Notice of Meeting

Surrey Local Pension Board

Date & time	Place	Contact	Chief Executive
Wednesday, 25 January 2017 at 10.00 am	Committee Room C, County Hall, Kingston upon Thames, Surrey KT1 2DN	Andrew Spragg Room 122, County Hall Tel 02082132673 andrew.spragg@surreycc.gov.uk	David McNulty

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This meeting will be held in public. If you would like to attend and you have any special requirements, please contact Andrew Spragg on 02082132673.

Board Members

Mr Nick Harrison (Chairman) and Mr John Orrick (Vice-Chairman)
Paul Bundy (Surrey Police), Tina Hood (Surrey LGPS Members), Paresh Rajani (Surrey LGPS Members), David Stewart (Surrey LGPS Members), Claire Williams-Morris (Guildford Borough Council) and Trevor Willington (Surrey LGPS Members)

TERMS OF REFERENCE

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

(a) to secure compliance with:
- (i) the scheme regulations;
- (ii) any other legislation relating to the governance and administration of the LGPS Scheme and any connected scheme;
- (iii) any requirements imposed by the Pensions Regulator in relation to the LGPS Scheme.

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

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

The Local Pension Board will also help ensure that the Surrey Pension Fund is managed and administered effectively and efficiently and complies with the Code of Practice on the governance and administration of public service pension schemes issued by the Pension Regulator.

The Local Pension Board has power to do anything that is calculated to facilitate or is conducive or incidental to the discharge of any of its functions.

AGENDA

1	**APOLOGIES FOR ABSENCE AND SUBSTITUTIONS**	
2	**MINUTES FROM THE PREVIOUS MEETING: 19 OCTOBER 2016** To agree the minutes as a true record of the meeting.	(Pages 1 - 14)
3	**DECLARATIONS OF INTEREST** To receive any interests from members of the Board in respect of any item to be considered at the meeting.	
4	**QUESTIONS AND PETITIONS** To receive any questions or petitions. Notes: 1. The deadline for Member's questions is 12.00pm four working days before the meeting (19 January 2017). 2. The deadline for public questions is seven days before the meeting (18 January 2017) 3. The deadline for petitions was 14 days before the meeting, and no petitions have been received.	
5	**ACTION TRACKER AND FORWARD PLAN** The Board is asked to **note** its action tracker and forward plan.	(Pages 15 - 22)
6	**COMMITTEE UPDATE** To provide the Board with a verbal update on matters discussed at the Surrey Pension Fund Committee.	(Pages 23 - 24)
7	**ACTUARIAL VALUATION RESULTS** The Board is asked to **note** the content of this report.	(Pages 25 - 28)
8	**KEY PERFORMANCE INDICATORS - QUARTER 2 2016/17** The Board is asked to **note** this report.	(Pages 29 - 38)
9	**PENSION FUND ANNUAL REPORT 2015/16** The Board is asked to **note** the content of the audited annual report.	(Pages 39 - 206)
10	**PENSION FUND STATEMENT OF ACCOUNTS 2015/16** The Board is asked to **note** this report.	(Pages 207 - 282)
11	**REVIEW OF INTERNAL DISPUTE RESOLUTION CASES: QUARTER TWO 2016/17**	(Pages 283 - 284)

The Board is asked to **note** the content of this report.

12 DATE OF THE NEXT MEETING

The date and time of the next Board meeting is 15 March 2017 at 10am.

David McNulty
Chief Executive
Published: 17 January 2017

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MINUTES of the meeting of the **SURREY LOCAL PENSION BOARD** held at 10.00 am on 19 October 2016 at Member's Conference Room, County Hall, Kingston upon Thames, Surrey KT1 2DN.

These minutes are subject to confirmation by the Board at its meeting on 15 March 2017.

Members:
(*=present)

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

In attendance

Jason Bailey, Pensions Lead Manager, Shared Services
Neil Mason, Senior Advisor (Pension Fund), Finance
Alex Moylan, Senior Accountant, Finance
Phil Triggs, Strategic Finance Manager, Finance

33/15 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS [Item 1]

No apologies were received.

34/15 MINUTES FROM THE PREVIOUS MEETING: 4 JULY 2016 [Item 2]

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

35/15 DECLARATIONS OF INTEREST [Item 3]

Trevor Willington asked that it be noted that he was no longer 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

36/15 QUESTIONS AND PETITIONS [Item 4]

There were none.

37/15 ACTION TRACKER [Item 5]

Declarations of interest:
None.

Witnesses:
Neil Mason, Senior Advisor, Finance

Alex Moylan, Senior Accountant, Finance
Phil Triggs, Strategic Finance Manager, Finance

Key points raised during the discussion:

1. The Chairman noted that the Board had agreed to review the use of substitutes. The consensus was this was not appropriate, given the training and knowledge requirements and difficulty in identifying appropriate substitutes (ref: action 4/15). The action would be marked as complete.

2. It was confirmed that there was no update regarding the Scheme Advisory Board Key Performance Indicators (ref: action 9/16).

3. The Board was informed that the regulations and code of practice had seen no change since the Counsel opinion regarding the status of local pension boards (ref: action 13/16).

4. The Board agreed to remove action 22/16 as this was now a standing process.

5. It was confirmed that there was a meeting planned with other local authorities to examine Additional Voluntary Contributions arrangements, and this would be updated at a future meeting (ref: action 26/16)

Recommendations:

None.

Actions/further information to be provided:

None.

38/15 FORWARD WORK PROGRAMME [Item 6]

Declarations of interest:
None.

Witnesses:
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 forward work programme. The Board was informed that the Pension Committee had requested a report on the impact of the American election and EU referendum on asset allocation, and that this would be reported on 11 November 2016.

Recommendations:

None.

Actions/further information to be provided:

The Pension Fund Committee report on asset allocation in light on events in 2016 to be circulated to the Board.

39/15 UPDATE OF PENSION FUND COMMITTEE MEETINGS: 11 JULY 2016 AND 23 SEPTEMBER 2016 [Item 7]

Declarations of interest:
None.

Witnesses:
Neil Mason, Senior Advisor (Pension Fund), Finance
Alex Moylan, Senior Accountant, Finance, Finance
Phil Triggs, Strategic Finance Manager, Finance

Key points raised during the discussion:

1. The Board was provided with an update on the 23 September 2016 meeting of the Committee. The Committee had been informed of a change in the Board's funding level to 86.3%, as result of changes in the assumptions around future salary growth, Consumer Price Index (CPI) future pension growth and the discount rate. Officers highlighted that this did not take account of the County Council implementing a new Pay and Reward Strategy in June 2016.

2. The Board was informed that the Committee had reviewed asset allocation due to a manager allocation variance of 3.5%, which was outside the tolerance threshold set in the asset allocation policy. The Committee had taken the decision to rebalance the portfolio in light of this:
    - Marathon (Global) -2.7%
    - Legal and General (UK) +1.7% (£60 million)
    - Majedie (UK) +1% (£30 million)

3. The Board discussed the performance of fund managers. It was noted that it was considered good practice to keep within the asset allocation policy guidelines, rather than pursue short-term high performance. Officers outline that it had been a good year in terms of performance for the fund, with it still ahead of the Fund's target benchmark.

4. The Board was informed that the Committee had agreed an investment of $50 million in a private equity partnership focusing on secondary markets with Goldman Sachs. Officers outlined that the Fund had made a previous investment in 2011 of $40 million in an earlier version of the package known as Vintage VI. This had been judged to have performed well. The Board commented that the Fund had previously under invested in the private equity market, and it was confirmed by officers that this was addressed moving to 4.7% of the Fund's portfolio.

5. The Board was informed that the Fund's 2015/16 accounts had been approved. Officers highlighted that the Statement of Investment Principles was being phased out by April 2017 and replaced by an

Investment Strategy Statement. This was be undertaken following the actuarial valuation, and it was expected to be taken to the Committee for decision in February 2017. The Chairman raised a question as to whether the new strategy would cover environmental, social and governance considerations, it was confirmed that this would be the case.

6. The Board discussed two consultations being undertaken by central government, one covering insolvency arrangements for Further Education Colleges and the other making changes to the LGPS scheme in order to embed "fair deal" regulations. Officers outlined a number of details regarding the consultation responses from the Council.

Recommendations:

None.

Actions/further information to be provided:

The draft minutes of the Committee meeting on 23 September 2016 to be circulated to the Board.

The details of the two consultations and the Council's response to be circulated to the Board.

40/15 2016 ACTUARIAL VALUATION ASSUMPTIONS [Item 8]

Declarations of interest:
None.

Witnesses:
Neil Mason, Senior Advisor (Pension Fund), Finance
Alex Moylan, Senior Accountant, Finance
Phil Triggs, Strategic Finance Manager, Finance

Key points raised during the discussion:

1. The Board noted that the title of the report was incorrect, and should read '2016 Actuarial Valuation Assumptions'.

2. The Board discussed the change in member longevity, and whether this reflected a national or Surrey specific trend. Officers commented that any assumption reflected the profile of Fund members, as longevity was calculated using individual member postcode data.

3. The Board questioned how the separate elements of the valuation assumption had influenced the improvement in the funding level up from 69.3% to 86.3%. Officers outlined that a reduction in the gilt yield had an inverse impact on the funding level. It was explained that the increase was attributable to changes in the following:
    - A reduction in the projected salary increases (impact of 2%)
    - An reduction in the projected pension increases (impact of 2.5%)

- An increase in the expected return above gilt yield (impact of 6%)
- A change in the methodology for calculating the discount rate (impact of 6.5%)

4. It was noted that the current funding level figure was an estimation, and that the initial results of the valuation would be available on 4 November, in time for the Committee meeting on 11 November 2016.

5. The Board queried the rationale for changing the methodology for calculating the discount rate. Officers highlighted that the Fund had been the first local authority client to ask Hymans to adopt this methodology, and it was anticipated that it would become more common in the future. It was commented that this was a decision that had been considered at length by the Committee with a number of reports being produced over a nine to twelve month period. It was felt that new methodology would prove more responsive to the changing economy, and better reflected the driver of fund liabilities.. It was also noted that the Government Actuarial Department (GAD) also used a CPI based methodology, and that this had influenced the Committee's decision.

Resolved:

The Board **noted** the contents of the report.

Actions/further information to be provided:

None.

41/15 ANNUAL BENEFITS STATEMENTS [Item 11]

Declarations of interest:
None.

Witnesses:
Jason Bailey, Pensions Lead Manager, Shared Services
Neil Mason, Senior Advisor (Pension Fund), Finance
Alex Moylan, Senior Accountant, Finance
Phil Triggs, Strategic Finance Manager, Finance

Key points raised during the discussion:

1. This agenda item was taken out of order as witnesses had arrived for this item.

2. The Board was provided with the context of the report, including the delay in producing 2014/15 annual benefits statements. It was explained that the Pensions Regulator had agreed that funds would not be penalised for this delay, and only a couple of funds had suggested they had issued their annual benefits statements in time for the August 2015 deadline.

3. Officers informed the Board that the 2015/16 statements had not been issued in line with the August 2016 deadline. Statements had been

produced by mid-September for active members. Officers commented that the cause of this delay was related to the workload of associating and validating year-end returns, and the timing of the triennial valuation of the pension fund. It was noted that this had not been reported to the regulator as it was not considered a material breach. This view had been taken as no members had contacted the Pension Service regarding the statements, and there was considered to be no material impact as a result of the delay.

4. The Board discussed the breach, and highlighted that the Pension Regulator had emphasised the need to meet the August 2016 deadline, in view of the widespread failure of local authority funds to meet the August 2015 deadline. In compliance with the draft breaches policy, which was due to be discussed in the meeting, the Board recommended that the breach should be reported to the regulator, although noted this would not normally be regarded as material.

5. The Board discussed the transition arrangements to an electronic annual benefits statement for active members in 2017. It was felt that this would mitigate the logistical challenge of producing the statements in time. Officers confirmed that all employers in the Fund had been asked to supply email addresses for each active member as part of the 2016 year-end returns in preparation for the launch of member self-service and the issue of electronic statements.

6. The Board raised concerns that the electronic statement would not be appropriate for all active members, particularly if there were issues with internet access. It was confirmed that the Pension Service would continue to provide a paper statement where requested by the employer but that experience from other areas (e-payslips) suggested most local government staff now had internet access.

7. The Board was informed that deferred members would be notified in 2017 of the intention to transfer them to electronic annual benefits statements in future and asked to register for this. Officers highlighted that non-respondents would continue to receive paper statements.

Resolved:

The Board **noted** the contents of the report.

Recommendations:

That the delay in providing annual benefits statements be reported to the regulator in line with the draft Breaches Policy process.

Actions/further information to be provided:

An update report on the transfer to online annual benefit statements to be provided to the Board.

42/15 KEY PERFORMANCE INDICATORS [Item 12]

Declarations of interest:
None.

Declarations of interest:
None.

Witnesses:
Jason Bailey, Pensions Lead Manager, Shared Services
Neil Mason, Senior Advisor (Pension Fund), Finance
Alex Moylan, Senior Accountant, Finance, Finance
Phil Triggs, Strategic Finance Manager, Finance

Key points raised during the discussion:

1. This agenda item was taken out of order as witnesses had arrived for this item.

2. Officers introduced the report by highlighting the more detailed metrics that had been included following a request from the Board. The Board highlighted that the information provided still needed to include the appropriate statutory targets where relevant.

3. It was noted that the figures reflected prior concerns reported to the Board about the initial engagement with retiring members. It was noted that the quarter two Key Performance Indicators (KPIs) was expected to show a modest improvement in the areas of concern, and officers anticipated a more substantial improvement in quarter three.

4. The Board was informed that in some cases the lengthy delays in initiating contact with scheme members could be because employers had not notified the Pension Services team in advance of a member retiring, however there were also cases of genuine delay. It was queried whether the distribution of different employers in such a scenario could be presented as part of the KPIs. Officers commented it was difficult to capture trends of poor performance in employer notifications in this context, though this was something that would be included in the forthcoming administration strategy. It was noted that there were instances where the county council had been late in notifying the Pension Service of retirement, though the majority of late notifications were from other employers within the fund.

5. The Board was informed that a dedicated pension fund administration team had been established for the Surrey LGPS Fund. This was in response to the Board's prior concerns about the impact that undertaking pension administration for other funds could have on performance.

6. The Board discussed actions taken to improve workflow. This included a new dashboard facility that would improve oversight of workflow. The Chairman suggested that the Board visit the Pension Service team as part of a training opportunity.

Resolved:

The Board **noted** the contents of the report, including the current performance issues related to transfers in and retirements.

It further noted that improvement is anticipated in quarter 2 and quarter 3 of 2016/17 and anticipates evidence of this in future reports.

Actions/further information to be provided:

The Board to visit the Pensions Services team.

43/15 CUSTOMER SERVICE REPORT: QUARTER 2 2016/17 [Item 13]

Declarations of interest:
None.

Witnesses:
Jason Bailey, Pensions Lead Manager, Shared Services
Neil Mason, Senior Advisor (Pension Fund), Finance
Alex Moylan, Senior Accountant, Finance
Phil Triggs, Strategic Finance Manager, Finance

Key points raised during the discussion:

1. This agenda item was taken out of order as witnesses had arrived for this item.

2. The Board was informed that the new internal customer service monitoring process had commenced from 1 July 2016. It was expected that the number of interactions recorded would increase as the process became more embedded. Officers commented that it could be difficult to distinguish a complaint from dissatisfaction with the provisions of the LGPS, and highlighted that the pension administration team would be looking to categorise comments and complaints as the process developed.

3. The Board raised a query as to the number of complaints investigated within the target response time. It was noted that the team had been unclear on the process, and that the Pensions Lead Manager would expect to see an improvement in future reports. It was the case that the policy set out that a response would be given within five working days, with full resolution in ten working days.

Resolved:

The Board **noted** the contents of the report.

Actions/further information to be provided:

None.

