment contracts so the administrator could choose to retain college staff to continue the college’s operations.¹¹ In such cases this would provide for service continuity and minimises the disruption that students will suffer, especially at short notice. The automatic moratorium would provide space to examine the opportunity for college rehabilitation, where funding is available. If there were not sufficient funds available, the administrator would have no alternative but to close the college. This would protect the interests of creditors, but may not allow the administrator to take action to protect the learners. A SAR will ensure that the interests of learners are given priority and the administrator is able to act accordingly.
48. As with companies, the college administrator would have 12 months to execute the proposals, at which point their appointment would be terminated. It could be extended by the court or by agreement with college creditors. Alternatively, the administrator could apply to the court for a termination at any point during administration.

Compulsory Liquidation

49. Compulsory Liquidation, also known as winding up by the court is where a petition is made to the court that a company is wound up. There are a number of possible applicants including the company itself, but in the vast majority of cases of compulsory liquidation of companies, the petitioner will be a creditor for an unpaid debt.
50. Applying this to FE and sixth form colleges, when the court grants a winding-up order, a liquidator would be appointed and would take over the college. Other than where there has been a CVA or an administration immediately prior to the winding-up order (in which case, the former officer holder may be appointed), the liquidator would be an official receiver, at least in the first instance. The governors and principal would be dismissed upon the making of the order. There are limited grounds on which a

¹¹ An administrator will need to make a decision on staff within 14 days of his appointment, as otherwise the contract of employment is taken as adopted.

liquidator can trade when a company is in liquidation and in the college situation, in all likelihood the liquidator would shut down the college as soon as they were appointed. These measures are in line with procedures for companies and charities where the directors/trustees are dismissed from office when a liquidator is appointed¹².

51. The liquidator, once appointed, would gather together the college's assets and sell them, distributing the proceeds to the college's creditors in priority order; they would first pay fixed charge holders (from assets covered by a fixed charge), followed by the costs of the winding-up, then preferential creditors including wages and redundancy payments to employees (to statutory limits), and then unsecured debts. Liquidation would inevitably result in an immediate break in service provision. This is because the winding-up order would automatically terminate all employee contracts with immediate effect. Even if the liquidator sought to continue operating the college, they would have to rehire the necessary staff, including teachers, on short term contracts to carry out the functions required.
52. At the end of the liquidation process, it is expected that the college would be dissolved. This final process and outcome would be the same for voluntary and compulsory liquidation. It is very unlikely that a college entering liquidation would emerge and continue operating as before (in some cases elements of a business may emerge, but not the corporation itself).
53. We have considered the possibility of providing only for compulsory liquidation and not for other insolvency procedures such as administration and CVAs. Compulsory liquidation is an important process in an insolvency regime in that it would allow for an orderly winding up for insolvent colleges where creditors have been unable to secure payment by other avenues. It has the benefit of being a widely understood process and provides the clarity of a winding up by the court with an orderly distribution to creditors. However, learners would not be afforded any protection on continuity of provision, and very little prospect of rescue for colleges.

Creditors' Voluntary Liquidation

54. In the case of companies, a creditor's voluntary liquidation (CVL) is a procedure whereby the company directors voluntarily bring the business to an end by appointing a liquidator. The liquidator is appointed at a creditors' meeting. This is different from a compulsory liquidation which is forced upon an insolvent company by the Court via a winding up order. In the case of applying a CVL to colleges, the governors (whom the proposed regime would treat as equivalent to a company's members) could resolve to wind the college up and where the college is insolvent¹³, this would be in the form of a creditors' voluntary liquidation.
55. The liquidation would be managed by a liquidator nominated by the creditors, or if no creditor nomination is made, by the governors' nominated liquidator. The liquidator would realise the college's assets for distribution to creditors in order of priority,

¹² Once a charity becomes insolvent the trustees' duties change from being that of the best interest of the beneficiaries to that of the best interest of the creditors. If the liquidator removes all the trustees he would become the trustee, but only need to have regard to the duties of winding up the charity in the best way.

¹³ Where no statutory declaration of solvency has been made in accordance with section 89 of the Insolvency Act 1986 (that the college will be able to pay its debts in full within the specified period),

depending on the nature of the creditor and any security held. It is unlikely that the liquidator would be able to provide for rescue of the college. Given that there will be more effective insolvency options which would support the rescue of the college, it is anticipated that the governors would use this where winding up was the only option.

56. Members' Voluntary Liquidation (MVL) is another process available under the Insolvency Act 1986, in cases where the directors of a company are able to swear a statutory declaration of solvency. We have not included this in our proposals because solvent colleges already have the option to dissolve under the Further and Higher Education Act 1992, so MVL would not provide any significant additional benefit to colleges, learners or creditors.
57. Taken as a whole, the "ordinary" insolvency regime as established for companies under the Insolvency Act 1986 provides clear mechanisms for handling insolvency and offers a more managed and flexible approach which could see an insolvent college restructured or where this is not possible, a well-understood and ordered process for winding up. It does not offer explicit protections on continuity of provision for learners. For such purposes we propose to establish a bespoke regime.

Question 2: Do you think any of the insolvency measures summarised in our proposals (Company Voluntary Arrangement, ordinary administration, compulsory liquidation and creditors' voluntary liquidation) should be available in the event of college insolvency as well as a Special Administration Regime? Please explain your answers.

7.3 Special Administration Regime for Further Education and Sixth Form Colleges

58. We propose to introduce a Special Administration Regime (SAR) for the sector. In addition to ordinary administration, the SAR will provide specific protection for continuity of learner provision. SARs are already used in other sectors (such as energy and postal services) to protect an overriding public policy objective such as continuing to provide an essential service.
59. For colleges, we propose the regime would be governed by a special objective focused on protecting the continuity of learner provision. The SAR would be used until a decision on the future of the college and its provision can be taken. The SAR, alongside the rest of our proposals, deals with a low probability, high impact event and would therefore be a tool of last resort when all other options to deal with the financial distress of the organisation have failed or would not be effective. The SAR would apply the provisions of the Insolvency Act 1986 relating to ordinary administration as far as possible and where appropriate apply key elements which have been used in other special administration regimes (for example the Postal Services Act 2011 and the Energy Act 2011), adapted as appropriate to the sector context.
60. The proposed SAR for colleges differs from other SAR regimes as they are often intended to secure continued provision of critical infrastructure (such as rail, energy or water), while an Education SAR may result in the winding up and dissolution of a college once the special objective of protecting learners has been met.
61. The proposed SAR would only be used where a college is unable to pay its debts or is likely to become unable to pay its debts' as defined in the normal definition of insolvency in section 123 as well as paragraph 11(a) of Schedule B1 of the Insolvency Act 1986. Like the rest of the proposals, the SAR is therefore only relevant in the case of a college which has failed financially.
62. The Secretary of State would apply to the court for the appointment of an 'education administrator' to develop a credible proposal. The education administrator may consider the following options to secure continuity of provision for learners:
 - i. Rescue the college as a going concern;
 - ii. Arrange for transfer of provision to another provider; or
 - iii. Allow learners to either transfer to another provider or complete their courses before the college is wound up and dissolved.
63. While the education administrator would be guided first by the special objective (see paragraph 69 below), they would also be required to have regard to the interests of creditors as a whole (see paragraph 76 – "General functions of an education administrator").
64. In order to minimise disruption to learners the administrator would have scope to ensure that any transfer of learners would take place at a natural break point in the academic year and would take into account any reasonable travel to learn distances when assessing alternative provision (in the same way as they are currently considered in the Area Review process).

65. The intention would be to create similar circumstances for learners to those which would apply at a solvent college. So, if a learner is undertaking or has signed up to a course, the administrator would be able, in principle, to honour that offer.
66. The administrator will need to consider how best to accommodate any learners with special education needs and/or disability (SEND), or other high needs in the process, particularly if there was a transfer of provision to an alternative provider. Government are considering how this will be done in practice.
67. Other provision should be transferred. The administrator would engage both the Combined Authority (where applicable) and the Local Enterprise Partnership in terms of potential impacts on the skills provision in the local economic area, but transfer may not be absolute. For example, costly courses may need to be terminated. The administrator could follow similar arrangements as solvent colleges currently apply.

Rationale for the proposed option

68. Both the SAR and ordinary insolvency procedures provide a range of possible outcomes for the colleges, which will yield both protection for learners and an orderly outcome for creditors. The benefit of the SAR is to protect learner provision and therefore provide more time than normal insolvency procedures to mitigate the risk that a college is wound up quickly and in a way which, by focusing only on creditors, would be likely to damage learners. In addition, it will protect taxpayers by not propping up failing colleges indefinitely.

Special Objective

69. The special objective for the education SAR will need to guide the administrator in all the actions they take for continuing of learner provision, and so will need to be clear in terms of what it means for learner protection, as well as the interests of the creditors. Subject to this consultation, we propose the following special objective:

(1) The objective of an education administration is to:

(a) avoid or minimise disruption to the studies of the existing students of the further education body as a whole, and

(b) ensure that it becomes unnecessary for the body to remain in education administration for that purpose.¹⁴

70. Statutory duties towards 16-18 learners would be protected¹⁵. The administrator will therefore need to take account of the need to maintain a local 16-18 offer which enables such young people to access suitable provision. The administrator will work

¹⁴ In effect, the administration will continue until the objective has been achieved. By existing students we have in mind any person who is a student at the college when the administration begins, or has accepted a place on a course at the college when the administration begins.

¹⁵ Under the recent provisions for raising the participation age, all young people completing Year 11 from 2014 onwards have been required to remain in education or training until at least their 18th birthday. The education administrator will therefore need to take account of the need to maintain a local 16-18 offer which enables such young people to access suitable provision.

with the relevant local authority and the Education Funding Agency in reviewing and identifying any potential gaps and any action needed as part of the SAR to maintain the local offer.

Special Administration Regime and Creditors

71. The administrator must, so far as is consistent with the special objective of the regime, carry out functions in a way that achieves the best result for the college's creditors, as a whole.

Question 3: Does the proposed special objective sufficiently reflect the needs of learners and creditors? Please explain your answer.

Indemnity

72. Given that the role of education administrator is likely to involve insolvency practitioners carrying out functions that they may not undertake in ordinary insolvency procedures, as they would be required to achieve the education objective to continue the operation of the college, we recognise that it may be necessary to provide indemnities to ensure that IPs are willing to act in this capacity. We therefore propose to introduce provisions to allow the Secretary of State to provide indemnities (protections against liability) to specified persons, including the administrator and their employees.
73. Indemnities may be agreed in relation to liabilities incurred in carrying out the functions of an education administrator and for loss or damage sustained as a result. Such indemnities may be provided as part of the special financing arrangements for the SAR and will require disclosure to Parliament.

Initiating a SAR

74. We propose that, in the event a college is unable to pay its debts, as defined in section 123 as well as paragraph 11(a) of Schedule B1 of the Insolvency Act 1986, the Secretary of State should be able to initiate a SAR on the same basis as for other SARs which relate to public services. The SAR would therefore start in one of two ways¹⁶:
- Secretary of State applies to the court for an SAR order; or
 - Where a college or its creditors petition the court for another type of insolvency order under the Insolvency Act 1986, the Secretary of State uses the statutory period to decide whether to initiate a SAR and apply for a SAR order. We propose that, as with other SARs, the statutory period should be set at 14 days.¹⁷

Question 4: Do you have any comments on our proposals for SAR initiation?

Appointment of the education administrator

75. Once the court makes a special administration order, an appropriately qualified and suitably experienced insolvency practitioner nominated by the relevant Secretary of State would be appointed by the court as the administrator. The insolvency practitioner would be an officer of the court and the conduct of the special administration would be subject to the general supervision of the court. They would also be an agent of the college in carrying out its affairs. The notice of appointment would go into a suitable national publication.

General functions of education administrator

76. Where an education administration order is in force in relation to a further education body, the body's affairs, business and property are to be managed by the education administrator. The education administrator must carry out his or her functions for the purpose of achieving the objective of the education administration. The education administrator must, so far as is consistent with that objective, carry out his or her functions in a way that achieves the best result for the further education body's creditors as a whole.

The education SAR process

77. Under a SAR, the administrator would develop proposals to meet the special objective of securing provision for learners. Unlike in general administration, there would be no "decision" on the proposal by creditors or any other stakeholders, although Secretary of State would have to agree whether or not to fund the proposals.

¹⁶ This would be similar to the arrangements which apply to companies which are subject to other types of special administration

¹⁷ This is the timeframe for the SoS to decide whether to initiate a SAR and to apply to the Court for a SAR order. In reality, the SoS would most likely be aware of the developing situation and the actual time period would probably be shorter. The 14 days does not indicate the time needed for an administrator to be appointed.

78. There would be no time limit to Special Administration Regimes. Ordinary administrations typically take around twelve months. SARs may need longer due to the fact that they relate to continuity of public services and so have a special objective to be fulfilled. They can also be extended if required.

SAR Proposals

79. Where the education administrator concludes that the college cannot be rescued as a going concern, they may propose:
- a transfer of either part or all the provision including the learners and staff to another college;
 - a merger between colleges, including transfer of the assets and liabilities of the college in administration; or
 - if there is no possibility of a rescue or transfer, keeping the college running until the special objective has been achieved i.e. by enabling courses to be completed. The college would then be put into liquidation before being wound up.

Transfer Schemes

80. The education administrator will be given the power to make transfer schemes which would transfer the property, rights and liabilities of a college during a special administration to another college. The types of things which could be transferred are as follows:
- Freehold and leasehold land;
 - Leases for equipment such as photocopiers;
 - Contracts for the supply of services or materials;
 - Contracts to provide fee-paying students with tuition;
 - Loan agreements with banks; and
 - Contracts of employment of teaching and other staff.
81. Transfer schemes can override third party rights such as the right of a landlord to object to the transfer of a lease or the right of a party to a contract to insist that any obligations owed to it are performed only by the other party to the original contract. However, a transfer scheme could help the education administrator to transfer provision where all or part of the undertaking of a further education body is being transferred to another one. The transferee body by nature is very likely to be financially stronger than the transferor.