44/15 DRAFT BREACHES POLICY - WORK IN PROGRESS [Item 10]

Declarations of interest:
None.

Witnesses:
Jason Bailey, Pensions Lead Manager, Shared Services
Neil Mason, Senior Advisor (Pension Fund), Finance
Alex Moylan, Senior Accountant, Finance, Finance
Phil Triggs, Strategic Finance Manager, Finance

Key points raised during the discussion:

1. The Chairman highlighted that the Board members should be conversant with the principles of the breaches policy as a result of the training they had undertaken. It was noted that the policy was a work-in-progress and the Board was invited to comment, prior to it being considered by the Pension Fund Committee on 11 November 2016.

2. The Board noted the content and raised a few points of clarification. It was confirmed that the breaches log would be reported to the Local Pension Board on a regular basis.

3. The Board queried what the possible consequences of a breach may be. Officers outlined that it would depend on the nature of the breach, though this may result in an internal review. It was noted that the regulator had the power to impose a fine or intervene where significant material breaches were identified. The Board highlighted that fines were publicly reported by the regulator, and this could have considerable reputational damage for the fund.

4. The Board proposed that the wording under 'Effect' in annex 2 was expanded to include the Pension Fund Committee and officers.

5. The Board discussed the process by which a likely breach might be considered by the Chairmen of the Local Pension Board and the Pension Fund Committee. It was suggested that this was altered to allow a more expedient consideration by the two Chairmen within a month of the likely breach being reported, with the decision being reported to the Local Pension Board at its following meeting.

Resolved:

The Board **noted** the contents of the report.

Actions/further information to be provided:

Officers to update the breaches policy to take into account the Board's suggestions prior to presenting it to the Pension Fund Committee for consideration of approval at their meeting of 11 November 2016.

45/15 EMPLOYER ACCOUNTING VALUATIONS [Item 9]

Declarations of interest:
None.

Witnesses:
Neil Mason, Senior Advisor (Pension Fund), Finance
Alex Moylan, Senior Accountant, Finance, Finance

Phil Triggs, Strategic Finance Manager, Finance

Key points raised during the discussion:

1. The Board was informed that the employer accounting valuations were set in compliance with one of two accounting standards. This produced a prudent accounting valuation. Officers cited the example of further education colleges, where the discount rate had been between 2.4 – 2.6%. This reflected a steady decline in government bond yields, which had formed the basis of these standards.

2. The Board commented that these valuations caused concern for employers when reported, though it was also highlighted that it made no impact on contributions. The Board confirmed that salary assumptions were made on the basis of a common rate decided by the Pension Fund Committee.

Resolved:

The Board **noted** the contents of the report.

Actions/further information to be provided:

None.

46/15 RISK REGISTER [Item 14]

Declarations of interest:
None.

Witnesses:
Neil Mason, Senior Advisor (Pension Fund), Finance
Alex Moylan, Senior Accountant, Finance
Phil Triggs, Strategic Finance Manager, Finance

Key points raised during the discussion:

1. Officers highlighted that following a training session on 12 October 2015, it had been proposed that the Board review the risk register on an annual basis. The Board was informed that the only change was an additional risk included regarding breaches (risk ref 19). The Board was asked to note that this risk was treated partly through the proposed breaches policy.

2. The Board highlighted the pay and price inflation as posing a significant risk to the Fund, particularly in light of the market response to the European referendum. It was noted that the Pension Fund Committee would be having training on the likely impact of events in 2016 on the Fund, and Local Pension Board members were able to attend.

Resolved:

The Board **noted** the contents of the report.

Actions/further information to be provided:

Details of the Pension Fund Committee training to be circulated to the Board.

47/15 BOARD ANNUAL REPORT 2015/16 [Item 15]

Declarations of interest:

None

Witnesses:
Neil Mason, Senior Advisor (Pension Fund), Finance
Alex Moylan, Senior Accountant, Finance
Phil Triggs, Strategic Finance Manager, Finance

Key points raised during the discussion:

1. The Board reviewed its annual report. It was informed that the annual report would be reported to the Pension Fund Annual General Meeting. Minor amendments were proposed to take account that the report covered activity in 2016/17.

Resolved:

The Board **agreed** the contents of the report, following minor amendments to the compliance checklist to reflect that the report covered activity in 2015/16.

Actions/ further information to be provided:

None.

48/15 EXCLUSION OF THE PUBLIC [Item 16]

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.

49/15 REVIEW OF INTERNAL DISPUTE RESOLUTION CASES - QUARTER ONE 2016/17 [Item 17]

Declarations of interest:

None

Witnesses:
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 the Internal Dispute Resolution Cases report. It was noted by officers that a learning point had been the need for clearly documented decision-making on the part of the employer.

Resolved:

The Board **noted** the contents of the report.

Actions/ further information to be provided:

None.

50/15 PUBLICITY OF PART 2 ITEMS [Item 18]

The Board agreed there would be no publicity for items considered under Part 2.

51/15 DATE OF THE NEXT MEETING [Item 19]

The Board was informed that the current date of the next meeting was 15 March 2017.

It was agreed that a meeting of the Board would be scheduled in January 2017 to cover quarter three of 2016/17.

Meeting ended at: 12.47 pm

Chairman

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SURREY LOCAL PENSION BOARD
ACTIONS AND RECOMMENDATIONS TRACKER – UPDATED January 2017

The recommendations tracker allows Board Members to monitor responses, actions and outcomes against their recommendations or requests for further actions. The tracker is updated following each Board. Once an action has been completed, it will be shaded out to indicate that it will be removed from the tracker at the next meeting. The next progress check will highlight to members where actions have not been dealt with.

Board and Officer Actions

Date of meeting and reference	Item	Recommendations/ Actions	To	Response	Progress Check On
27 July 2015	4/15 TERMS OF REFERENCE [Item 4]	An item to be brought to the next meeting on the use of substitutes.	Board	The Board members discussed this at the October meeting and agreed to review it in twelve months.	October 2017
27 July 2015	5/15 KNOWLEDGE AND UNDERSTANDING [Item 7]	Board members to advise the Board's scrutiny officer when training is completed.	Board members	There are notifications of completed training outstanding, and the Board are asked to advise the scrutiny officer once completed. The training log has been included on the annual report.	January 2017
9 March 2016	8/16 KEY PERFORMANCE INDICATORS AND ADMINISTRATION [Item 8]	Pension Services to circulate its action plan and timescales for improvement in relation to the issues outlined above to Board members.	Pension Services Manager	This will be circulated prior to the meeting.	

Date of meeting and reference	Item	Recommendations/ Actions	To	Response	Progress Check On
9 March 2016	9/16 SCHEME ADVISORY BOARD BENCHMARKING EXERCISE [Item 9]	The Board to receive the consultation from the Scheme Advisory Board for further comment.	Senior Advisor (Pension Fund)	The consultation is pending, following the return of the benchmark exercise figures – the Board will be updated when this consultation is announced.	Quarter 2 2016/17
9 March 2016	11/16 SURREY PENSION FUND: FROZEN REFUNDS [Item 11]	The address screening exercise to issue a letter and claim form to those entitled to a frozen refund prior to 2014.	Pension Services Manager	This work is planned post-valuation submission.	Quarter 2 2016/17
9 March 2016	12/16 SURREY PENSION FUND: UNPROCESSED LEAVERS [Item 12]	That a further report is provided following the tri-annual valuation.	Pension Services Manager	This update will be scheduled following the tri-annual valuation.	Quarter 3 2016/17
9 March 2016	13/16 COUNSEL OPINION ON THE LEGAL STATUS OF PENSION BOARDS [Item 13]	A further report concerning any changes to governance structures required to be brought once the Scheme Advisory Board has updated its guidance.	Senior Advisor (Pension Fund)	This item to be added to the forward work programme at a future date.	Quarter 2 2016/17
9 March 2016	16/16 UPDATE FROM RECENT SURREY PENSION FUND COMMITTEE MEETINGS: 13 NOVEMBER 2015, 12 FEBRUARY 2016 AND 25 FEBRUARY 2016 [Item 16]	The Board to receive a further update concerning asset allocation following the tri-annual valuation.	Senior Advisor (Pension Fund)	This item to be added to the forward work programme at a future date.	Quarter 2 2016/17

Date of meeting and reference	Item	Recommendations/ Actions	To	Response	Progress Check On
4 July 2016	22/16 ACTION TRACKER	Chairman to receive a quarterly update on number and subject of FOI requests.	Senior Accountant (Pension Fund)	No irregular FOI requested received in the 2nd quarter	March 2017
4 July 2016	24/16 PROVISION FOR INDEPENDENT MEMBERS	The Board will review the provision for independent members on an annual basis.	Board	The Board will review this in 2017/18.	July 2017
4 July 2016	25/16 UPDATE FROM RECENT SURREY PENSION FUND COMMITTEE MEETINGS: 13 MAY 2016	The Board will review the results of the review of the Fund's administration strategy and changes to KPIs.	Senior Advisor (Pension Fund)	Ongoing	January 2017
4 July 2016	26/16 ADDITIONAL VOLUNTARY CONTRIBUTIONS	That the administering authority consider a review of the AVC arrangement and report back at a future meeting.	Senior Advisor (Pension Fund)	Ongoing	January 2017
4 July 2016	27/16 ADMINISTERING AUTHORITY DISCRETIONS	That the Board receive a copy of the administering authority discretions once agreed.	Senior Advisor (Pension Fund)	The draft administering authority discretions are currently out for consultation with scheme employers until 28 October 2016	January 2017
4 July 2016	28/16 EMPLOYER DISCRETIONS	That the Board receive a quarterly update on scheme employer authority discretionary statements received.	Senior Advisor (Pension Fund)	Guidance to be issued to scheme employers the Fund to in quarter 3. .	January 2017

Date of meeting and reference	Item	Recommendations/ Actions	To	Response	Progress Check On
19 October 2016	38/16 FORWARD WORK PROGRAMME	The Pension Fund Committee report on asset allocation in light on events in 2016 to be circulated to the Board.	Senior Advisor (Pension Fund)		
19 October 2016	39/16 UPDATE OF PENSION FUND COMMITTEE MEETINGS: 11 July 2016 and 23 September 2016	The draft minutes of the Committee meeting on 23 September 2016 to be circulated to the Board.	Scrutiny Officer	These minutes have been circulated and are available to view on the council's website.	Complete
19 October 2016	39/16 UPDATE OF PENSION FUND COMMITTEE MEETINGS: 11 July 2016 and 23 September 2016	The details of the two consultations and the Council's response to be circulated to the Board.	Senior Advisor (Pension Fund)	These consultation responses have been circulated.	Complete
19 October 2016	41/16 ANNUAL BENEFITS STATEMENTS	That the delay in providing annual benefits statements be reported to the regulator in line with the draft Breaches Policy process.	Senior Advisor (Pension Fund)	A verbal update will be provided at the meeting	January 2017
19 October 2016	41/16 ANNUAL BENEFITS STATEMENTS	An update report on the transfer to online annual benefit statements to be provided to the Board.	Pension Services Manager	This will be scheduled for the 2017/18 work programme	March 2017
19 October 2016	42/16 KEY PERFORMANCE INDICATORS	The Board to visit the Pensions Services team.	Pension Services Manager	This be scheduled for early 2017.	March 2017

Date of meeting and reference	Item	Recommendations/ Actions	To	Response	Progress Check On
19 October 2016	44/16 DRAFT BREACHES POLICY - WORK IN PROGRESS	Officers to update the breaches policy to take into account the Board's suggestions prior to presenting it to the Pension Fund Committee for consideration of approval at their meeting of 11 November 2016.	Senior Advisor (Pension Fund)	The policy was updated to include the Board's suggestions, and approved at the meeting on 11 November 2016.	Complete
19 October 2016	46/16 RISK REGISTER	Details of the Pension Fund Committee training to be circulated to the Board.	Senior Advisor (Pension Fund)	This has been circulated.	Complete

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Surrey Local Pension Board: Forward Plan

Quarter 4 **2016/17**	• Pension Committee Update • Quarterly IDRPs • Key Performance Indicators • Statement of investment principles • Scheme Advisory Board KPIs • CIPFA administration benchmarking • Annual accounts • Administration audit
Quarter 1 **2017/18**	• Pension Committee Update • Quarterly IDRPs • Key Performance Indicators • Governance Compliance • Risk register • Disaster recovery/business continuity plan • Data accuracy • Pension Administrations Strategy and Service Level Agreements (moved from quarter 1) • Stewardship policy

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The Surrey Local Pension Board
25 January 2017
Committee Update

Recommendations:

1. The Board is asked to **note** the contents of this report and the verbal update at the meeting.

Detail:

2. The Board will be provided with a verbal update on matters discussed at the Surrey Pension Fund Committee meeting on 11 November 2016. Minutes of this meeting are available on the public website: https://mycouncil.surreycc.gov.uk/ieListDocuments.aspx?CId=334&MId=4277&Ver=4

Report contact: Neil Mason, Senior Advisor (Pension Fund and Treasury)

Contact details: T: 020 8213 2739 E: neil.mason@surreycc.gov.uk

Sources/background papers: The LGPS Regulations 2013

Annexes:

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SURREY
COUNTY COUNCIL

Surrey Local Pension Board
25 January 2017

Actuarial Valuation Results

Recommendations:

The Board is asked to **note** the content of this report.

Background:

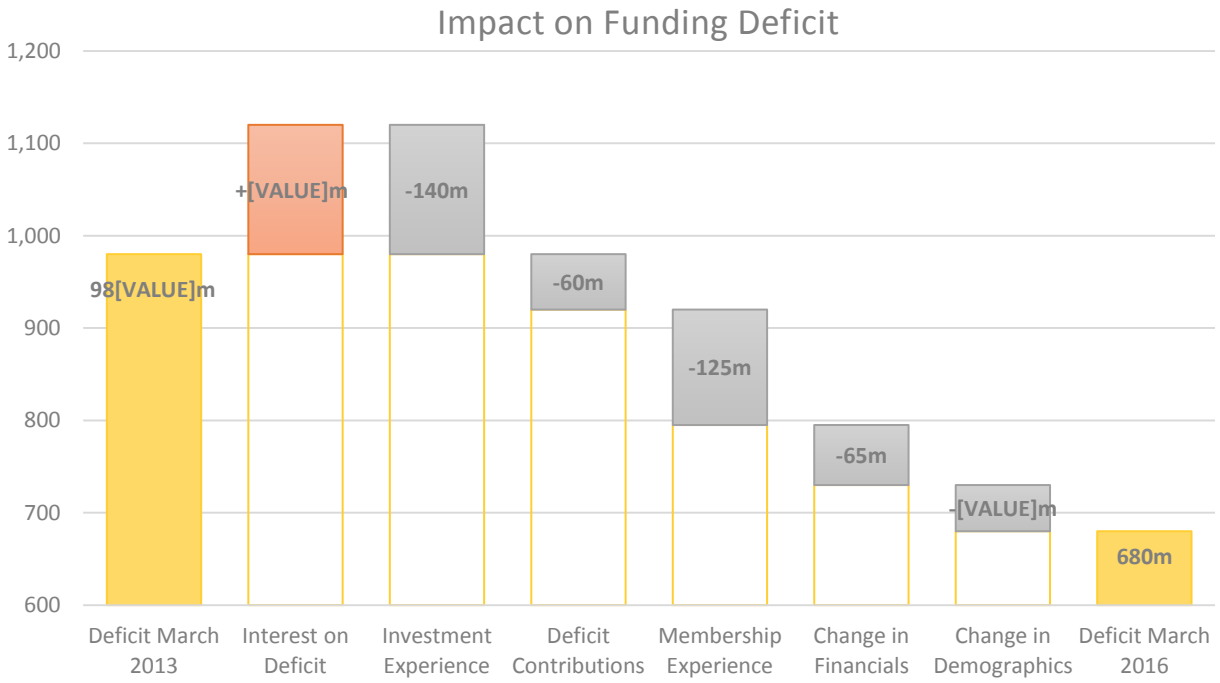
1. The Surrey Pension Fund, in accordance with LGPS regulations, undergoes a full actuarial valuation once every three years, the results of which are used to determine contribution rates for each of the employers within the Fund for the following three years. The current actuarial valuation is based upon investment, cashflow and member information as at 31 March 2016 with contributions set to cover the period from April 2017 – March 2020.