Question 5: What issues, if any, would you envisage if transfer of provision of assets/liabilities were required?

Funding the SAR

82. All college SARs would require funding to pay for the insolvency practitioner and other associated costs. These costs may be met by the creditors, whether in the form of additional funding, or from the realisation of the assets. In SARs, administrators would have the high level special objective set out in legislation, which may result in

additional costs above and beyond those of a normal administration. This is likely to be the case in an education SAR, for example, because the administrator may need to run the college beyond the statutory 12 month period for an ordinary administration in order to “teach-out” the students. Keeping the college open will incur the usual running costs (salaries etc). It may also delay the realisation of assets, particularly property where the administrator needs to retain the buildings in order to continue to teach the students, or effectively disregard other prospective purchasers if the administrator needs to dispose of a property to a particular purchaser to protect learners.

83. To allow consideration of particular cases where the education administration would create a financial disadvantage for creditors, or in order to fund the administration itself, Government intends to take a power in legislation for the Secretary of State to make grants or loans, issue indemnities or make guarantees where he considers it appropriate to do so. The Secretary of State would be able to use these powers to provide funding on a case-by-case basis, under the terms set out in a funding agreement.

Ending of a SAR

84. The education administration would end by court order. If the special objective of the SAR has been achieved, the education administrator or Secretary of State would make an application to the court for the SAR to end. If the college was a going concern, that would be the end of the process. If it was a transfer of provision, followed by winding up of the college, the college would then be put into liquidation via court order.

Replacing the SAR administrator

85. The appointment of the administrator would end once the SAR ends. However, there may also be circumstances where it would be necessary to replace the administrator due to:
 - resignation;
 - loss of qualification; or
 - removal from office by the court, etc.
86. The SAR provisions would mirror insolvency law to deal with these eventualities. If a person ceased to be the education administrator for any reason, they would be discharged from all future liabilities in respect of their actions as administrator.

7.4 Other Issues

Colleges as Charities

87. The governors of colleges, which are exempt charities, have specific duties and the administrator or liquidator would need to be cognisant of the obligations on the governors which affect college assets generally as well as in relation to assets held in specific trust (see section on Assets under Section 33J of the Further and Higher Education Act 1992, below).
88. The education administrator as agent of the college under the special administration regime is subject to the same duties as a charity trustee. If the administrator follows the special objective to protect continuity of provision for learners, this will be consistent with his duties to carry out the purposes of the charity.
89. As in other insolvency procedures, the insolvency office-holder will have duties towards creditors. Property held on specific trusts may not be available to the insolvency practitioner. If there is a surplus in any ordinary or special administration then that surplus must be used for the charitable purposes of the college.
90. Under charity law, the disposal of college assets is allowed if it supports the administration's or liquidation's purpose, and includes the distribution of assets to creditors. However, assets held on specific trusts, rather than as part of the college's corporate property, do not form part of the property available for distribution to the college's creditors. Some colleges hold assets under specific trust deeds which have conditions attached to them; such assets must be dealt with in accordance with the conditions specified.

Assets held by colleges specified by order under Section 33J of Further and Higher Education Act 1992

91. A specific category of sixth form colleges with underpinning trusts is designated under section 33J of the Further and Higher Education Act 1992 - Under section 33P(4) of the 1992 Act, if such a college subsequently dissolves, any property held by the corporation on trust for the purposes of the relevant sixth form college reverts to the trustees and cannot be transferred to a prescribed body. Our intention is to replicate this provision in the case of insolvency of a sixth form college to which section 33J applies, so that property held on trust by these colleges will be ring-fenced and revert automatically to the trustees, rather than form part of the asset base which will be available to meet the claims of creditors.

Governors' Liabilities and Duties

92. The charitable status of colleges means that Governors of colleges are also trustees of the charity and, as such, are already subject to important duties set out in charity law, including being responsible for the control and management of their college, as a charity¹⁸.

¹⁸ Trustee duties are set out in the Charity Commission guidance 'The Essential Trustee': <https://www.gov.uk/government/publications/the-essential-trustee-what-you-need-to-know-cc3/the-essential-trustee-what-you-need-to-know-what-you-need-to-do>

93. Their duties include:
- Ensuring the charity is carrying out its purposes for the public benefit;
 - Complying with the charity's governing document and the law;
 - Acting in the best interests of the charity;
 - Ensuring the charity is accountable;
 - Managing the charity's resources responsibly; and
 - Acting with reasonable care and skill.
94. Governors as trustees are ultimately responsible for deciding what activities the charity will undertake, what resources it will need, and how it will obtain and use them. Collective decision making is one of the most important parts of the trustee role.
95. As charity trustees, governors have a duty to act with reasonable care and skill. They must act responsibly, reasonably and honestly; should put appropriate procedures and safeguards in place - such as ensuring sufficient information is available before taking a decision, keeping full records of all decisions, and taking appropriate independent advice - and take reasonable steps to ensure that these are followed. Otherwise, they risk making the charity vulnerable to loss and of being in breach of their duty.
96. Trustees can be held personally liable to their charity for any financial loss they cause or help to cause by their wrongful action. This applies to any type of charity whatever its legal form. However, charity law protects trustees who have acted honestly and reasonably from personal liability. Section 145 of the Learning and Skills Act 2000 provides that if a corporation member is found liable in civil proceedings, they have the right to apply to the court for relief from liability where the individual has acted honestly and reasonably.
97. There is no legal protection for trustees of any charity, no matter what their legal form, where they have acted dishonestly, negligently or recklessly.

Wrongful and Fraudulent Trading

98. In introducing an insolvency regime for FECs and SFCs, Government intends to follow, as far as is practical, the principles of company insolvency. We therefore propose to apply the provisions of the Insolvency Act 1986 that relate to directors' liabilities, to college governors. Most significantly, these include potential liability for wrongful and fraudulent trading, but also related matters such as the remedies for misfeasance. These are important limbs of the corporate insolvency regime which protect creditors against wrongful conduct by the directors of a company (and by others in the case of fraudulent trading). While we recognise that Governors may be concerned at what they see as the introduction of a new burden that carries with it personal liability, for the most part the wrongful and fraudulent trading provisions are consistent with their existing duties as charity trustees, and Governors will already be mindful of not breaching these duties. Indeed, in the event that they were to breach wrongful and fraudulent trading provisions it is likely that they would, through the same conduct, also already be in breach of their duties as charitable trustees.
99. It should be noted that, were the courts to take the view that colleges are "unregistered companies" (paragraph 25), it would mean that governors could already be within the scope of these provisions.

Fraudulent trading

100. Fraudulent trading is where any business of a company has been carried on with the intention of defrauding creditors, or for any fraudulent purpose. If the Insolvency Act 1986 provisions on fraudulent trading were expressly applied, then on application by the administrator or liquidator of a college, any person who was knowingly party to the fraudulent trading, including a governor, could be held by the court to be liable to make contributions to the college's assets. Fraudulent trading may also lead to criminal liability.