Detail:

2. The results of the valuation were reported to the Pension Fund Committee on 11 November. The funding level for the Fund as a whole has increased from 72.3% as at 31 March 2013 to 82.5%, with a £300m reduction in the value of the deficit from £980m to £680m. The below table sets out the liability values at the current and previous valuation according to membership type as well as the assets and funding level.

	31-Mar-13	31-Mar-16
Active Liabilities	-1,347m	-1,300m
Deferred Liabilities	-684m	-853m
Pensioner Liabilities	-1,508m	-1,740m
Total Liabilities	**-3,539m**	**-3,892m**
Assets	**2,559m**	**3,213m**
Deficit	**-980m**	**-680m**
Funding level	72.30%	82.60%

3. The below graph shows a reconciliation of the change in the deficit arising from different aspects of Fund experience over the three years and changes to actuarial assumptions.



- *Interest on Deficit:* The discount rate (as a proxy for investment returns) is applied to discount all future pension benefits to establish the value of assets required today to meet those future benefits.
  If the Fund has a deficit of assets to liabilities, (not at 100% funding level) then a proportion of liabilities are being discounted by projected investment return on assets that do not exist. The impact of this was £140m over the valuation period.

- *Investment Experience:* This is not the total investment return for the Fund but the investment return over and above the actuarial assumption of 4.6% p.a. as at the 2013 actuarial valuation.

- *Deficit Contributions:* Total contributions received were £60m greater than the actuary's assessment of new benefits accrued by members during the period.

- *Membership Experience:* This is the experience of the Fund membership over the valuation period compared to the actuary assumptions.

  The largest positive impact upon the Fund's deficit were from lower than average pension increases (-91.0m) and salary increases being less than expected (-46.8m). The most significant negative impact was from fewer instances of mortality amongst pensioner members (+44.7m).

- *Change in Financials:* The previous four categories could be considered as backward facing, I.e. that they relate to circumstances during the previous valuation period. Change in Financials is a forward looking category as it relates to the impact of changes to the current actuarial assumptions for discount rate, pension and salary increases.

- *Change in Demographics:* This is the impact on the deficit of changes to the assumption for future mortality.

4. Individual employer results, both proposed contribution rates and the assets and liabilities have been provided by the actuary. The contribution rates have been determined under the new risk categorisation model which necessitates a greater level of surety that contributions will be sufficient on those employers where the risk of default is deemed to be greatest.

5. The Fund is in the process of communicating the proposed rates with employers. Most employers will benefit from a lower level of employer contributions from April following the implementation of the new risk categorisation methodology and associated modelling.

Report contact: Neil Mason, Senior Advisor Pension Fund

Contact details: T: 020 8213 2739 E: neil.mason@surreycc.gov.uk

Sources/background papers:

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Surrey Local Pension Board
25 January 2016

Key Performance Indicators

Recommendations:

The Board is asked to **note** the content of this report.

Detail:

1. In line with best practice, Pension Fund Committee members are supplied with Pension Fund key performance indicators (KPIs) on a quarterly basis, covering investment and administration practices.

2. The KPI report presented to the Pension Fund Committee at its meeting of 11 November 2016 is shown as Annex 1. The annex to the Committee report is shown as Annex 2.

3. The report allows the Local Pension Board a wider view of administrative performance levels during quarter 2 of 2016/17.

Report contact: Neil Mason, Senior Advisor (Pension Fund and Treasury)

Contact details: T: 020 8213 2739 E: neil.mason@surreycc.gov.uk

Sources/background papers:

Annexes:
1. KPI report to the Pension Fund Committee (11/11/2016)
2. Annex to the KPI report to the Pension Fund Committee (11/11/2016)

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SURREY COUNTY COUNCIL

PENSION FUND COMMITTEE

DATE: **11 NOVEMBER 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 (30 SEPTEMBER 2016)

1 The KPI statement shown in Annex 1 has been amended for this quarter to provide additional information for those cases that have not met the target. Overdue cases are categorised by the duration overdue; 1-10 days, 11-20 days and over 20 days overdue.

2 Of the 17 administration sub-categories, five show an improvement when compared to the previous period and indicate a decline in performance. There were significant increases in case numbers for a number of the sub categories, with the number of new joiners more than doubling from 348 to 846.

3 Overall, seven administration categories failed to meet the performance target set for the reporting period.

DETAILS:

Requirement

4 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

5 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.

6 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.

7 The KPI schedule to 30 September 2016 is shown as Annex 1.

8 Periods covered in the schedule range from one month, three months and twelve months.

9 Members are invited to discuss the performances set out in the schedule.

Issuance of annual benefit statements 2015/16

10 The following is a summary of the status of the 2015/16 statements issued:-

Member Status	Date of Issue	Numbers
Active Members	Mid-September 2016 (to employers)	30,185
Deferred Members	September 2016 (to home addresses)	22,835
Councillor Members	August 2016 (internal distribution)	50

11 The workload associated with processing and validating year-end returns was more involved this year because of the timing of the first triennial valuation of the pension fund (at 31 March 2016) since the new career average scheme was introduced in 2014. Business Operations received a total of 22,000 single line data queries associated with the new data specifications from the pension fund actuary as a direct result of processing the year-end returns, though most were solved by group amendments.

12 The deferred member notification in 2016 was an information update confirming 2015 values remained in place. This was because there was no Pensions Increase applied to deferred members in 2016 following the negative CPI rates in the assessment period (12-month period ending in September 2015).

13 Included in the statements issued this year was information on how future statements are to be made available online from 2017 via a secure scheme member's portal. As well as provided a cost saving, it is hoped that the additional benefit of delivering statement online will eradicate the inevitable time delay associated with printing and distribution of statements. It is expected this will save at least three weeks.

14 The annual statements this year were produced by technical staff within Business Operations interrogating two separate databases for Surrey and East Sussex to extract and configure the complex data set used to produce the statements. Business Operations has this month completed a project to integrate the Surrey and East Sussex fund databases which will mean future reporting can be run from a single source, increasing efficiency of production.

15 As a result of both of the the introduction of an online member portal and a single reporting source for the 2016/17 annual benefit statement production, Business Operations is confident of meeting the 31 August date from 2017 onwards.

16 The Pensions Regulator's (tPR) Code of Practice Number 14 sets out that a breach in the law should be reported if it is likely to be of 'material significance'.

17 The Code of Practice provides further guidance on matters that may be considered to be of material significance to tPR, focusing on the effect of the breach on scheme members.

18 Business Operations did not consider that a delay of less than one month would have a material effect on scheme members or would affect their retirement planning in any way. They are of the opinion that this breach is therefore not of material significance. However, the Surrey Fund believes it is appropriate and good governance practice to informally notify tPR of the issue and the steps being taken to resolve it in the future.

CONSULTATION:

19 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:

20 There are no risk related issues contained within the report.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

21 There are no financial and value for money implications.

SECTION 151 (DIRECTOR OF FINANCE) COMMENTARY

22 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

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

EQUALITIES AND DIVERSITY

24 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

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

WHAT HAPPENS NEXT

26 The following next steps are planned:

- Continued monitoring of performance against the key performance indicators.
- Further refinement and additions of useful data.
- Future monitoting 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:

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KPI - DETAILED ACTIONS, TIMESCALE AND REPORTING REQUIREMENTS: To 30 September 2016

Annex 1

				Current						Previous							
No	**Description**	**Target**	**Lead Officer**	**No of cases**	**Actual (Score and RAG)**	**% Cases Overdue 1-10 Days**	**% Cases Overdue 11-20 Days**	**% Cases Overdue 20+ Days**	**Reporting Period**	**Previous no of cases**	**Previous Score**	**% Cases Overdue 1-10 Days**	**% Cases Overdue 11-20 Days**	**% Cases Overdue 20+ Days**	**Reporting Period**	**Improvement / Deterioration**	**Comments**
1	**FUNDING**																
	IMPROVE FUNDING LEVEL Funding level to increase from current levels of 72%	**100%**	PT		**89.3%**				30/09/16		**86.3%**				30/06/16	3.00%	
2	**PENSION ADMINISTRATION**																
2.1	**DEATH BENEFITS** Notify potential beneficiary of lump sum death in service grant within 5 days	**95%**	JB	4	**100.0%**				3 months to 30 September 16	5	**100.0%**				3 months to 30 June 16	0.00%	
2.2	Write to dependant and provide relevant claim form within 5 days of notification of death	**90%**		70	**80.0%**	**18.5%**	**1.5%**	**0.0%**	3 months to 30 September 16	91	**79.0%**	**19.0%**	**0.0%**	**2.0%**	3 months to 30 June 16	1.00%	
2.3	Pay death grant within 5 days of receipt of relevant documentation	**90%**		31	**85.0%**	**8.5%**	**0.0%**	**6.5%**	3 months to 30 September 16	41	**80.0%**	**10.0%**	**10.0%**	**0.0%**	3 months to 30 June 16	5.00%	
2.4	Issue notification of dependant's pension within 5 days of receipt of relevant claim forms	**90%**		31	**85.0%**	**8.5%**	**0.0%**	**6.5%**	3 months to 30 September 16	41	**80.0%**	**10.0%**	**10.0%**	**0.0%**	3 months to 30 June 16	5.00%	
2.5	**RETIREMENTS** Employer decision and options to members within 10 days	**90%**	JB	258	**56.6%**	**12.8%**	**13.6%**	**17.0%**	3 months to 30 September 16	175	**60.0%**	**15.0%**	**10.0%**	**15.0%**	3 months to 30 June 16	-3.40%	**50% increase in numbers processed compared with Q1**
2.6	New retirement benefits processed for payment following receipt of election within 10 days	**95%**		300	**91.0%**	**6.3%**	**0.3%**	**2.4%**	3 months to 30 September 16	238	**91.0%**	**6.0%**	**3.0%**	**0.0%**	3 months to 30 June 16	0.00%	**25% increase in numbers processed (includes deferred benefits)**
2.7	**ILL HEALTH RETIREMENTS** Retirement options to members within 10 days	**90%**	JB	10	**90.0%**	**0.0%**	**10.0%**	**0.0%**	3 months to 30 September 16	16	**88.0%**	**12.0%**	**0.0%**	**0.0%**	3 months to 30 June 16	2.00%	
2.8	New retirement benefits processed for payment following receipt of election within 10 days	**95%**		5	**100.0%**				3 months to 30 September 16	16	**100.0%**				3 months to 30 June 16	0.00%	
2.9	**BENEFIT STATEMENTS** ABS issued to 95% of eligible active members by 30th September	**95%**	JB								**Issued mid-September**				12 months to 31 Mar 16		
2.10	DBS issued to 85% of eligible deferred members by 30th June	**95%**									**Issued mid-September**				12 months to 31 Mar 16		
2.11	**NEW JOINERS** New starters processed within 20 days	**90%**	JB	846	**84.0%**	**5.9%**	**2.3%**	**7.7%**	3 months to 30 September 16	348	**93.4%**	**3.0%**	**0.6%**	**3.0%**	3 months to 30 June 16	-9.40%	**Substantial increase in number processed - 846 this quarter compared with 348 previously**
2.12	**TRANSFERS IN** Non LGPS transfers-in quotations processed within 20 days	**90%**	JB	64	**N/A - see note**				3 months to 30 September 16	3	**100.0%**				3 months to 30 June 16		**Cases now being processed following system upgrade post GAD guidance - times not measured**
2.13	Non LGPS transfers-in payments processed within 20 days	**90%**		31	**84.0%**	**0.0%**	**0.0%**	**16.0%**	3 months to 30 September 16	52	**75.0%**	**0.0%**	**15.0%**	**10.0%**	3 months to 30 June 16	9.00%	
2.14	**TRANSFERS OUT** Non LGPS transfers-out quotations processed within 20 days	**90%**	JB	89	**N/A - see note**				3 months to 30 September 16	29	**N/A - see note**				3 months to 30 June 16		**Cases now being processed following system upgrade post GAD guidance - times not measured**
2.15	Non LGPS transfers out payments processed within 20 days	**90%**		25	**92.0%**	**0.0%**	**4.0%**	**4.0%**	3 months to 30 September 16	8	**100.0%**				3 months to 30 June 16	-8.00%	**Transfers paid within statutory guarantee period**
2.16	**INTERNAL DISPUTE CASES** Number of cases referred to the stage 1 IDRP adjudicator		JB/NM						3 months to 30 September 16	1					3 months to 30 June 16		
2.17	**MATERIAL POSTED ON WEBSITE** Relevant Communications Material will be posted onto website within one week of being signed off	**95%**	JB/NM		**100%**				3 months to 30 September 16		**100%**				3 months to 30 June 16	0.00%	

KPI - DETAILED ACTIONS, TIMESCALE AND REPORTING REQUIREMENTS: To 30 September 2016

Annex 1

				Current						Previous							
No	**Description**	**Target**	**Lead Officer**	**No of cases**	**Actual (Score and RAG)**	**% Cases Overdue 1-10 Days**	**% Cases Overdue 11-20 Days**	**% Cases Overdue 20+ Days**	**Reporting Period**	**Previous no of cases**	**Previous Score**	**% Cases Overdue 1-10 Days**	**% Cases Overdue 11-20 Days**	**% Cases Overdue 20+ Days**	**Reporting Period**	**Improvement / Deterioration**	**Comments**
3	**CUSTOMER SERVICE**																
	EMPLOYER SATISFACTION/SURVEY Overall satisfaction score for employers to be 80%	**80%**	JB/NM						**Annual survey due**								
	MEMBER SATISFACTION/SURVEY Overall satisfaction score for members to be 80%	**80%**	JB		**63%**				At September 16		**81%**				At Jun 16	↓ -18.00%	**New scoring mechanism introduced (excellent, good, fair, poor). Score indicates good or excellent (July to Sept retirements)**
4	**DATA**																
	DATA QUALITY Common data quality within the Fund should be at least 90% accurate.	**90%**	JB		**TBC**				12 months to 31 Mar 16		**TBC**				12 months to 31 Mar 16		**Actuary to comment on data quality following valuation**
5	**CONTRIBUTIONS**																
	CONTRIBUTIONS RECEIVED Pension Fund 100% (total value) of contributions to be received by 21st day of the ensuing period.	**100%**	PT		**99%**				Sep-16		**98%**				Jun-16	↑ 1.00%	
6	**AUDIT**																
	CLEAN AUDIT REPORT Receive an unqualified audit opinion from the external auditors	**Unqualified**	PT/JB / NM						12 months to 31 Mar 17		**Achieved**				12 months to 31 Mar 16		
	Annual audit returns no significant findings	**No significant findings**									**Investments + Administration Internal Audit opinion "effective"**						
7	**COST**																
	COST PER MEMBER Administration cost per member to remain in lowest CIPFA benchmarking quartile	**< lowest quartile**	PT/JB / NM						12 months to 31 Mar 17		**Lowest Quartile achieved**				12 months to 31 Mar 16		
8	**SCHEME MEMBERSHIP**																
	SURREY COUNTY COUNCIL Number of SCC members administered by the Pension Service Team		JB		**91,279**				As of 30 September 16		**90,427**				As of 30 June 16		
	Active members				**33,101**						**33,333**					↓ -232	
	Deferred members				**34,328**						**33,883**					↑ 445	
	Pensioner members				**23,850**						**23,611**					↑ 239	
	TOTAL Total number of members across all LGPS schemes administered by the Pension Service Team		JB						As of 30 September 16		**c204,000**				As of 30 June 16		
9	**SCHEME EMPLOYERS**																
	SURREY EMPLOYERS Number of active employers in the Surrey Pension Fund		NM		**215**				As of 30 September 16		**204**				As of 30 June 16	↑ 11	

SURREY
COUNTY COUNCIL

Surrey Local Pension Board
25 January 2017

Surrey Pension Fund Annual Report 2016

Recommendations:

The Board is asked to **note** the content of the audited annual report

Detail:

1. The Pension Fund is required to prepare and publish a document (the annual report) prior to 01 December under sec 34 of the 2008 LGPS regulations. The report must contain information pertaining to the financial and investment performance and position of the fund as well as fund policies and statements.

2. The audited annual report for the period of April 2015 to March 2016 is attached as Annex 1

Report contact: Neil Mason, Senior Advisor (Pension Fund and Treasury)

Contact details: T: 020 8213 2739 E: neil.mason@surreycc.gov.uk

T: 020 8541 9208 E: alex.moylan@surreycc.gov.uk

Sources/background papers:
Annexes:

Surrey Pension Fund audited Annual Report 2015/16

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Surrey Pension Fund

Annual Report 2015/16

SURREY PENSION FUND

Contents **Page**

Members and Advisors

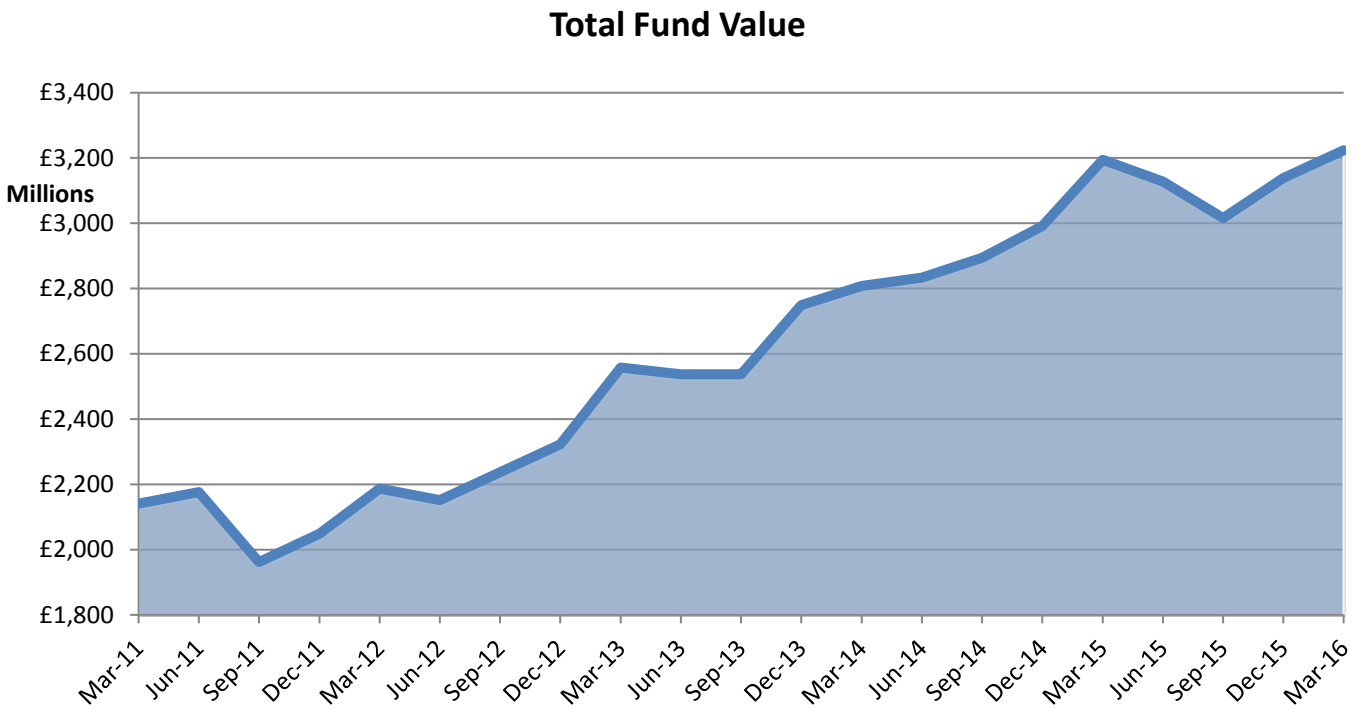
Administering Authority	
	Surrey County Council County Hall Kingston upon Thames Surrey KT1 2EA
Chief Administrator of the Surrey Pension Fund	Sheila Little *Director of Finance*
Pension Fund Committee	
County Council Members	Councilor Denise Le Gal *(Chairman)* Councilor Alan Young *(Vice Chairman)* Councilor Bill Barker Councilor Tim Evans Councilor Stuart Selleck Councilor Hazel Watson
Representatives of Employer Bodies	Tony Elias, *Tandridge District Council* Judith Glover, *Epsom and Ewell Borough Council* Ian Perkin, *Office of the Surrey Police & Crime Commissioner* Councilor Peter Stanyard *Mole Valley Borough*
Employee Representative	Phil Walker
Local Pension Board	
Employer Representatives	Councilor Nick Harrison *(Chairman) Surrey County Council* Councilor John Orrick *(Vice Chairman) Surrey County Council* Paul Bundy *Office of the Surrey Police & Crime Commissioner* Claire Williams-Morris *Guildford Borough Council*
Employee Representatives	Paresh Rajani David Stewart Trevor Willington Tina Hood
Professional Investment Advisors	Steve Turner, *Mercer* John Harrison, *Independent*

Director of Finance	Sheila Little
Strategic Manager Pension Fund & Treasury	Phil Triggs
Fund Managers	Baillie Gifford CBRE Global Investors Franklin Templeton Investments Legal and General Investment Management Majedie Asset Management Marathon Asset Management Newton Investment Management Standard Life Investments UBS Global Asset Management Western Asset Management Darwin Property Investment Management
Global Custodian	Northern Trust
Private Equity Advisors	BlackRock Capital Dynamics Goldman Sachs Asset Management Hg Capital Livingbridge Equity Partners Standard Life Capital Partners
Fund Actuary	Barry McKay, Hymans Robertson LLP
AVC Provider	Prudential Assurance Company Equitable Life Assurance Society
Auditors	Grant Thornton UK LLP
Bankers	HSBC

Summary Financials

	2012/13 £000	2013/14 £000	2014/15 £000	2015/16 £000
Contributions and transfers	173,377	164,366	181,104	192,419
Less benefits and expenses	-123,705	-127,406	-130,758	-139,213
Net additions	**49,672**	**36,960**	**50,346**	**53,206**
Net investment income*	33,789	36,402	39,504	45,592
Change in market value	278,985	175,422	299,210	-68,655
Net return on investments	**312,774**	**211,824**	**338,714**	**-28,063**
Net increase in Fund	362,446	248,784	386,020	30,143
Fund value at 31 March	2,558,716	2,807,500	3,193,520	3,223,663

*Net of Investment and governance expenses and tax withheld expenses



Summary Membership Details

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**

LGPS Scheme Details

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

The new Scheme:

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

The following pay ranges and employee contribution rates will apply from April 2016 as follows:

FTE Pay	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%
Over £151,801	12.5%

The regulations for the pre-April 2014 and post-April 2014 scheme are shown below:

Pre-2014: www.lgpsregs.org/timelineregs/Default.html

Post-2014: www.lgpsregs.org/index.php/regs-legislation/lgpsregs2013-resources

More information on the LGPS can be found on pages 109 to 112.

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

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

Employers' contribution rates are set following each Actuarial Valuation. A valuation of the Fund's

financial position must be made every three years when the Actuary certifies the employers' rates payable until the results of the next valuation are known.

Under the Regulations employer contributions are determined in two parts.

- A common rate based on the existing and prospective liabilities of the Fund having regard to the circumstances common to all the participating employers and to the desirability of maintaining as nearly constant a rate as possible
- Individual adjustments arising from circumstances peculiar to an individual employer.

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

Pension Fund Governance:

Pensions Committee:

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.

Local Board:

The governance arrangements of the Local Government Pension Scheme are changing. From 1 April 2015 the Surrey Pension Fund Committee will be assisted in its management of the Surrey Pension Fund by a Local Pension Board made up from representatives of members and employers of the scheme.

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

(a) to secure compliance with:

(i) the scheme regulations;

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

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

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

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

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

The Local Board is made up of representatives of the employers and members within the Surrey Fund and that the representation between employees and employers should be equal. The terms of reference of the board outlines the constitution of members as follows:

Employer representatives

- 2 x Surrey County Councilors
- 2 x Other employer representatives

Member representatives

- 1 x GMB nominated representative
- 1 x Unison nominated representative
- 2 x Other member representatives

The first meeting of the Local Pension Board was the 27 July 2015, the Board papers and minutes of meetings, as well as those for the Pension Fund Committee, are available on the Surrey County Council website.

The annual report of the Local Pension board is overleaf.

Local Pension Board Annual Report

1. **Chairman's introduction**

I am pleased to present the first annual report of the Surrey Local Pension Board. The Board is a requirement of the Local Government Pension Scheme Regulations 2013.

Its primary functions are to assist Surrey County Council in:

- its compliance with the LGPS Regulations, other relevant legislation and requirements imposed by the Pensions Regulator; and
- the effective and efficient governance and administration of the scheme.

The Local Pension Board works as part of a governance framework that includes the Surrey Pension Fund Committee and the national Scheme Advisory Board.

It supports the Committee through active scrutiny, and by maintaining an overview of policies and practice for the benefit of both employers and members of the fund. In 2015/16 this has included:

- review of the performance of the scheme administrator
- how administration of the Fund performs when compared to other LGPS schemes
- input into the development of the administering authority discretions statement
- regular overview of the Internal Disputes Resolution Procedures

The Board's role is still evolving since its establishment in May last year. In the last twelve months it has developed a forward work programme that reflects a number of priority areas for the Fund, and supports the Committee in ensuring the Fund is compliant.

It has made some strong progress in developing its knowledge and understanding, as best evidenced by the firm commitment Board members have made to attending training. I would like to thank my colleagues on the Board for their efforts in this respect.

The triennial valuation of the Fund is underway, and the Board will have a role to play in understanding the impact this will have on employers and members. It will also need to consider how the Fund may be affected by a number of emerging national issues for Local Government Pension Schemes. These include:

- the pooling of LGPS investment funds
- the risks and opportunities emerging from the EU referendum
- the ongoing financial challenges faced in the public sector

It is an interesting time for the governance of LGPS funds, and recent events have highlighted the importance of having the right mechanisms for assurance and oversight in all pension schemes. The benefits to both employers and members are widely recognised, and the Board is an important component in that respect.

The meetings of the Surrey Local Pension Board are held in public. We would always welcome anyone with an interest to attend and see how the Board operates. We are also open to suggestions from both employers and members about how it can best support them. You can find out more by writing to the Board's supporting officer, Andrew Spragg at andrew.spragg@surreycc.gov.uk or phoning 0208 213 2673.

Nick Harrison
Chairman of the Surrey Local Pension Board - October 2016

2. Compliance checklist

To secure compliance with the Regulations, any other legislation relating to the governance and administration of the Scheme, and requirements imposed by the Pensions Regulator in relation to the Scheme.	How the Board does this
a) Review regular compliance monitoring reports which shall include reports to and decisions made under the Regulations by the Committee.	The Board and Committee receive regular updates regarding their respective activities. The Board and Committee are committed to working together.
b) Review management, administrative and governance processes and procedures in order to ensure they remain compliant with the Regulations, relevant legislation and in particular the Code of Practice.	The Board has oversight of Pension Fund policies and processes. The Board reviews Key Performance Indicators (KPIs) for pension administration on a quarterly basis.
c) Review the compliance of scheme employers with their duties under the Regulations and relevant legislation.	The Board is scheduled to review employer pension discretions in July 2016, and will continue to monitor compliance over the coming year.
d) Assist with the development of and continually review such documentation as is required by the Regulations including Governance Compliance Statement, Funding Strategy Statement and Statement of Investment Principles.	This was reviewed as part of the Fund Annual Report on 12 October 2015. The Board will review these on an annual basis as part of the Fund Annual Report.
e) Assist with the development of and continually review scheme member and employer communications as required by the Regulations and relevant legislation.	The Board was provided with an outline of the current communications channels for members and employers as part of a training session in October 2015. This is an item for fuller consideration 2016/17.
f) Monitor complaints and performance on the administration and governance of the scheme.	The Board will review complaints on a quarterly basis, commencing in 2016/17.
g) Assist with the application of the Internal Dispute Resolution Process.	The Board receives a quarterly update on the number of Internal Dispute Resolution Process cases and monitors any key themes emerging from these.
h) Review the complete and proper exercise of Pensions Ombudsman cases.	N/A – No current or outstanding Ombudsman cases to consider.
i) Review the implementation of revised policies and procedures following changes to the Scheme.	N/A – No changes. The Board is fully conversant on current proposed changes to the LGPS regulations through regular bulletins.

j) Review the arrangements for the training of Board members and those elected members and officers with delegated responsibilities for the management and administration of the Scheme.	The Board will review its own training needs on an annual basis. A knowledge and understanding log is included in the Board's annual report. All Board members are required to complete the Pension Regulator Public Sector toolkit in order to comply with the Board's Attendance, Knowledge and Understanding policy.
k) Review the complete and proper exercise of employer and administering authority discretions.	The Board is scheduled to review these discretions in July 2016.
l) Review the outcome of internal and external audit reports.	The Board complies with Surrey County Council's agreed process for internal audit reports being considered by scrutiny boards. This means all relevant audit reports are circulated to the Chairman, and any report with one or more high priority recommendation will be considered for discussion at the Board. The results of any external audit are shared with the Board.
m) Review draft accounts and scheme annual report.	The Board received both the draft accounts and fund annual report on 12 October 2015.
n) Review the compliance of particular cases, projects or process on request of the Committee.	N/A – The Committee did not commission any reports in 15/16. The Board will continue to offer to assist as and where required.
o) Any other area within the core function (i.e. assisting the Administering Authority) the Board deems appropriate.	N/A.

3. Schedule of meetings and agenda items 2015/16

27 July 2015

- Terms of Reference
- Knowledge and Understanding
- Policy Documents
- Key Performance Indicators

12 October 2015

- Knowledge and Understanding Update
- Summary of Pension Fund Committee Meeting – 18 September 2015
- Surrey Pension Fund: Statement of Accounts
- Chartered Institute of Public Finance Accountants Benchmarking Club 2015
- Internal Audit: Review of Pension Administration
- Surrey Pension Fund: Annual Report

9 March 2016

- Update of Recent Pension Fund Committee Meetings – 13 November 2015, 12 February 2016, 25 February 2016
- Key Performance Indicators and Administration
- Scheme Advisory Board Benchmarking Exercise
- Disaster Recovery Procedures
- Frozen Refunds
- Unprocessed Leavers
- Counsel Opinion on Legal Status of Pension Boards
- Review of Internal Dispute Resolution Cases in 2015/16 (Quarter 3)

Members of the Local Pension Board

Name	Representing	Appointed	Appointment ended
(NH) Nick Harrison (Chairman)	Scheme employers	17 July 2015	N/A
(JO) John Orrick (Vice Chairman)	Scheme employers	17 July 2015	N/A
(PB) Paul Bundy	Scheme employers	17 July 2015	N/A
(TG) Tony Geer	Scheme members	17 July 2015	3 May 2016*
(TH) Tina Hood	Scheme members	29 January 2016	N/A
(MH) Mandy Horrell	Scheme members	17 July 2015	28 July 2015
(PR) Paresh Rajani	Scheme members	3 May 2016*	N/A
(DS) David Stewart	Scheme members	17 July 2015	N/A
(CW) Claire Williams-Morris	Scheme employers	17 July 2015	N/A
(TW) Trevor Willington	Scheme members	17 July 2015	N/A

*For information not part of 2015/16 activity

Meeting attendance

Meeting date	In attendance	Apologies
27 May 2015	NH, JO, PB, MH, DS, TW	TG, CW
12 October 2015	NH, JO, PB, DS, CW, TW	
9 March 2016	NH, TH, JO, PB, DS, CW, TW	

Compulsory training

Training	Attained
The Pensions Regulator Public Sector Toolkit	NH, JO, PB, DS, CW, TW
Local Government Association Fundamentals 1	NH, JO, PB, DS, CW, TW
Local Government Association Fundamentals 2	NH, JO, PB, DS, CW,
Local Government Association Fundamentals 3	NH, JO, PB, DS, CW, TW

Additional training

Training	In attendance
330 Consultancy	TW
Mercer Investment Consultants	NH, JO, DS, PB
Pensions & Lifetime Savings Local Pension Board Training	NH, JO, TH, PR
CIPFA Local Pension Board AGM	JO

Publications distributed to all Local Pension Board members

Monthly update from Hymans Robertson	November 2015 – March 2016
Local Government Pension Secretariat bulletins	136-143

4. Board expenditure 2015/16

(NB. All costs are met through Surrey LGPS Fund.