Wrongful trading

101. Governors may incur liability for wrongful trading in cases where they knew, or should have concluded, that a college had no reasonable prospect of avoiding insolvent administration or liquidation, unless they then take appropriate action to protect creditors. If found liable, on application by an administrator or liquidator, the court may order a governor to make a contribution to the assets of the college.
102. In practice governors would be able substantially to mitigate their risk of wrongful trading liability by acting in line with their duties as charitable trustees; including respecting good practice, following proper process, ensuring appropriate professional advice is available before taking key decisions, and recording the basis of decisions.
103. It is normally but not always the case that the Principal of a college is also a governor of that college. Given their inevitable seniority and Accounting Officer role, we propose that a Principal, who is not a governor, should also be liable for wrongful trading, where they had acted unlawfully. In some cases, particularly in larger colleges, there may be other members of a college's senior management team, such as the Chief Finance Officer, who might have some authority to direct decision making or operate themselves to cause wrongful trading. However, these arrangements may vary significantly across colleges and Chief Finance Officers and other senior managers may not be involved in key decisions by Governing Bodies.

We are therefore minded that these individuals should not be liable for wrongful trading unless (as with any individual) they are also a governor or are in practice acting as if they were a governor. Anyone, regardless of their official position, who acted as a 'de facto' governor and outside their normal role, could be liable.

104. We propose that Clerks of colleges should be treated comparably to company secretaries and so would not be liable for wrongful trading, unless, as set out above, they were acting as a 'de facto' governor. Clerks should be mindful of their normal duty to bring to the attention of the Board of Governors a situation within the college that is 'materially adverse'.
105. Other special administration regimes apply the provisions of the disqualification regime under the Company Directors Disqualification Act 1986 (CDDA) to relevant individuals within specified organisations. We are considering whether we should adopt a similar approach in relation to governors of colleges who are found liable of fraudulent or wrongful trading. This would mean that a college governor (or anyone acting as a 'de facto' governor) found liable, could be disqualified under the CDDA in the same way as a company director, and that any governor disqualified under the CDDA would also be disqualified from acting in similar positions, including as a company director and a trustee of a charity.

Question 6: Do you have any views on our proposals in relation to directors' and governors' liabilities?

Application of Insolvency Law on the Avoidance of Certain Earlier Transactions on Winding-up or Administration

106. An overriding principle of insolvency proceedings is that once commenced, all creditors are treated equally and fairly, with some well-defined exceptions such as the protection of security. The principle of avoidance of transactions is a way of extending that principle of equality back to before the commencement of those insolvency proceedings.
107. The insolvency law applying to companies therefore enables some transactions to be avoided (that is, set aside) by a liquidator or administrator where those transactions breach the principle of equal and fair treatment. The effect of this is to seek to put creditors back in the position they would have been in if the transaction had not taken place. Among the transactions which may be avoided are:
 - Transactions at an under value, where a company has sold assets for less than their value or bought assets for more than their value in the run up to insolvency
 - Preferences, where a company seeks to improve the position of a particular creditor, usually by paying them ahead of other creditors.
108. The application of law on avoidable transactions should help to clarify the legal position and to avoid gaps in the insolvency regime which could otherwise be exploited in ways which are unfair to the college's creditors as a whole.

Question 7: Do you agree that, as a matter of general principle, the insolvency law applying to companies on the avoidance of transactions should apply to colleges? Please explain your answer.

Fixed and floating charges (provisions of Part 3 of the Insolvency Act 1986)

109. We have considered the application of Part 3 of the Insolvency Act 1986 (receivership) to colleges. The general consensus is that further education colleges and sixth form colleges do not have the power to create floating charges and we do not propose to change that; however we do propose to apply the provisions of Part 3 of the Insolvency Act 1986 that deal with fixed charges.

Question 8: Do you agree that only provisions of Part 3 of the Insolvency Act 1986 that deal with fixed charges, should apply to colleges? Please explain your answer.

Pensions

110. We recognise that any change to the insolvency position of colleges may have implications for pension fund contributions and liabilities, particularly in relation to the Local Government Pension Scheme (LGPS). The Teachers' Pension Scheme is an unfunded scheme paid out of general taxation, not an underlying investment fund.
111. The LGPS is a defined benefit scheme with benefits payable from the scheme based on the amount of money paid in, the returns achieved on that investment and the market conditions at force at the time that the benefits become payable. All colleges carry a liability with respect to LGPS; and this is being revalued during 2016. The college's liability crystallises (and becomes payable) if they cease to have employees making contributions to the fund. This could happen in special administration for both a college closure and a college merger scenario. However, a college merger does not usually trigger a crystallisation (even where the colleges are in different LGPS funds) as there is an established process for the negotiation to transfer members and liabilities between funds.
112. If the college either transferred to another employer outside of the scheme or was to ultimately be liquidated and wound up, then the pension deficit would crystallise. In this event (when an LGPS employer loses its last active member it then becomes an exiting employer and an exit payment is calculated) the employees' accrued and deferred pensions benefits would be protected. Any pension deficit to the fund would have to be met through a claim against the assets of the exiting college as an unsecured creditor, or through an increase in contributions from the remaining scheme members (where a claim against the assets was not sufficient to meet the deficit).

Other related issues

Local Devolution

113. As part of a wider government policy on English Devolution, the Government has set a clear ambition to support local areas in taking a leading role over funding and commissioning provision from a skills system that meets local economic priorities and the needs of local people. The devolution of the Adult Education Budget (AEB) from 2018/19 onwards has already been included in nine mayoral devolution deals negotiated with combined authorities in England, with an ambition to agree more. Proposals for a new insolvency regime for the college sector in England take this evolving policy context into account.

Higher Education (HE)

114. Officials are working closely to ensure that proposals on student protection and public interest in both are where appropriate properly aligned, and also take into account the differences in the provider landscape and student profile.

Academisation

115. The new insolvency regime would apply to sixth form colleges as well as other further education colleges. However, as part of the Area Review process, sixth form colleges are able to apply to become 16-19 academies. Any sixth form college which becomes an academy will cease to be part of the FE sector and would not be covered by the proposed new insolvency arrangements. Instead, they will be subject to the DfE financial monitoring and management arrangements which apply to academies more generally.

Question 9: Do you have any other comments on the proposals set out in the consultation document?

7.5 Summary of Consultation Questions

Question 1: Do you agree that only the SAR element of this regime should be applied only to Designated Institutions that are companies? Please give reasons for your answer.

Question 2: Do you think any of the insolvency measures summarised in our proposals (Company Voluntary Arrangement, ordinary administration, compulsory liquidation and creditors' voluntary liquidation) should be available in the event of college insolvency as well as a Special Administration Regime? Please explain your answers.

Question 3: Does the proposed special objective sufficiently reflect the needs of learners and creditors? Please explain your answer.

Question 4: Do you have any comments on our proposals for SAR initiation?

Question 5: What issues, if any, would you envisage if transfer of provision or assets/liabilities were required?

Question 6: Do you have any views on our proposals in relation to directors' and governors' liabilities?

Question 7: Do you agree that, as a matter of general principle, the insolvency law applying to companies on the avoidance of transactions should apply to colleges? Please explain your answer.

Question 8: Do you agree that only provisions of Part 3 of the Insolvency Act 1986 that deal with fixed charges should apply to colleges? Please explain your answer.

Question 9: Do you have any other comments on the proposals set out in the consultation document?