Officer support provided by Surrey County Council)

Chairman and Vice-Chairman Allowances	£4,423.00
LGA Training	£1,440.00
Meeting Refreshment Cost	£82.50
Total:	£5,945.00

5. **Register of Interests**

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

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

A conflict of interest would prejudice an individual’s ability to perform their duties and responsibilities towards the Local Pension Board in an objective way.
An example of a potential conflict of interest could be:

A Local Pension Board member may be required to review a decision which may be, or appear to be, in opposition to another interest or responsibility; e.g(s):

- a review of a decision which involves the use of departmental resource in the function of the Local Pension Board, whilst at the same time being tasked with reducing this departmental resource by virtue of their employment;

- a Local Pension Board member could also be employed or have an interest in either privately or as part of the Council in a service area of the Council for which the Local Pension Board has cause to review;

- an independent member of the Local Pension Board may have a conflict of interest if they are also advising the Scheme Manager.

Name	LGPS Member/ Employer Representative	Date of Appointment/ Termination (if applicable)	Relevant employment or positions held	In receipt of a LGPS pension?	Stated Conflict with Employment?	Additional note	Other Conflicts of Interest
Paul Bundy	Employer	17/07/2015	Head of Finance, Surrey Police	No	Yes	Employed by an employer of the fund. If a conflict was to arise, this would be mitigated by the Board member removing himself from the discussion.	N/A
Nick Harrison	Employer	17/07/2015	Elected Member of Surrey County Council; Trustee director of a company pension scheme, DB Pension Fund Trustee Ltd.	No	No	Deutsche Bank itself has no role in relation to the Surrey Pension Fund and no role more generally in providing banking, investment or other services to Surrey County Council.	N/A
Tina Hood	Member	29/01/2016	GMB Branch Secretary Surrey County Branch County Hall	Yes	No	N/A	N/A
Claire Morris	Employer	17/07/2015	Head of Financial Services and Deputy Chief Financial Officer, Guildford Borough Council	No	Yes	Employed by an employer of the fund. If a conflict was to arise, this would be mitigated by the Board member removing herself from the discussion.	N/A

John Orrick	Employer	17/07/2015	Elected Member of Surrey County Council; Sales Representative –Consort Frozen Foods Ltd, Burgess Hill	No	No	Employer not involved in financial business	N/A
Paresh Rajani	Member	03/05/2016*	Electrical Services Engineer, Neighbourhood & Housing Management Services, Guildford Borough Council; Unison representative	No	No	Employer not involved in financial business.	N/A
David Stewart	Member	17/07/2015	Shared Performance and Reward Manager (LBHF and RBKC), Shared Human Resources London Borough of Hammersmith & Fulham/Royal Borough of Kensington & Chelsea	Yes	No	Employer's pension services are administered by Orbis - this is actively managed by being recorded at every meeting, and any likelihood of conflict arising would be mitigated by the member removing himself from the discussion.	N/A
Trevor Willington	Member	17/07/2015	Governor, North East Surrey College of Technology	Yes	No	Employer not involved in financial business.	N/A
Tony Geer	Member	17/07/2015 - 03/05/2016	Surrey County Council; Unison representative	Yes	No	No financial/other interests that could compromise role.	N/A
Mandy Horrell	Member	17/07/2015 - 31/07/2015	Surrey County Council; GMB representative	Yes	No	Not involved with Pension Team with Surrey County Council.	N/A

Knowledge and Skills Policy

The administrators of the Surrey Pension Fund are committed to the implementation of the Code of Practice on public sector pensions finance knowledge and skills. The Pension Fund Committee has agreed the following knowledge and skills policy statement.

1. The Pension Fund Committee recognises the importance of ensuring that all staff and members charged with the financial administration and decision-making with regard to the pension scheme are fully equipped with the knowledge and skills to discharge the responsibilities allocated to them.

2. It therefore seeks to utilise individuals who are both capable and experienced and it will provide/arrange training for staff and members of the Committee to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills

.

The members of the Committee are to partake in the CIPFA Knowledge and Skills Framework in order to identify areas where further training is required.

Communication Policy Statement

1 Communication Objectives

- To accurately communicate the provisions and requirements of the Local Government Pension Scheme (LGPS) to all stakeholders.
- To identify and meet all regulatory requirements regarding provision of information.
- To promote appropriately membership of the LGPS Scheme to employees of participating employers.
- To communicate clearly to all stakeholders their own responsibility for communication and information flows in relation to the Scheme, and work with these other parties to improve efficiency of communications.
- To ensure communications are made in a timely manner.
- To use a variety of means for communication, depending on the purpose and content of the communication, and recognising that different styles and methods will suit different stakeholders.

2 Stakeholders

The various stakeholders for the purpose of this communication policy are identified below:

- Active members
- Prospective members
- Deferred members
- Pensioners
- Employers

3 Website

The Pension Fund has an established website:

surreypensionfund.org

Method of Communication	Media	Frequency of Issue	Method of Distribution	Audience Group (Active, Prospective, Deferred, Pensioner, Employer or All)
Scheme overview and joiner form	Paper based and on website	On commencing employment and by request	Via employer	Active and prospective
Scheme booklet and joiner pack	Paper based and on website	On joining the scheme and by request	Home address or via employer	Active and prospective
Factsheets	Paper based and on website	On request	Post to home address or email	Active and deferred
Newsletters	Paper based and on website	After material scheme changes	Via employer	Active and Pensioner
Annual benefit statements	Paper based	Annually	Post to employer or home address	Active and Deferred
Pension clinics/roadshows and drop-in events	Face to face	As requested by employer and employee	Via employer	Active and prospective
Pre-retirement courses	Face to face	As requested by employer	Via employer	Active
Briefing reports	Paper based and electronic	Ad hoc	Email or hard copy	Employers
Formal dispute resolution procedure	Paper based or electronic	As and when a dispute arises	Email or hard copy	All
Investment updates	Website	Quarterly	On request	Employers
Annual report and accounts	Paper based, electronic or website	Annually	Email or hard copy	All
Annual general meeting	Face to face	Annually	Email invitation	Employers
Actuarial valuation report	Electronic or website	Triennial	Email	All

Surrey Pension Fund Administration Strategy

1. Legislative Framework

1.1 This strategy statement has been prepared by Surrey County Council as the administering authority to the Surrey Pension Fund in accordance with Regulation 59 of the Local Government Pension Scheme) Regulations 2013.

2. Review

2.1 This strategy will be kept under review and will be revised, after consultation with scheme employers, following any material changes in legislation or policies that relate to the strategy.

3. Purpose

3.1 The purpose of the strategy is to establish levels of performance and procedures for liaison and communication for both the administering authority (AA) and the employers participating in the fund with a view to maintaining good working relationships, transparency and efficient administration.

4. Employer Duties & Responsibilities

4.1 The employer should nominate a person or persons to liaise with the AA on pension administration matters.

4.2 The employer should ensure that any information passed on behalf of the employer to the AA or any requests for information made on behalf of the employer to the AA are undertaken by a duly authorised officer of the employer.

4.3 The employer should notify the AA in respect of the following changes in a scheme member's status and within the required timescale by completing the appropriate pension form or secure on-line submission:

- New Joiner
  Within one month of joining
- Change in member's details e.g. hours, maternity etc
  Within one month of the change
- Retirements
  Two months prior to the date of retirement. It is however recognised that there will
  be occasions where this time limit cannot be met, for example, because the
  member has retired with little or no notice or details of pensionable pay cannot be
  provided until the member has left employment.
- Death in Service
  Within five working days of the member's death
- Leavers
  Within one month of the member leaving
- TUPE transfer of scheme members
  At least two months before the transfer date. This is to allow adequate time for
  pension protection to be put in place as appropriate.

4.4 The employer must determine the pension contribution rate at which its employees should contribute to the scheme from 1 April each year and, where there is a change to the member's pensionable pay during the year, from that date. Where an employee holds more than one post, the employer must determine the rate applicable for each post.

4.5 The employer will ensure that member and employer pension contributions are deducted at the correct rate, including contributions due on leave of absence with reduced or no pay, maternity leave and any additional contributions the member has requested to pay.

4.6 The employer will ensure that pension contributions are paid to the AA within seven days of the end of each month.

4.7 The employer will ensure that additional voluntary contributions are paid to the relevant provider within seven days of being deducted from the member's pay.

4.8 The employer must, no later than 30 April each year, provide the AA with year-end information to 31 March in an approved format in respect of each post the member holds.

4.9 The employer is responsible for exercising the discretionary powers given to employers by the LGPS regulations. The employer is also responsible for publishing its policy in respect of these discretions to its employees and forwarding a copy to the AA.

4.10 The AA is not required to verify the accuracy of any information provided by the employer for the purpose of calculating benefits under the provisions of the Local Government Pension Scheme. Therefore, employers should ensure that all information provided is accurate.

4.11 Any over-payment resulting from inaccurate information supplied by the employer may be recovered from the employer if it cannot be recovered from the scheme member.

4.12 In the event of the AA being fined by The Pensions Regulator, this fine may be passed on to the relevant employer where that employer's action or inaction resulted in the fine.

4.13 The employer must nominate a person to hear complaints made under Stage 1 of the Internal Disputes Resolution Procedure and should provide this person's name, job title, and office address. When an amendment to these details is made, a notification of the change should be sent to the AA immediately.

4.14 The employer must obtain the approval of the AA as to its choice of registered medical practitioner for the purposes of awarding ill health retirement under the Scheme regulations.

4.15 The employer must pay to the AA any cost identified by the AA as a result of the employing authority's decision to release any pension benefits prior to a member's normal retirement age. Such payments should be made within 30 days from the date of receipt of an invoice issued by the AA or such longer period as agreed by the AA.

4.16 The employer must also pay to the AA any charge identified by the AA as a result of the employing authority's decision to award any additional benefits to a scheme member in accordance with its statement of policy regarding the exercise of certain discretionary functions. Such payments should be made within 30 days from the date of receipt of an invoice issued by the AA or such longer period as agreed by the AA.

5. Administering Authority Duties & Responsibilities

New Joiners

5.1 *Confirmation letter of scheme admittance to all members*.
Within 20 days

5.2 *Transfers from previous pension schemes.*
Within 20 days

Existing Active Members

5.3 *Annual Benefit Statement*
By 30 September providing year end data has been received from the employer

5.4 *Benefit estimates to employers*
Within ten days of receipt of request

5.5 *Retirements*
Within ten days of retirement

5.6 *Death in Service*
Death Benefits and dependants' pensions
Within five days

Early Leavers

5.7 *Deferred Benefit statement*
Within one month of leaving

5.8 *Refunds*
Within ten days

5.9 *Transfer to new pension scheme*
Within 20 days

Deferred Benefit Members

5.10 *Annual Benefit Statement*
By 30 June

5.11 *Benefits put into payment*
Within ten days

5.12 *Death Benefits and dependants' pensions*
Within five days

Pensioner Members

5.13 *Changes in personal details*
Payroll record updated before next payroll run

5.14 *Death benefits and dependants' pensions*
Within five days

*The timescales for completing the tasks above are measured from the date the AA is in receipt of all the relevant information required to complete the task is

expressed in “working days”

Communication

5.15 The AA will provide employers with the necessary forms and documents for it to carry-out its pension administration responsibilities. These forms to be available in paper and electronic format, where appropriate
.

5.16 The AA will provide a guide to the Local Government Pension Scheme for scheme members for employer to issue.

5.17 The AA will provide a joiner pack to new scheme members.

5.18 The AA will issue a newsletter for active scheme members at least once a year

5.19 The AA will issue regular employer newsletters and provide training at County Hall for employers to comply with their pension administration responsibilities.

5.20 The AA will enable scheme members and employers to visit Pension Services during normal working hours from 8.30am to 5.30pm.

5.21 The AA will maintain a Pension Fund Website which will include:

- General information on the LGPS
- Copies of all the publications of the pension fund including newsletters, scheme guides, strategy statements, annual reports and accounts.
- Standard forms to be used by employers when providing information to the pensions team
-

5.22 The AA will arrange a Pension Fund Annual General meeting for employers and produce an annual report.

Data Quality and Security

5.23 The AA will ensure that the data held on the systems used to administer the scheme will be secure and regularly backed up to an off-site location. The AA will apply year end data quality control and review processes.

6. Unsatisfactory Performance by an Employer

6.1 Where an employer materially or consistently fails to operate in accordance with the standards laid down in this strategy, which results in additional administration costs being incurred by the AA, the AA may issue a written notice to the employer requiring that these extra costs are met by the employer. Steps to recover additional administration costs would normally only be pursued after support and training had been offered by the AA to address the underperformance.

Investment Report

Market commentary – 2015/16

Economic background

In each of the last few years I have commented that the period since the financial crisis in 2008/09 has been exceptional for financial markets, implying that at some point markets and economies would return to normal. Eight years on, it increasingly appears that a 'new normal' has been established. And a very odd beast it is.

The policy response of central banks in the aftermath of the crisis was to flood the financial system with liquidity in the hope that cheap money would stabilise confidence and prompt a recovery in economic growth. Short-term interest rates were cut close to zero and central banks embarked on an enormous programme of Quantitative Easing, buying longer dated bonds to force long-term interest rates lower.

When QE started, it was expected to be a temporary measure. However, the recovery in highly indebted developed economies has been far slower and patchier than had been expected. Financial markets have come to regard cheap money as almost a default policy, forcing central banks to embark on ever lower interest rates and ever higher QE in areas where economic growth has lagged, such as Europe and Japan. The end result has been the emergence of negative nominal interest rates.

At the time of writing, every Swiss government bond is priced to deliver a negative nominal return to investors, even bonds maturing in 30 years' time. The same is true of German and Japanese government bonds with 10 years or less to maturity. Even some European companies have been able to issue new bonds on negative nominal yields. Roughly a quarter of the global bond market (encompassing both government and corporate bonds as represented by the Global Aggregate index) currently offers negative yields.

The prevalence of negative nominal interest rates disguises just how odd they are. The concept that an investor would be happy not only to receive no return but actually to pay to lend money to a borrower is both unprecedented and contrary to economic theory. There are perhaps two possible explanations.

One is that investors are expecting widespread, sustained and significant deflation, which would make even negative nominal returns positive in real terms. Deflationary forces have been in evidence in some areas for a while. Japan suffered deflation for a generation and is still struggling to create inflation. Parts of Europe, such as Greece, have experienced severe recessions made worse by the constraints of staying within the euro. Economies reliant on commodities, such as Brazil and Russia, have also suffered sharp slowdowns in economic growth. And wage growth in many developed economies has been poor for years, leading to growing political dissatisfaction. However, the most important global economies, notably the US, China and Germany, are still growing, albeit at a more muted rate than had been

expected. It would require a significant new shock to trigger sustained global deflation in such an environment.

The other possible explanation is that central bank intervention has distorted financial markets for so long that it is creating dangerous anomalies. The policy of cheap money was designed to encourage risk taking, but it also discourages deleveraging. Parts of the financial system, such as banks, have been deleveraging to meet more stringent regulatory constraints, but debt elsewhere has been rising. Investors with low risk tolerance are being forced to buy risky assets, which may potentially make the financial system less stable.

Central bank policy was successful in preventing the global financial system falling into an abyss in the wake of the financial crisis. While the economic recovery has been much slower than expected and remains patchy, global economic growth is nevertheless running at about 3% pa.

The US is faring better than other developed economies, most of which are still seeing growth below long-term trends. The US is the only economy where the central bank has been able to increase interest rates, albeit for the first time in nearly a decade. In emerging markets China's economic growth has been slowing from a previously breakneck pace, but appears to be settling in the range 5-6% pa. Elsewhere the picture is mixed, with poor growth in emerging economies that were too reliant on commodity prices or external capital flows.

Market returns

After a number of years of strong returns from financial markets, it was perhaps inevitable that there would be a pause, as occurred in the year to end March 2016.

Equities delivered the worst returns. The return on UK equities was -4%, reflecting the large index weighting in commodities. Emerging markets were weakest with a return of -8%. In sterling terms, the US provided the best return at +3%, with negative returns also being seen in Europe (-3%), Japan (-4%) and Asia (-7%).

Bonds also delivered low returns, in a range between zero and +4%. The strongest returns were seen in illiquid asset types, such as property (+11%) and private equity (+14%).

Fund performance

In the year to end March 2016, the Surrey Pension Fund delivered a return of -0.5%. This was below both the average LGPS fund (+0.2%) and Retail Price Inflation (+1.6%).

The Fund uses a combination of passive, absolute return and relative return mandates. The
active managers performed very well in global equities, but underperformed in UK equities and bonds. The absolute return mandates were less successful in a difficult market environment. Overall, the return achieved was broadly in line with the Fund's bespoke benchmark (-0.9%).

The longer term performance remains strong, with returns well above inflation over 3 years (+6.7% pa versus +1.6% pa) and 5 years (+7.2% pa versus +2.3% pa). The Fund has also achieved a return above the average LGPS fund over these periods, largely reflecting good relative returns from the active managers rather than material differences in asset allocation.

Investment Outlook

The outlook for markets is more than usually clouded by political uncertainty. We have already seen one major shock in the UK's referendum vote to leave the EU. With a highly contentious and all too close Presidential Election in the US due towards the end of 2016, a period of above average market volatility seems likely.

Even without the added complexity of political risk, markets face an uncertain future. The US has started to tighten interest rates in response to domestic economic pressures but has indicated that it may have to curb the pace of rate rises given the potentially adverse impact on economies globally. Elsewhere growth is fragile and uncomfortably dependent on central bank stimulus. The scope for policy errors is significant, either in moving too quickly or too slowly.

The problem for investors is in finding safe havens in this uncertain environment. The valuation basis of all defensive assets is extremely high, making them anything but safe. This applies to most bonds, many equities in traditionally safe sectors, such as utilities and consumer staples, and even gold. The prolonged period of cheap money has driven an ever more desperate search for yield, so that nearly all assets now appear expensive relative to history. From a high starting point, it seems quite likely that long-term trend returns will be lower in future than we have been used to in the past.

Strategic asset allocation

The outcome of the latest triennial actuarial review will be known shortly, but it is expected to confirm that the Surrey Pension Fund will continue to benefit from positive cash flow for many years to come. The investment priority therefore should remain long-term return generation rather than short-term risk mitigation.

The Fund's investment strategy is focused on assets with high expected long-term returns within a portfolio offering strategic and manager diversification. The target allocation to equities (both quoted and private) is 65%, which is similar to the average LGPS scheme. A further 17% is invested in other growth assets, with 6% in property and 11% in DGFs. The remaining 18% is invested in bonds, split between traditional long-dated bonds and absolute return mandates.

The only significant mandate change during the year was in the Western Asset Management bond mandate. The benchmark for the existing bond portfolio was changed to be wholly based on UK corporate bonds and an unconstrained Multi-Asset Credit portfolio was introduced.

The Surrey Pension Fund is working with a number of other authorities to create the

Border to Coast investment pool. This initiative is not expected to change the Surrey Pension Fund's investment strategy but it may lead to some changes to the manager structure in future years.

September 2016

John Harrison

Investment Arrangements

At Surrey the overall direction of the Fund's investment is the responsibility of the Pension Fund Committee. The Committee comprises

- 5 county council members
- 3 employer representatives
- 1 employee representatives
- 2 professional investment advisors

The Fund is managed on both an active and passive basis.

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

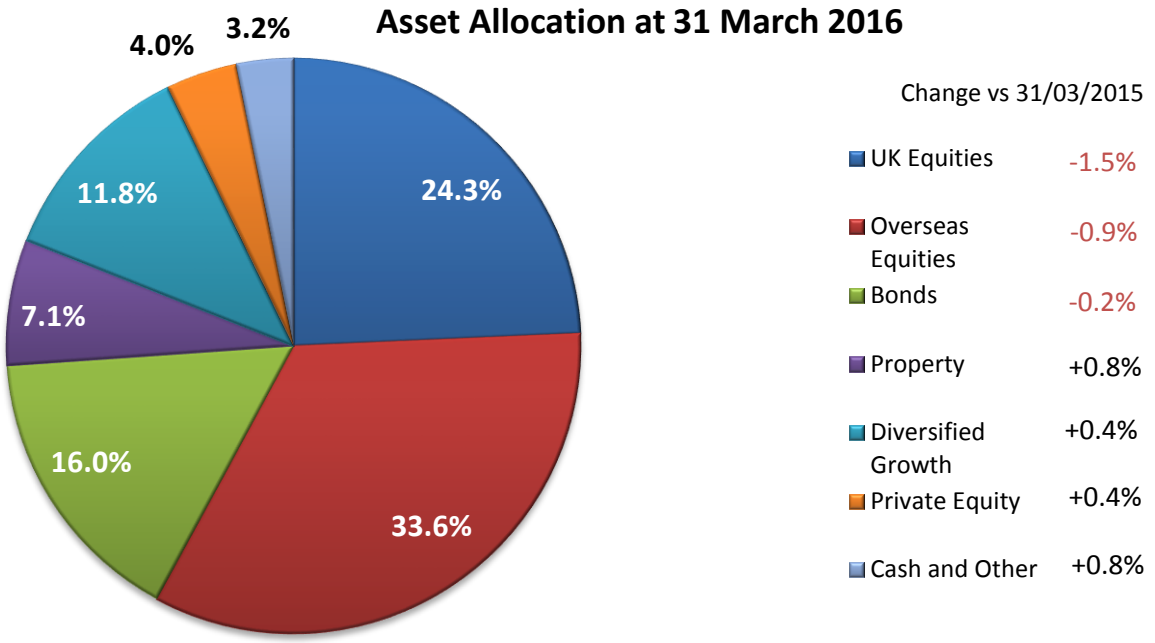
In addition the Fund has investments in private equity funds managed by Blackrock, Goldman Sachs, Hg Capital, Living Bridge Equity Partners, Capital Dynamics and Standard Life Capital Partners.

At 31 March 2016 the market value of assets under management was £3,196.6m, excluding the private equity portfolio, internally managed cash, and residual cash held by the custodian. The proportion with each of the investment managers is shown overleaf.

Investment Manager	Mandate	Market value 31 March 2016	Percentage of Funds Under Management
		£000	
Passive			
Legal & General Investment Managers	Multi Asset	831,747	26.0
Active			
Majedie Asset Management	UK Equities	289,511	9.1
UBS Asset Management	UK Equities	227,289	7.1
Marathon Asset Management	Global Equities	440,714	13.8
Newton Investment Management	Global Equities	249,031	7.8
Western Asset Management	Fixed Income	283,675	8.9
Franklin Templeton Investments	Unconstrained Fixed Income	65,268	2.0
Standard Life Investments	Diversified Growth	246,846	7.7
Baillie Gifford Life Limited	Diversified Growth	129,839	4.1
CBRE Global Multi Manager	Property	205,181	6.4
Darwin Investment Management	Property	25,687	0.8
Total		**2,994,788**	

The table above excludes the private equity partnerships, internally managed cash, residual cash held by the custodian and other investment balances.

Portfolio Distribution
The distribution of the Fund investments into different asset classes within the portfolio at 31 March 2015 is shown in the below chart, with the prior year allocation shown in brackets.



The chart below shows the investment breakdown by asset class over the last five years.

Change in actual asset allocation over the year.

	Asset Allocation Target	Actual Allocation 31 March 2015	Actual Allocation 31 March 2016	Movement in Year
Fixed interest securities	15.2%	11.1%	10.7%	-0.4%
Index linked securities	3.8%	5.0%	5.3%	0.3%
Equities	59.8%	60.2%	57.9%	-2.3%
Property unit trusts	6.7%	6.3%	7.1%	0.8%
Diversified growth	9.5%	11.4%	11.8%	0.4%
Private equity	5.0%	3.6%	4.0%	0.4%
Cash and other	0.0%	2.4%	3.2%	0.8%
Total	**100.0%**	**100.0%**	**100.0%**	

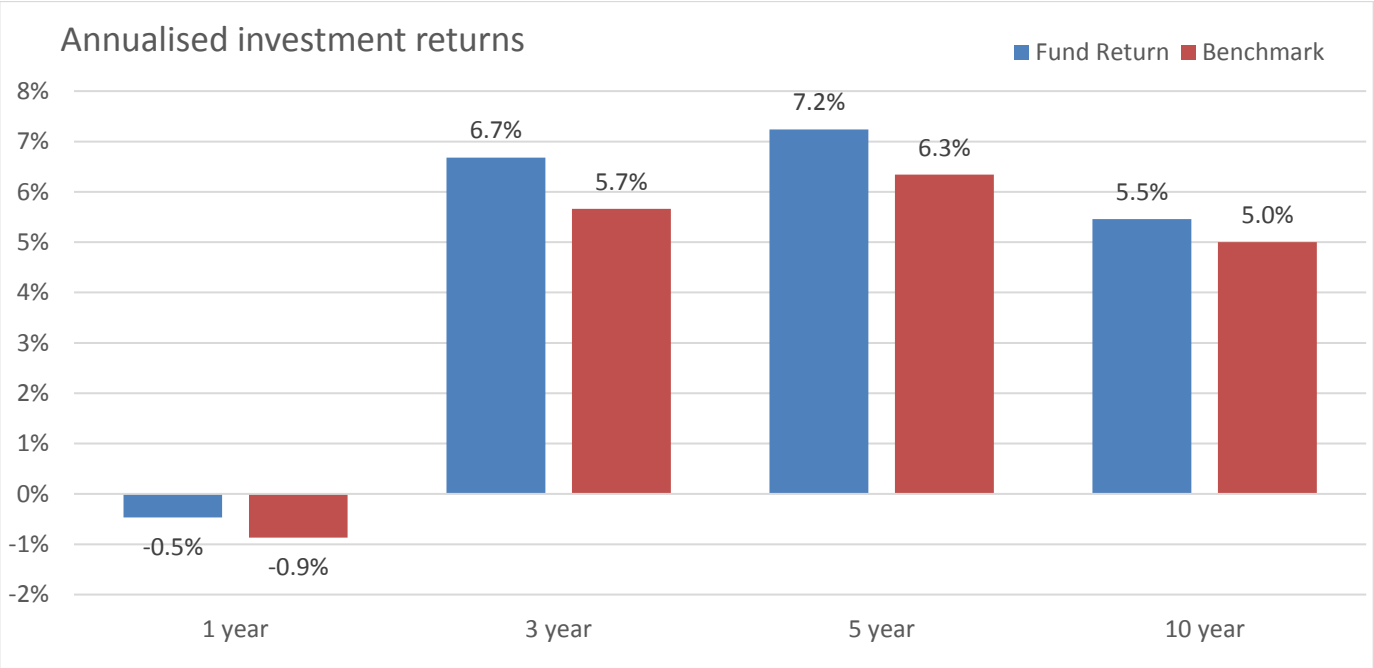
Investment Activity

Eleven fund managers undertook the management of investments during 2015/2016 in a mix of passive and active investment. A summary of investment managers and the value of the assets under management is shown on page 31.

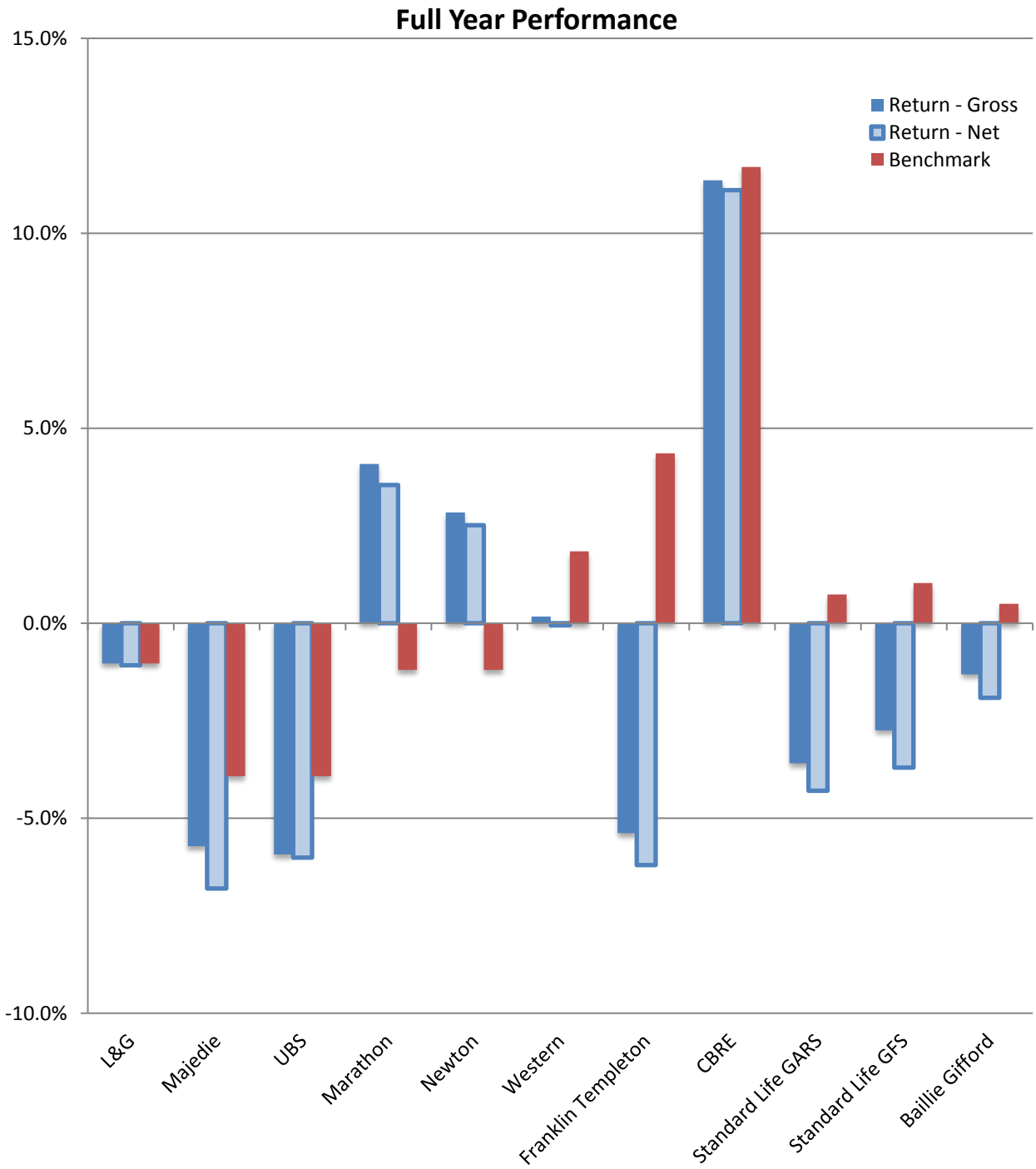
The Fund assess investment performance against a customized benchmark provided by the Fund custodian Northern Trust. This benchmark is derived from a series of investment indices weighted by the Funds asset allocation. This allows the Fund to measure performance against a 100% passive allocation.