8. What happens next?

This consultation will run for four weeks, with a closing date of 05 August 2016. The Government will consider the consultation responses and publish a response in due course, setting out how it intends to proceed in the light of those responses. The Government response will be published on the BIS pages of www.gov.uk.

9. Economic Assessment of the Insolvency Proposals

Background

116. Further education (FE) and sixth form (SF) colleges have faced a number of financial challenges over recent years. The college sector faces increased competition for 16-19 year-old provision with more academies, university technical colleges and free schools opening sixth forms. They also face a decreasing demand because of the declining 16-19 cohort. While many colleges have responded swiftly to those changes and a majority are currently rated as having at least satisfactory financial health, some colleges have been slow to adapt and financial difficulties have arisen.
117. Currently, FE colleges in financial difficulty can seek Exceptional Financial Support (EFS)¹⁹ where the college is unable to secure financial support from commercial lenders and is necessary to protect learners. Since such case-by-case interventions are not sufficient to address the growing structural problem within the sector, the Government established the Area Review process with the objective of creating a more financially sustainable sector and a stronger educational offer through a locally driven process. Our expectation is that the Reviews will lead to fewer, larger and more specialised colleges, as well as more collaboration between institutions. This will normally be achieved through mergers and in some cases closures.
118. The legal position on winding up failing colleges remains uncertain: the Further and Higher Education Act 1992 allows for voluntary dissolution of a college and for its assets and liabilities to be transferred to another willing provider. Colleges are statutory corporations and there is no express provision for a college to dissolve if insolvent. Furthermore, there is no implied obligation for the Secretary of States either to prevent the insolvency of a college or to meet its liabilities upon insolvency. The combination of barriers to exit and distortions in the market where commercial decisions are not directly linked to funding outcomes means that the further education market is not as effective as it could be.

Economic Rationale for Intervention

119. The college sector is dependent on government funding – with 90% of FE colleges and 95% of SF Colleges relying on government funding for more than 80% of their income²⁰. Less than effective responses to changes in profile of government funding, coupled with increased competition for 16-19 year-olds in the context of a shrinking cohort have contributed to deterioration in the financial health of many colleges. Furthermore, at a minority of colleges there is a potential problem of ‘moral hazard’ – with expectations that government will intervene in the case of financial difficulties, weakening incentives for good financial management and for learning provision to respond to local economic needs and government priorities. This has potentially contributed further to the declining financial health of the sector and distorts the link between the commercial decisions taken by college and their funding base.

¹⁹ Exceptional Financial Support applies to further education colleges only.

²⁰ Source: Analysis of College Accounts Data

120. The Area Reviews will assess the structural changes required to improve local provision, including mergers or closure of colleges. In practice, under current law, restructuring funding may be needed to avoid disorderly closures. Although the Area Reviews are intended to leave the college sector in a more stable position, we cannot assume colleges will never become insolvent in the future. We therefore need to develop a means by which failing colleges can close in as orderly a way as possible, with rights for creditors comparable to companies, as well as measures in place to protect learners. This should also aim to send a signal to the sector that any government funding will be targeted on protecting learners rather than ‘propping up’ colleges in financial difficulties i.e. by removing the moral hazard aspect.

Therefore, the broad objectives are to:

- Establish an orderly process which provides rights for creditors comparable with other relevant UK insolvency regimes;
- Protect the interests of learners by promoting continuity of provision;
- Retain independence and freedoms of colleges whilst removing or mitigating any expectation of additional exceptional public funding;
- Support local and national education and training needs;
- In cases where it is feasible, facilitation of the rescue of the FEC/SFC as a going concern, including access to new financing;
- Maintaining and maximising the value of the assets of the FEC/SFC; and
- Creating a legislative context in which commercial lenders will continue to look to lend to colleges on appropriate terms.

Options Appraisal

121. It is not the role of this economic assessment to analyse the nuances of different legal options to achieve the objectives above. Instead, it considers two broad options – 1) doing nothing and 2) the proposed suite of insolvency procedures set out earlier in this document, in addition to a SAR. The nature of the costs and benefits means their quantification and monetisation would be highly speculative, so we focus on a description of the respective costs and benefits under each option.

Do Nothing: This would allow colleges to continue whilst financially unstable – until they reach insolvency. If they do become insolvent, the process for dealing with their debts would be uncertain and would involve potentially lengthy and costly litigation. This may be followed by a court-appointed liquidator (appointed on behalf of college creditor(s)) taking action against the college which could result in its closure, and thus a disruption of provision for learners (and an associated detriment and loss of economic value added).

Implement a full suite of Insolvency Measures with a Special Administration Regime (SAR): Traditionally, SARs are used to protect an over-riding public policy objective such as continuity in the provision of an essential service in the public interest. There are a number of SARs operating across many sectors, such as energy and water. In this case, an

administrator would be appointed and be responsible for developing proposals for either the rescue or transfer of the college. Where a rescue was not viable, they would have to take into account the protection of learners, as well as their obligations to creditors. The essence would be that the administrator would keep the college operating for long enough to enable learners to complete their education or training, or if that was not possible, to transfer learners to another provider, after which the college could be wound up.

122. The analysis below assesses the costs and benefits of implementing the full suite of insolvency measures set out earlier in this document, in conjunction with a SAR – **relative to the ‘do nothing’ option (i.e. option 1).**

Option 2: A full suite of Insolvency Measures with a SAR

Costs

123. This option would be complex and challenging to set up, so establishing it would entail certain legal and policy development costs.
124. When implemented, it would see a court-appointed administrator (licenced Insolvency Practitioner) come in and become the head of the institution in place of the governors. This would entail a number of costs:

Salary Costs: As the administrator may have little or no experience in running a college, an individual with such experience would be required. This would incur costs as the college would effectively have required two people to run it i.e. an administrator and a college practitioner.

Confusion over Process: There is likely to be some initial confusion over the process of closing/merging a college until the first or second case is fully conducted (a feature of SARs in other sectors); although this needs to be set against the confusion, albeit different in nature, of disorderly closures under option 1.

Continuing Learner Provision Costs: There could also be additional costs to HMG from maintaining provision for learners if a college cannot source funding from elsewhere; again this needs to be set against the economic benefits outlined in point 1 of the benefits below).

Benefits

Protection of Learners: Relative to option 1, this would allow colleges to continue provision for learners whilst the administrator finds a feasible solution for the future of the college, whether it be a merger or a transfer of learners and closure, thus allowing the economic benefits of learning to be realised. The average government-funded post-19 FE learner generates net economic benefits of £34,000 over their working life, compared with not going into further education. Therefore, to the extent that this option allows individuals to complete their learning – or gives them the confidence to invest in learning at all – then this will generate economic benefits for the local and national economy.

Future Planning: This option will allow for greater planning, and greater certainty, for those involved – such as students, teachers. For example, if an administrator develops a proposal for either a transfer or college closure, they will also be responsible for finding alternative provision for learners. This will give learners more confidence to invest in learning and give college staff greater certainty on their employment once a proposal has been developed.