Performance against target and benchmark is continually reviewed at regular intervals, as stated in the Fund's Statement of Investment Principles.

The graph below shows how the Fund performed against the benchmark, on an annualised basis, for the previous 12 months, 3 and 5 years.



The fund recorded investment performance above that of the benchmark for the previous 12 months to 31 March 2016 as well as outperformance over the longer term 3 and 5 year period, shown in the above chart. The outperformance above the benchmark is partly a result of strong investment returns generated by actively managed portfolios. The annual investment returns as at 31 March 2016 for each fund manager are shown in the below table.



At its meeting of 22 May 2015, the Pension Fund Committee considered a report which indicated that the future investment return from investment grade corporate bonds is likely to be relatively low, with the strong returns seen over the last six years not to be repeated.

It advised further that the expected return on the Fund's fixed income investment grade assets could be increased to Gilts +3.5% per annum by introducing a Multi-Asset Credit mandate, without materially increasing risk relative to the liabilities. The Pension Fund

committee interviewed a shortlist of four multi asset credit managers on the 23 July 2015. The resulting decision awarded a mandate of 4.4% of the portfolio to Western Asset management, funded from existing corporate bonds held by Western and Legal and General, the transition of assets was completed on the 21 December 2015.

The below table shows the investment return for each asset class for the twelve months to 31 March 2016. The table does not include the impact of the Fund's currency hedge.

	Annual Investment Return 12 months to 31 March 2016
Fixed interest securities	-1.4%
Index linked securities	+1.6%
Equities	-1.2%
Property unit trusts	13.5%
Diversified growth	-3.4%
Private equity	17.4%
Cash and other assets	1.9%

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 meets 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	
Legal and General	*Passive*	*10.0*		
Majedie	*Concentrated Active*	*11.0*		
UBS	*Core Active*	*8.0*		
Overseas			34.0	
Legal and General	*Passive*	*14.0*		
Marathon	*Concentrated Active*	*12.0*		
Newton	*Core Active*	*8.0*		
Property			**6.5**	**+/-3.0**
CBRE	*Core Active*	6.5		
Alternatives			***12.0***	**+/-3.0**
Standard Life	*Diversified growth*	*8.0*		
Baillie Gifford	*Diversified growth*	*4.0*		
Bonds			**18.5**	**+/-3.0**
Index linked gilts			5.8	
Legal and General	*Passive*	*5.8*		
Investment Grade Credit			5.5	
Western	*Core Active*	*5.5*		
Total Return			*2.6*	
Franklin Templeton	*Unconstrained*	*2.6*		
Multi Asset Credit			4.6	
Western	*Unconstrained*	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. 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, bu aims to out-perform the FTSE All Share Index by ar unspecified amount over th 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	FTSE All Share FTSE AW – Dev'd World (ex UK) FTSW AW – All Emerging Markit iBoxx GBP	To track the performance o the respective indices withi lower level of tracking deviation (gross of fees) over rolling 3-year periods

	CN - AAA-AA-A Bonds - All Stocks Index Index-Linked Gilts	Non Gilts ex BBB All stock 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) ove 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 employers.

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.

Surrey Pension Fund: Funding Strategy Statement

1 Funding Strategy Statement

1.1 This is the Funding Strategy Statement (FSS) of the Surrey Pension Fund ("the Fund"), which is administered by Surrey County Council, ("the Administering Authority").

1.2 It has been prepared by the Administering Authority in collaboration with the Fund's actuary, Hymans Robertson LLP, and after consultation with the Fund's employers and investment adviser. It is effective from 1 April 2014.

2 Surrey Pension Fund

2.1 The Fund is part of the national Local Government Pension Scheme (LGPS). The LGPS was set up by the UK Government to provide retirement and death benefits for local government employees, and those employed in similar or related bodies, across the UK. The Administering Authority runs the LGPS Fund for the Surrey area, to ensure it:

- receives the correct contributions from employees and employers, and any transfer payments;
- invests the contributions appropriately, with the aim that the Fund's assets grow over time with investment income and capital growth;
- uses the assets to pay Fund benefits to the members (when they retire, for the rest of their lives), and to their dependants (when members die), as defined in the LGPS Regulations. Assets are also used to pay transfer values and administration costs.

2.3 The regulatory requirements for a FSS are set out in Appendix A.

2.3 The roles and responsibilities of the key parties involved in the management of the Fund are summarised in Appendix B.

2.4 Key risks and controls are set out in Appendix C.

2.5 Detailed descriptions relating to employer contributions are given in Appendix D.

2.6 Actuarial assumptions are provided in Appendix E and a glossary in Appendix F.

3 Need for a Funding Strategy Statement

3.1 Employees' benefits are guaranteed by the LGPS Regulations, and do not change with market values or employer contributions. Investment returns will help pay for some of the benefits, but not all, and certainly with no guarantee. Employees' contributions are fixed in those Regulations, at a level which covers only part of the cost of the benefits. Therefore, employers pay the balance of the cost of delivering the benefits to members and their dependants.

3.2 The FSS is a framework within which the Fund's actuary carries out triennial valuations. It focuses on how employer liabilities are measured, the pace at which these liabilities are funded, and how employers or pools of employers pay for their own liabilities. This statement sets out how the Administering Authority has balanced the conflicting aims of:

- affordability of employer contributions,
- transparency of processes,
- stability of employers' contributions, and

- prudence in the funding basis.

3.3 The FSS is a summary of the Fund's approach to funding its liabilities, and this includes reference to the Fund's other policies. The FSS forms part of a framework of which includes:

- the LGPS Regulations;
- the Rates and Adjustments Certificate, confirming employer contribution rates for the next three years (see the appendix to the formal valuation report);
- the Fund's policies on admissions, cessations and bulk transfers;
- actuarial factors for valuing individual transfers, early retirement costs and the costs of buying added service;
- the Fund's Statement of Investment Principles; and
- the Fund's Governance Statement and Governance Compliance Statement.

4 Stakeholders

4.1 Members of the Fund (current/former employees, or dependants): the Fund needs to be sure it is collecting and holding enough money so that benefits are always paid in full;

4.2 Employers of the Fund (or those considering joining the Fund): an employer will want to know how contributions are calculated, that these are fair by comparison to other employers in the Fund, and in what circumstances they might need to pay more. Note that the FSS applies to all employers participating in the Fund;

4.3 Elected members whose council participates in the Fund: a member will want to be sure that the council balances the need to hold prudent reserves for members' retirement and death benefits, with the other competing demands for council money;

4.4 Council tax payers: the council will seek to strike the balance above, and also to minimise cross-subsidies between different generations of taxpayers.

5 Objectives of the FSS

5.1 The FSS sets out the objectives of the Fund's funding strategy:

- To achieve and then maintain a funding target that requires assets equal to 100% 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;
- To ensure that employer contribution rates are stable where appropriate;
- To minimise the long-term cash contributions which employers need to pay, by recognising the link between assets and liabilities, and adopting an investment strategy which balances risk and return, thus minimising the costs borne by stakeholders;
- To reflect the different characteristics of 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 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.

6 Calculating a contribution rate?

6.1 Employer contributions are normally made up of two elements:

- the estimated cost of future benefits being built up from year to year, referred to as the "*future service rate*"; plus
- an adjustment for the difference between the assets built up to date and the value of past service benefits, referred to as the "*past service adjustment*" or "past deficit recovery". If there is a deficit, the past service adjustment will be an increase in the employer's total contribution; if there is a surplus there may be a reduction in the employer's total contribution. Any past service adjustment will aim to return the employer to full funding over an appropriate period (the "deficit recovery period").

6.2 An employer's "funding level" is defined as the ratio of:

- the market value of the employer's share of assets, to
- the value placed by the actuary on the benefits built up to date for the employees and ex-employees (the "liabilities"). The Fund actuary agrees with the Administering Authority the assumptions to be used in calculating this value.

6.3 If this is less than 100%, then the employer has a shortfall, which is the employer's deficit; if it is more than 100% then the employer is said to be in surplus. The amount of deficit or shortfall is the difference between the asset value and the liabilities value. A larger deficit will give rise to higher employer contributions. If a deficit recovery is spread over a longer period then the annual employer cost is lower.

6.4 The Fund's actuary is required by the Regulations to report the *Common Contribution Rate*, for all employers collectively at each triennial valuation, combining the *future service rate and the past service adjustment outlined* above. This is based on actuarial assumptions about the likelihood, size and timing of benefit payments to be made from the Fund in the future, as outlined in Appendix E.

6.5 The Fund's actuary is also required to adjust the *Common Contribution Rate* for circumstances specific to each employer. It is this adjusted contribution rate which the employer is actually required to pay, and the rates for all employers are shown in the Fund's Rates and Adjustments Certificate.

6.6 In effect, the *Common Contribution Rate* is a notional quantity, as it is unlikely that any employer will pay that exact rate. Separate future service rates are calculated for each employer together with individual past service adjustments according to employer-specific circumstances.

6.7 Details of the outcome of the 2013 Actuarial Valuation can be found in the formal 2013 valuation report, including an analysis at Fund Level of the *Common Contribution Rate*. Further details of individual employer contribution rates can also be found in the formal report.

6.8 Employer covenant and likely term of membership are considered when setting contributions. For some employers it may be agreed to pool contributions. Any costs of non ill-health early retirements must be paid by the employer. If an employer is approaching the end of its participation in the Fund then its contributions may be amended appropriately, so that the assets meet (as closely as possible) the value of its liabilities in the Fund when its participation ends.

6.9 Employers' contributions are expressed as minima, with employers able to pay contributions at a higher rate. The Fund Actuary will take account of the higher rate at subsequent valuations.

7 Different types of employer participating in the Fund

7.1 Historically the LGPS was intended for local authority employees only. However over the years, with the diversification and changes to delivery of local services, many more types and numbers of employers now participate. There are currently more employers in the Fund than ever before, a significant part of this being due to new academies.

7.2 In essence, participation in the LGPS is open to public sector employers providing some form of service to the local community. Whilst the majority of members will be local authority employees (and ex-employees), the majority of participating employers are those providing services in place of (or alongside) local authority services: academy schools, contractors, housing associations, charities, etc.

7.3 The LGPS Regulations define various types of employer as follows:

- **Scheduled bodies:** councils, and other specified employers such as academies and further education establishments. These must provide access to the LGPS in respect of their employees who are not eligible to join another public sector scheme (such as the Teachers Scheme). These employers are so called because they are specified in a schedule to the LGPS Regulations. It is now possible for Local Education Authority schools to convert to academy status, and for other forms of school (such as Free Schools) to be established under the academies legislation. All such academies, as employers of non-teaching staff, become separate new employers in the Fund. As academies are defined in the LGPS Regulations as "Scheduled Bodies", the Administering Authority has no discretion over whether to admit them to the Fund, and the academy has no discretion over whether to continue to allow its non-teaching staff to join the Fund. There has also been guidance issued by the Department for Communities and Local Government (DCLG) regarding the terms of academies' membership in LGPS Funds. Employers such as town and parish councils are able to participate in the LGPS via resolution (and the Fund cannot refuse them entry where the resolution is passed). These employers can designate which of their employees are eligible to join the scheme.

- **Admission bodies:** other employers are able to participate in the Fund via an admission agreement, and are referred to as 'admission bodies'. These employers are generally those with a "community of interest" with another scheme employer: **community admission bodies** ("CAB") or those providing a service on behalf of a scheme employer: **transferee admission bodies** ("TAB"). CABs will include housing associations and charities and TABs will generally be contractors. The Fund is able to set its criteria for participation by these employers and can refuse entry if the requirements as set out in the Fund's admissions policy are not met.

7.4 The Administering Authority and the Fund actuary are acutely aware that, all other things being equal, a higher contribution required to be paid to the Fund will mean less cash available for the employer to spend on the provision of services. For instance:

- Higher pension Fund contributions may result in reduced council spending, which in turn could affect the resources available for council services, and/or greater pressure on council tax levels;
- Contributions which Academies pay to the Fund will therefore not be available to pay for providing education;
- Other employers will provide various services to the local community, perhaps through housing associations, charitable work, or contracting council services. If they are required to pay more in pension contributions to the LGPS then this may affect their ability to provide the local services.

7.5 It should also be borne in mind that:

- The Fund provides invaluable financial security to local families, namely, retired local community employees, and to their families after their death;
- The benefits are enshrined in statutory legislation with no local discretion to vary the structure;
- The Fund must have assets available to meet retirement and death benefits, which in turn means that employers must each pay their own way. Lower contributions today will mean higher contributions tomorrow: deferring payments does not alter the employer's ultimate obligation to the Fund;
- Each employer will generally only pay for its own employees and ex-employees (and their dependants);
- The Fund strives to maintain reasonably stable employer contribution rates where appropriate and possible;
- The Fund wishes to avoid the situation where an employer falls so far behind in managing its funding shortfall that its deficit becomes unmanageable in practice: such a situation may lead to employer insolvency and the resulting deficit falling on the other Fund employers. In that situation, those employers' services would in turn suffer as a result; and
- Council contributions to the Fund should be at a suitable level, to protect the interests of current and future council tax payers. For instance, underpayment of contributions for some years will need to be balanced by overpayment in the future; the council will wish to minimise the extent to which council tax payers in one period are in effect benefitting at the expense of those paying in a different period.

7.6 Overall, therefore, there is clearly a balance to be struck between the Fund's need for maintaining prudent funding levels, and the employers' need to allocate their resources appropriately. The Fund achieves this through various techniques which affect contribution increases to various degrees. For instance, where an employer is

considered relatively low risk then the Fund may permit greater smoothing of contributions (such as stabilisation or a longer deficit recovery period relative to other employers) which will temporarily produce lower contribution levels than would otherwise have applied. This is permitted in the expectation that the employer will still be able to meet its obligations for many years to come, and that lower levels of contributions now may mean higher contributions in the future.

7.7 On the other hand, an employer whose risk assessment indicates a less strong covenant will generally be required to pay higher contributions (for instance, with a more prudent funding basis or a shorter deficit recovery period). This is because of the higher probability that at some point it may fail to meet its pension contributions, with its deficit then falling to other Fund employers.

7.8 The Fund actively seeks employer input, including to its funding arrangements, through various means: see Appendix A (A2). More detailed descriptions relating to employer contributions are given in Appendix D.

8 Calculating contributions for individual employers

8.1 A key challenge for the Administering Authority is to balance the need for stable, affordable employer contributions with the requirement to take a prudent, longer-term view of funding and ensure the solvency of the Fund. With this in mind, there are a number of methods which the Administering Authority may permit to improve the stability of employer contributions. These include, where circumstances permit:-

- capping of employer contribution rate changes within a pre-determined range ("stabilisation")
- the use of extended deficit recovery periods (up to a maximum of 20 years)
- the phasing in of contribution rises or reductions
- the pooling of contributions amongst employers with similar characteristics
- the use of some form of security or guarantee to justify a lower contribution rate than would otherwise be the case.

8.2 The Administering Authority recognises that there may occasionally be circumstances affecting individual employers that are not easily managed within the rules and policies set out in the Funding Strategy Statement. Therefore the Administering Authority may, at its sole discretion, direct the actuary to adopt alternative funding approaches on a case-by-case basis for employers.