Legal Clarity: There will be a greater legal clarity surrounding the future as the administration will need to consider learner protection and service provision when proposing a plan for the college. This option also potentially reduces future legal costs for colleges and creditors e.g. of counsel advice, advice from insolvency practitioners and potentially costly court cases, relative to Option 1.

Maintaining Investors' Confidence: Relative to option 1, this should help to ensure a continued flow of capital to the sector at relatively low cost. The confidence of banks and other investors is maintained through clarity of process where a college has a solvency problem, and allows them to conduct more accurate risk assessments and to have clarity on the process in the event of insolvency.

Maximising Asset Value: The more orderly nature of any closures, and any asset sales, should help to ensure that their value is maximised.

Targeted Funding: A funding arrangement will need to be provided to ensure that the SAR can be executed and learner provision is protected. This is beneficial as it represents focused and time-limited HMG funding, which protects taxpayers from ongoing and potentially uneconomic funding of colleges.

Signal to Colleges: Establishing the insolvency measures and the SAR, and thus having a clear and credible process for colleges in financial difficulties, would aim to reinforce the message that they are independent organisations, and that government will not act as a lender of last resort, or prop them up, in the case of financial difficulties. This should overcome the 'moral hazard' problem described previously, providing stronger incentives for disciplined financial management.

Risks

125. There are a number of risks associated with implementing this option:

- The presentational risks in the case of closures (although this is also an issue under option 1). Closing colleges is likely to be poorly received in the affected areas – so an effective stakeholder management plan would have to be implemented.
- The complex legal change that is required with the implementation of this option. As there is uncertainty surrounding how the actual process will happen, it will need to be presented to stakeholders in a clear manner so they fully understand this process. However, once the initial cases are conducted, this should create clarity in how the process should be carried out (again this is also an issue under the 'Do Nothing' option).
- Potential impacts on the availability of funding for colleges, as lenders build risk into their calculations on individual colleges.

Recommendation

126. On the basis of the costs and benefits outlined above, option 2 is the preferred option i.e. to proceed with a full suite of insolvency procedures with a Special Administration Regime (SAR) for colleges. This will best meet the policy objectives outlined above by targeting the protection of learners in the event of college insolvency, providing legal clarity and an orderly legal mechanism, and by maintaining the autonomy of colleges while removing the moral hazard aspect; and will do so in a cost effective manner.
127. Although it is complex and challenging to deliver, the proposed suite of insolvency measures in conjunction with the SAR provides significant flexibility for colleges to identify solutions to their solvency issues. It provides the clarity for creditors and protects learners through the targeted funding of colleges. It also protects taxpayers by establishing an orderly process which focuses public funding on a time-limited basis to maximise value added.

Annex 1: Consultation Principles

128. The principles that Government departments and other public bodies should adopt for engaging stakeholders when developing policy and legislation are set out in the consultation principles.

<http://www.cabinetoffice.gov.uk/sites/default/files/resources/Consultation-Principles.pdf>

Comments or Complaints on the Conduct of this Consultation

129. If you wish to comment on the conduct of this consultation or make a complaint about the way this consultation has been conducted, please write to:

Angela Rabess
BIS Consultation Co-ordinator
1 Victoria Street
London
SW1H 0ET
Tel: 020 7215 1661
Email: angela.rabess@bis.gsi.gov.uk

130. However if you wish to comment on the specific policy proposals you should contact the policy lead (see section on 'Help with queries').

Annex 2: List of Individuals/Organisations Consulted

131. Officials have undergone a period of pre-consultation to discuss key elements of these proposals with a number of stakeholders including The Association of Colleges, 157 Group and The Sixth Form Colleges Association, as well as representatives of a number of lenders, trade unions, insolvency practitioners and lawyers.
132. We would welcome suggestions of others who may wish to be involved in this consultation process and are happy for you to draw their attention to this document.

Annex 3: Glossary of Terms

Terms	Explanation
Administration	Insolvency procedure that may be used to rescue a company (college) as a going concern or produce a better result than an immediate winding-up
Administrator	Insolvency practitioner appointed by the court or directly by a floating charge-holder or college governors
Exempt Charity	An institution established for charitable purposes exempt from registration and regulation by the Charity Commission. They have a principal regulator instead; FECs are regulated by the SoS for Business, Innovation & Skills and SFCs by SoS Education.
College administrator	An insolvency practitioner appointed to take control of the affairs, business and property of a failed college who is obliged to secure the continuity of education and training services in line with the special administration objective
College governor	As members of the college governing bodies, governors collectively set the college's strategic direction, hold the Principal to account for a college's performance and ensure that the college's budget is properly managed
Company Voluntary Arrangement	Procedure where college comes to a binding arrangement with its creditors for the settlement of debts
Compulsory Liquidation	Insolvency procedure commenced by court order (winding-up order) usually after the filling of a petition by a creditor
Creditor	A person owed money

Terms	Explanation
Further and Higher Education Act 1992	Primary legislation which made changes in the funding and administration of further education and higher education within England and Wales, including removing FECs from local government control
Further Education Corporation (FEC)/ Sixth Form Corporation (SFC)	Further education and sixth form corporations are statutory corporations which provide education and training to learners aged 14 and over in England
Insolvency	<p>Cash Flow Insolvency: the state of being unable to pay the money owed, by a person or company, on time</p> <p>Balance Sheet Insolvency: where liabilities of a person or company are greater than their assets</p>
Insolvency Practitioner	A person (generally an accountant or solicitor) qualified and authorised to act as an insolvency office-holder, for example acting as an administrator or liquidator
Insolvency Act 1986 (IA86)	Primary legislation governing corporate insolvency of companies in Great Britain and individuals in England and Wales.
Liquidation (winding-up)	Process in which assets are realised (e.g. sold) and distributed to creditors. A business will usually close down when a company (college) goes into liquidation. Winding up may be commenced by court order or voluntarily by company members (in the case of colleges this would be by governors)
Liquidator	A person or insolvency practitioner, appointed to take control of a failed college and realise assets for the benefit of creditors

Terms	Explanation
Preferential creditor	A class of creditor, specified in law, which is paid before the claims of any floating charge-holders and ordinary unsecured creditors. The main categories of preferential debts are certain amounts due to employees and contributors to occupational pension schemes.
Restructuring Facility	Financial support available to colleges to help implement the recommendations of the Area Reviews
Special administration regime	Alternative insolvency arrangements to the administration procedures set out in the IA86. Special administration regimes are based on the process of administration, but with modifications aimed, for example to secure the continuity of essential public service if a supplier fails
Secured creditor	A creditor holding security, for example a fixed or floating charge, over assets in respect of monies owed.
Unsecured creditor	Creditors who do not hold security in respect of monies owed to them. Claims may be either preferential or ordinary
Voluntary Liquidation	Winding up commenced by a resolution of a college's governors where the college is insolvent

Annex 4: Equalities Analysis of Developing an Insolvency Regime for the Sector

Equalities Analysis

133. The Department of Business, Innovation and Skills and Department for Education are required to comply with the public sector duty (PSED) set out in the Equality Act 2010 (“the Act”). The PSED requires the Minister to have due regard to the need to advance equality of opportunity, eliminate unlawful discrimination and foster good relations between those with and without certain protected characteristics. This due regard is taken to eliminate unlawful discrimination and to tackle prejudice and promote understanding.
134. The protected characteristics are:
1. Age;
 2. Disability;
 3. Gender Reassignment;
 4. Marriage and Civil Partnership;
 5. Pregnancy and Maternity
 6. Sex;
 7. Race;
 8. Religion or belief; and
 9. Sexual Orientation
135. One of the objectives of the insolvency measures and the SAR is to protect the interests of learners by ensuring continuity of provision. We do not know exactly which colleges would be affected both with and without these measures, so we need to assess data on the learner population as a whole.
136. With regards to further education and sixth form colleges, we expect that disorderly closures (which would happen without the proposals included in this document) would result in a loss of provision and this would disproportionately affect learners from the following groups. Therefore, the measures put forward here would protect these groups to a greater extent:
- Ethnic minority backgrounds: 21% of learners in FE/SFCs are from minority ethnic background vs. 14.6% in the overall population in England
 - Young learners: 38% of learners in FE/SF colleges are aged 16-18 vs. 4% in the overall population in England.
137. Data shows that the proportion of women studying in FE/SF colleges (51%) is very similar to the proportion of women in the overall population in England (50%). We have therefore found no evidence to suggest that disorderly closures would disproportionately affect men or women.
138. We consider the likely impact of the proposals based on the protected characteristics to be:

1. Age – as mentioned above, 38% of FE learners are 16-18 years old, so the proposed regime will offer greater protections that they are afforded under the counterfactual i.e. the disorderly closure of colleges;
 2. Disability – there is no evidence to suggest that there would be disproportionate effects on people with disabilities;
 3. Gender Reassignment – there is no evidence to suggest that there would be disproportionate effects on the grounds of gender reassignment;
 4. Marriage and Civil Partnership – there is no evidence to suggest that there would be disproportionate effects on people because of their marital status;
 5. Pregnancy and maternity – there is no evidence to suggest that there would be disproportionate effects on pregnant women;
 6. Sex - We have found no evidence to suggest that disorderly closures would disproportionately affect this males or females.
 7. Race – a higher proportion of those from ethnic minority backgrounds attend FE college and they will offer greater protections that they are afforded under the counterfactual i.e. the disorderly closure of colleges Religion or belief;
 8. Religion or belief; and
 9. Sexual Orientation - there is no evidence to suggest that there would be disproportionate effects on people because of their sexual orientation
139. As mentioned above, the policy is expected to beneficially impact learners at colleges that go insolvent, including those with protected characteristics. As some groups with protected characteristics comprise a higher proportion of learners relative to the general population, this policy could have some positive equality impacts.

Family test

140. We have reviewed the Family Test and we do not think this will have significant impacts on families within the UK; this measure should benefit learners that are affected by colleges that enter insolvency by ensuring continuity of provision.

Annex 5: Consultation on Developing an Insolvency Regime for the Sector Response Form

The consultation is available at: <https://www.gov.uk/government/consultations/developing-an-insolvency-regime-for-the-further-education-and-sixth-form-sector>

The closing date for responses is 05/08/2016.

Please return completed forms to:

Benjamin Dance
Department of Business, Innovation and Skills
Vocational Education Directorate
Orchard 1
2nd Floor
1 Victoria Street
London
SW1H 0ET
Tel: 0207 215 4839
Email: FEconsultation@bis.gsi.gov.uk

Please be aware that we intend to publish all responses to this consultation.

Information provided in response to this consultation, including personal information, may be subject to publication or release to other parties or to disclosure in accordance with the access to information regimes. Please see page 8 of the consultation for further information.

If you want information, including personal data, that you provide to be treated in confidence, please explain to us what information you would like to be treated as confidential and why you regard the information as confidential. If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding on the department.

I want my response to be treated as confidential

Comments:

Questions

Name:

Organisation (if applicable):

Address:

	Respondent type
<input type="checkbox"/>	Business representative organisation/trade body
<input type="checkbox"/>	Central government
<input type="checkbox"/>	Charity or social enterprise
<input type="checkbox"/>	Individual
<input type="checkbox"/>	Large business (over 250 staff)
<input type="checkbox"/>	Legal representative
<input type="checkbox"/>	Local government
<input type="checkbox"/>	Medium business (50 to 250 staff)
<input type="checkbox"/>	Micro business (up to 9 staff)
<input type="checkbox"/>	Small business (10 to 49 staff)
<input type="checkbox"/>	Trade union or staff association
<input type="checkbox"/>	Other (please describe)

Question 1: Do you agree that only the SAR element of this regime should be applied only to Designated Institutions that are companies? Please give reasons for your answer.

Comments:

Question 2: Do you think any of the insolvency measures summarised in our proposals (Company Voluntary Arrangement, ordinary administration, compulsory liquidation and creditors' voluntary liquidation) should be available in the event of college insolvency as well as a Special Administration Regime? Please explain your answers.

Comments:

Question 3: Does the proposed special objective sufficiently reflect the needs of learners and creditors? Please explain your answer.

Comments:

Question 4: Do you have any comments on our proposals for SAR initiation?

Comments:

Question 5: What issues, if any, would you envisage in the event transfer of provision or assets/liabilities were required?

Comments:

Question 6: Do you have any views on our proposals in relation to directors' and governors' liabilities?

Comments:

Question 7: Do you agree that, as a matter of general principle, the insolvency law applying to companies on the avoidance of transactions should apply to colleges? Please explain your answer.

Comments:

Question 8: Do you agree that only provisions of Part 3 of the Insolvency Act 1986 that deal with fixed charges should apply to colleges? Please explain your answer.

Comments:

Question 9: Do you have any other comments on the proposals set out in the consultation document?

Comments:

Do you have any other comments that might aid the consultation process as a whole?

Please use this space for any general comments that you may have, comments on the layout of this consultation would also be welcomed.

Thank you for taking the time to let us have your views. We do not intend to acknowledge receipt of individual responses unless you tick the box below.

Please acknowledge this reply

At BIS we carry out our research on many different topics and consultations. As your views are valuable to us, would it be okay if we were to contact you again from time to time either for research or to send through consultation documents?

Yes

No



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BIS/16/320

Benjamin Dance
Department for Business, Innovation and Skills
Vocational Education Directorate
Orchard 1
2nd Floor
1 Victoria Street
London
SW1H 0ET

4 August 2016

Dear Benjamin,

RE: Consultation on Developing an Insolvency Regime for Further Education and Sixth Form Colleges

Surrey County Council (Surrey) welcomes the opportunity to respond to the Government's consultation *Developing an Insolvency Regime for Further Education and Sixth Form Colleges* (the FE sector).

Surrey is the Administering Authority for the Surrey Pension Fund (the Fund) as part of the Local Government Pension Scheme (LGPS). The Fund has assets of over £3 billion and includes more than 200 employers, 18 of which are FE sector employers.

The employer funding strategy of the Fund

The consultation correctly identifies the LGPS as a defined benefit scheme. Member benefits are protected by statute and ultimately the local council tax payer.

Although investment returns and market conditions have a direct relationship to the valuation of the assets and liabilities of the Fund and the funding strategies for all employers, there is no corresponding relationship between these investment returns and benefits payable to members, as stated in paragraph 111 of the consultation document:

"111. The LGPS is a defined benefit scheme with benefits payable from the scheme based on the amount of money paid in, the returns achieved on that investment and the market conditions at force at the time that the benefits become payable."

The Fund manages assets and employers within its administration in accordance with its fiduciary duty. It also complies with its statutory obligations as laid out in the *Public Sector Pensions Act 2013*, which are applied through Funding Strategy Statement, namely:

The Public Sector Pensions Act (Section 13, (2), Employer contributions in funded schemes



“Scheme regulations must provide for the rate of employer contributions to be set at an appropriate level to ensure—

(a) the solvency of the pension fund, and

(b) the long-term cost-efficiency of the scheme, so far as relating to the pension fund.”

As part of the Fund’s fiduciary duty it considers the relative covenant strength of all scheme employers and designs an appropriate matching funding strategy. For example, an employer in the Fund that has tax raising powers would be considered to have a stronger covenant than one which does not. This translates in to the relative risk that the Fund would consider that these respective employers pose to all other employers in the Fund, as the LGPS is a ‘last man standing’ arrangement. In simple terms, an employer that is considered less secure could have a shortened deficit recovery period with the implied escalated employer contributions.

Since the increased independence of employers within the FE sector and the removal of the exceptional funding support (EFS) regime from the government, the Fund has been forced to reassess its funding strategy for this cohort of employers.

Developing an insolvency regime for the FE sector

Surrey supports the government’s proposal to develop a solvency regime for the FE sector. No such regime currently exists and LGPS Funds are forced to rely on the limited and unsatisfactory assumption that, should a FE sector employer fail, neighbouring FE sector employers would take them over and inherit their pension assets and liabilities.

We have considered the relative merits of the insolvency options outlined in the consultation. We have also identified the main concerns for the Fund in potentially being classed as an unsecured creditor. We propose some solutions that would allow the Fund greater flexibility in dealing with FE sector employers, thereby reducing the financial pressure on these employers and protecting the interests of tax payers.

Paragraphs 39 to 57 of the consultation provide details of the proposed insolvency regime, with the stated intention of mirroring the *Insolvency Act 1986*. We will consider each aspect of this proposed regime from the view of the protection it may afford the Fund under the following arrangements:

- Company voluntary arrangement.
- Administration.
- Compulsory or voluntary liquidation.

Company Voluntary Arrangement (CVA)

We believe this could provide some protection to the Fund, as it would enable the possibility of a negotiated settlement with the FE sector employer while it looks to restructure and with the hope of it continuing as a going concern. Any agreement would need careful legal consideration.

Administration

Administration could ultimately lead to the winding up of the FE sector employer, with the Fund being an unsecured creditor and potentially recovering little or no cessation debt payment. A positive of administration is that the process could take up to 12 months to complete, which could allow a period during which a form of repayment could be negotiated.

Compulsory or voluntary liquidation

This would be the least desirable outcome for the Fund. The Fund would be an unsecured creditor and last in line for the recovery of assets relating to unpaid debts.

Whichever insolvency arrangement is pertinent to a FE sector employer, the Fund does seek assurance from the government that it would not be permissible or possible for this employer to engineer an insolvency in order to release itself from its pension obligations, only to then start-up again immediately as a new education establishment.

Special Administration Regime (SAR) and Transfer Schemes

The Fund welcomes the proposal for a SAR, as it does provide the facility for negotiating an equitable solution for the Fund, whether this be through a merger with another FE sector employer or by the restitution of the financial viability of the FE sector employer.

The Fund seeks assurances from government that ongoing pension obligations would be honoured during any period of SAR.

A SAR is clearly not a panacea for the Fund and there remains a risk that neither a merger nor rescue may be possible, again leaving the Fund as an unsecured creditor.

In addition in the incidence of a Transfer Scheme being implemented the Fund seeks assurance this would not override any third party right; e.g. a first charge on FE sector employer assets held by the Fund.

Mitigation of risk to the pension Fund

A crystallisation of the pension debt for FE sector employers (potentially using a prudent discount rate) is not desirable for FE sector employers, the Fund or the government. However, without government support of FE sector employers, and within the existing statutory framework, the Fund has no alternative but to review its funding strategy for FE sector employers in light of their respective strength of covenant. It is possible that a revised funding strategy could have the effect of undermining the financial position of a hitherto viable FE sector employer.

We assert that there are three clear ways by which the government can support the Fund and local taxpayers, whilst simultaneously providing further education and sixth form colleges with an opportunity to flourish:

- 1) Liaise with colleagues in the Department of Communities and Local Government (DCLG) to revise the LGPS regulations and enable the mandating of security from FE sector employers.
- 2) Remove FE sector employers from the LGPS.
- 3) Provide a pension liability guarantee for FE sector employers.

1) Revising the LGPS Regulations

Further education and sixth form colleges are defined under the LGPS regulations as Schedule 2, Part 1 employers. Schedule 2, Part 1 employers are statutorily obliged to offer eligible employees access to the LGPS.

Schedule 2, Part 3 employers (admission bodies to the LGPS) must provide an indemnity of bond, approved by the administering authority, if they pose a risk of premature termination. This requirement does not exist for Part 1 employers.

If the DCLG were to revise the LGPS Regulations to require further education and sixth form colleges to provide adequate security, this would enable Funds to have more flexibility with FE sector employers, who have put this security in place when formulating recovery plans. This would enable them to benefit from more stable and affordable contribution rates.

We believe it would be very constructive if the government could work inter-departmentally to explore this option.

2) Removing FE sector employers from the LGPS

The government could mitigate the ongoing LGPS challenges faced by FE sector employers by removing their eligibility for the LGPS and perhaps enrolling them in one of the unfunded public sector schemes; e.g. the Teachers Pension Scheme.

This would obviously trigger an immediate crystallisation event and an agreement would need to be reached between Funds and the government regarding an equitable cessation valuation.

3) Providing a pension liability guarantee for Sector employers

If the government were to offer a guarantee to fund pension liabilities in the event of a FE sector employer insolvency, this would have the immediate effect of strengthening the covenant of this cohort of employers in the LGPS. This would give the Fund even greater flexibility with FE sector employers when formulating recovery plans and setting contribution rates than if FE sector employers offered their own form of security, as detailed previously.

There is an obvious precedent in the guarantee that has been offered for academy schools in the LGPS by the Department of Education. This has allowed the Fund to keep deficit recovery periods and contribution rates broadly the same for academies as that which they experienced when under local authority control.

Surrey welcomes the plans to introduce an insolvency regime for the FE sector and recognises that this builds positively on the Area Review initiative launched in July 2015.

However, we have highlighted some of the significant concerns that we have regarding the potential risks that are presented to the Fund by the FE sector's continued participation in the LGPS. We have also provided details of the action that the Fund is obliged to take as part of its fiduciary duty and how this could potentially negatively impact the finances of employers in the FE sector.

We hope that the government will respond positively to our proposals which allow some of the concerns to be allayed and look forward to working constructively in the future to the benefit of the Fund, the FE sector and taxpayers.

Yours sincerely



Sheila Little
Director of Finance