8.3 Employers which are permitted to use one or more of the above methods will often be paying, for a time, contributions less than the theoretical contribution rate. Such employers should appreciate that:

- their true long term liability (i.e. the actual eventual cost of benefits payable to their employees and ex-employees) is not affected by the choice of method,
- lower contributions in the short term may generate lower investment returns over the long term. Thus, deferring a certain amount of contribution will lead to higher contributions in the long-term, and
- it will take longer to reach full funding, all other things being equal.

8.4 Table 1 summarises how the main funding policies differ for different types of employer, followed by more detailed notes where necessary.

Table 1: The different approaches used for different employers

Type of employer	**Scheduled Bodies**			**Community Admission Bodies and Designating Employers**		**Transferee Admission Bodies**
Sub-type	**Local Authorities, Police**	**Colleges etc**	**Academies**	**Open to new entrants**	**Closed to new entrants**	**(all)**
Basis used	Ongoing, assumes long-term Fund participation (see Appendix E)			Ongoing, but may move to "gilts basis" - see Note (a)		Ongoing, assumes fixed contract term in the Fund (see Appendix E)
Future service rate	Projected Unit Credit approach (see Appendix D – D.2)				Attained Age approach (see Appendix D – D.2)	Projected Unit Credit approach (see Appendix D – D.2)
Stabilised rate?	Yes - see Note (b)	No	No	No	No	No
Maximum deficit recovery period – Note (c)	20 years	20 years	20 years	Future working lifetime	Future working lifetime	Outstanding contract term
Deficit recovery payments – Note (d)	Monetary amount	Monetary amount	% of payroll	Monetary amount	Monetary amount	Monetary amount
Treatment of surplus	Covered by stabilisation arrangement	Preferred approach: contributions kept at future service rate. However, reductions may be permitted by the Administering Authority				Preferred approach: contributions kept at future service rate. However, contractors may be permitted to reduce contributions by spreading the surplus over the remaining contract term
Phasing of contribution changes	Covered by stabilisation arrangement	At the discretion of the Administering Authority		None	None	None
Review of rates – Note (f)	Administering Authority reserves the right to review contribution rates and amounts, and the level of security provided, at regular intervals between valuations					To be reviewed in last 3 years of contract
New employer	n/a	n/a	Note (g)	Note (h)		Notes (h) & (i)
Cessation of participation: cessation debt payable	Cessation is assumed not to be generally possible, as Scheduled Bodies are legally obliged to participate in the LGPS. In the rare event of cessation occurring (machinery of Government changes for example), the cessation debt principles applied would be as per Note (j).			Can be ceased subject to terms of admission agreement. Cessation debt will be calculated on a basis appropriate to the circumstances of cessation – see Note (j).		Participation is assumed to expire at the end of the contract. Cessation debt (if any) calculated on ongoing basis. Awarding Authority will be liable for future deficits and contributions arising.

Note (a) (Basis for CABs and Designating Employers closed to new entrants)

In the circumstances where:

- the employer is a Designating Employer, or an Admission Body but not a Transferee Admission Body, and
- the employer has no guarantor, and
- the admission agreement is likely to terminate, or the employer is likely to lose its last active member, within a timeframe considered appropriate by the Administering Authority to prompt a change in funding,

the Administering Authority may vary the discount rate used to set employer contribution rate. In particular, contributions may be set for an employer to achieve full funding on a more prudent basis (e.g. using a discount rate set equal to gilt yields) by the time the agreement terminates or the last active member leaves, in order to protect other employers in the Fund. This policy will increase regular contributions and reduce, but not entirely eliminate, the possibility of a final deficit payment being required from the employer when a cessation valuation is carried out.

The Administering Authority also reserves the right to adopt the above approach in respect of those Designating Employers and Admission Bodies with no guarantor, where the strength of covenant is considered to be weak but there is no immediate expectation that the admission agreement will cease or the Designating Employer alters its designation.

Note (b) (Stabilisation)

Stabilisation is a mechanism where employer contribution rate variations from year to year are kept within a pre-determined range, thus allowing those employers' rates to be relatively stable. In the interests of stability and affordability of employer contributions, the Administering Authority, on the advice of the Fund Actuary, believes that stabilising contributions can still be viewed as a prudent longer-term approach. However, employers whose contribution rates have been "stabilised" (and may therefore be paying less than their theoretical contribution rate) should be aware of the risks of this approach and should consider making additional payments to the Fund if possible.

This stabilisation mechanism allows short term investment market volatility to be managed so as not to cause volatility in employer contribution rates, on the basis that a long term view can be taken on net cash inflow, investment returns and strength of employer covenant.

The current stabilisation mechanism applies to Surrey County Council, all District and Borough Councils and the Office of the Police and Crime Commissioner for Surrey.

This is subject to there being no material events which cause the employer to become ineligible, e.g., significant reductions in active membership (due to outsourcing or redundancies), or changes in the nature of the employer (perhaps due to Government restructuring).

On the basis of extensive modelling carried out for the 2013 valuation exercise, the stabilised details are as follows:

- Deficit contributions have been set to ensure that stabilised employers are paying no less than 80% by 2016/17 of deficit contributions calculated to ensure the Employer is fully funded in 20 years under the 2013 formal valuation assumptions.
- The future service component of the contribution rate has been fixed for all stabilised employers except the Office of the Police and Crime Commissioner for Surrey. This has been set at the market implied future service rate to ensure this employer is paying contributions above the assessed cost of benefits accruing.

The stabilisation criteria and limits will be reviewed at the 31 March 2016 valuation, to take effect from 1 April 2017. This will take into account the employer's membership profiles, the issues surrounding employer security, and other relevant factors.

Note (c) (Deficit Recovery Periods)

The deficit recovery period starts at the commencement of the revised contribution rate (1 April 2014 for the 2013 valuation). The Administering Authority would normally expect the same period to be used at successive triennial valuations, but would reserve the right to propose alternative spreading periods, for example, where there were no new entrants.

Where stabilisation applies, the resulting employer contribution rate would be amended to comply with the stabilisation mechanism.

For employers with no (or very few) active members at this valuation, the deficit should be recovered by a fixed monetary amount over a period to be agreed with the body or its successor, not to exceed 20 years.

The Administering Authority reserves the right to extend the deficit recovery period beyond that stated in Table 1 (not exceeding 20 years). This would be applied at the discretion of the Administering Authority subject to a satisfactory demonstration of employer security.

Note (d) (Deficit Recovery Payments)

Deficit recovery payments for each employer covering the three year period until the next valuation will generally be set as a monetary amount.

Note (e) (Phasing in of contribution changes)

All phasing is subject to the Administering Authority being satisfied as to the strength of the employer's covenant.

Note (f) (Regular Reviews)

Such reviews may be triggered by significant events including but not limited to:

- significant reductions in payroll,

- altered employer circumstances,
- Government restructuring affecting the employer's business, or
- failure to pay contributions or arrange appropriate security as required by the Administering Authority.

The result of a review may be to require increased contributions (by strengthening the actuarial assumptions adopted and/or moving to monetary levels of deficit recovery contributions), and/or an increased level of security or guarantee.

Note (g) (New Academy employers)

At the time of writing, the Fund's policies on academies' funding issues are as follows:

a) The new academy will be regarded as a separate employer in its own right and will not be pooled with other employers in the Fund. The only exception is where the academy is part of a Multi Academy Trust (MAT) in which case the academy's figures will be calculated as below but can be combined with those of the other academies in the MAT;

b) The new academy's past service liabilities on conversion will be calculated based on its active Fund members on the day before conversion. For the avoidance of doubt, these liabilities will include all past service of those members, but will exclude the liabilities relating to any ex-employees of the school who have deferred or pensioner status;

c) The new academy will be allocated an initial asset share from the ceding council's assets in the Fund. This asset share will be calculated using the estimated funding position of the ceding council at the date of academy conversion. The share will be based on the active members' funding level, having first allocated assets in the council's share to fully fund deferred and pensioner members. The asset allocation will be based on market conditions and the academy's active Fund membership on the day prior to conversion; and

d) The new academy's initial contribution rate will be calculated using market conditions, the council funding position and, membership data, all as at the day prior to conversion.

The Fund's policies on academies are subject to change in the light of any amendments to DCLG guidance. Any changes will be notified to academies, and will be reflected in a subsequent version of this FSS.

Note (h) (New Admission Bodies)

With effect from 1 October 2012, the LGPS 2012 Miscellaneous Regulations introduced mandatory new requirements for all Admission Bodies brought into the Fund from that date. Under these Regulations, all new Admission Bodies will be required to provide some form of security, such as a guarantee from the letting employer, an indemnity or a bond. The security is required to cover some or all of the following:

- the strain cost of any redundancy early retirements resulting from the premature termination of the contract;
- allowance for the risk of asset underperformance;
- allowance for the risk of a fall in gilt yields;
- allowance for the possible non-payment of employer and member contributions to the Fund;
- the current deficit.

For all new Transferee Admission Bodies, the security must be to the satisfaction of the Administering Authority as well as the letting employer, and will be reassessed on an annual basis.

The Administering Authority will only consider requests from Community Admission Bodies (or other similar bodies, such as section 75 NHS partnerships) to join the Fund if they are sponsored by a Scheduled Body with tax raising powers, guaranteeing their liabilities and also providing a form of security as above.

The above approaches reduce the risk to other employers in the Fund, of potentially having to pick up any shortfall in respect of Admission Bodies ceasing with an unpaid deficit.

Note (i) (New Transferee Admission Bodies)

A new TAB usually joins the Fund as a result of the letting/outsourcing of some services from an existing employer (normally a Scheduled Body such as a council or academy) to another organisation (a "contractor"). This involves the Transfer of Undertakings Protection of Employment (TUPE) of some staff from the letting employer to the contractor. Consequently, for the duration of the contract, the contractor is a new participating employer in the Fund so that the transferring employees maintain their eligibility for LGPS membership. At the end of the contract the employees revert to the letting employer or to a replacement contractor.

Ordinarily, the TAB would be set up in the Fund as a new employer with responsibility for all the accrued benefits of the transferring employees; in this case, the contractor would usually be assigned an initial asset allocation equal to the past service liability value of the employees' Fund benefits. The contractor is then expected to ensure that its share of the Fund is also fully funded at the end of the contract: see Note (j).

Employers which "outsource" have flexibility in the way that they can deal with the pension risk potentially taken on by the contractor. There are three different routes that such employers may wish to adopt. Clearly, as the risk ultimately resides with the employer letting the contract, it is for them to agree the appropriate route with the contractor:

i) Pooling

Under this option the contractor is pooled with the letting employer. In this case, the contractor pays the same rate as the letting employer, which may be under the stabilisation approach.

ii) Letting employer retains pre-contract risks

Under this option the letting employer would retain responsibility for assets and liabilities in respect of service accrued prior to the contract commencement date. The contractor would be responsible for the future liabilities that accrue in respect of transferred staff. The contractor's contribution rate could vary from one valuation to the next. It would be liable for any deficit at the end of the contract term in respect of assets and liabilities attributable to service accrued during the contract term.

iii) Fixed contribution rate agreed

Under this option the contractor pays a fixed contribution rate and doesn't pay any cessation deficit.

Subject to an assessment of the strength of the employer and appropriate safeguards in place, the Administering Authority is willing to administer any of the above options as long as the approach is documented in the Admission Agreement as well as the transfer agreement. The Admission Agreement should ensure that some element of risk transfers to the contractor where it relates to their decisions and it is unfair to burden the letting employer with that risk. For example the contractor should typically be responsible for pension costs that arise from;

- above average pay increases, including the effect in respect of service prior to contract commencement even if the letting employer takes on responsibility for the latter under (ii) above;
- redundancy and early retirement decisions.

Note (j) (Admission Bodies Ceasing)

Notwithstanding the provisions of the Admission Agreement, the Administering Authority may consider any of the following as triggers for the cessation of an admission agreement with any type of body:

- Last active member ceasing participation in the Fund;
- The insolvency, winding up or liquidation of the Admission Body;
- Any breach by the Admission Body of any of its obligations under the Agreement that they have failed to remedy to the satisfaction of the Fund;
- A failure by the Admission Body to pay any sums due to the Fund within the period required by the Fund; or
- The failure by the Admission Body to renew or adjust the level of the bond or indemnity, or to confirm an appropriate alternative guarantor, as required by the Fund.

On cessation, the Administering Authority will instruct the Fund actuary to carry out a cessation valuation to determine any deficit or surplus. Where there is a deficit, payment of this amount in full would normally be sought from the Admission Body; where there is a surplus it should be noted that current legislation does not permit a refund payment to the Admission Body.

For non-Transferee Admission Bodies whose participation is voluntarily ended either by themselves or the Fund, or where a cessation event has been triggered, the Administering Authority must look to protect the interests of ongoing employers. The actuary will therefore adopt an approach, where possible, that protects remaining employers from the likelihood of any material loss emerging in future:

a) Where there is a guarantor for future deficits and contributions, the cessation valuation will normally be calculated using the ongoing basis as described in Appendix E;

b) Alternatively, it may be possible to simply transfer the former Admission Body's liabilities and assets to the guarantor, without needing to crystallise any deficit. This approach may be adopted where the employer cannot pay the contributions due, and this is within the terms of the guarantee. At its absolute discretion the Administering Authority may agree to recover any outstanding amount via an increase in the Awarding Authority's contribution rate, over an agreed period, outside any stabilisation mechanism in place;

c) Where a guarantor does not exist then, in order to protect other employers in the Fund, the cessation liabilities and final deficit will normally be calculated using a "gilts cessation basis", which is more prudent than the ongoing basis. This has no allowance for potential future investment outperformance above gilt yields, and has added allowance for future improvements in life expectancy. This could give rise to significant cessation debts being required.

Under (a) and (c), any shortfall would usually be levied on the departing Admission Body as a single lump sum payment. If this is not possible then the Fund would look to any bond, indemnity or guarantee in place for the employer.

In the event that the Fund is not able to recover the required payment in full, then the unpaid amounts fall to be shared amongst all of the other employers in the Fund. This may require an immediate revision to the Rates and Adjustments Certificate, or instead be reflected in the contribution rates set at the next formal valuation following the cessation date.

As an alternative, where the ceasing Admission Body is continuing in business, the Fund at its absolute discretion reserves the right to enter into an agreement with the ceasing Admission Body. Under this agreement the Fund would accept an appropriate alternative security to be held against any deficit, and would carry out the cessation valuation on an ongoing basis: deficit recovery payments would be derived from this cessation debt. This approach would be monitored as part of each triennial valuation: the Fund reserves the right to revert to a "gilts cessation basis" and seek immediate payment of any funding shortfall identified. The Administering Authority may need to seek legal advice in such cases, as the Body would have no contributing members.

Pooling Employers

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

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

8.7 Employers who are permitted to enter (or remain in) a pool at the 2013 valuation will not normally be advised of their individual contribution rate unless agreed by the Administering Authority. Schools generally are also pooled with their funding Council. However there may be exceptions for specialist or independent schools. Those employers which have been pooled are identified in the Rates and Adjustments Certificate.

Additional flexibility in return for added security

8.8 The Administering Authority may permit greater flexibility to the employer's contributions if the employer provides added security to the satisfaction of the Administering Authority. Such flexibility includes a reduced rate of contribution, an extended deficit recovery period, or permission to join a pool with another body (e.g. the Local Authority).

8.9 Such security may include, but is not limited to, a suitable bond, a legally-binding guarantee from an appropriate third party, or security over an employer asset of sufficient value. The degree of flexibility given may take into account factors such as:

- the extent of the employer's deficit;
- the amount and quality of the security offered;
- the employer's financial security and business plan;
- whether the admission agreement is likely to be open or closed to new entrants.

Non ill health early retirement costs

8.10 It is assumed that members' benefits are payable from the earliest possible retirement age without incurring a reduction to their benefit. It should be noted that the relevant age may be different for different periods of service, following the benefit changes from April 2008 and April 2014. Employers are required to pay additional contributions (strain) wherever an employee retires before attaining this age. Therefore the actuary's funding basis makes no allowance for premature retirement except on grounds of ill-health.

8.11 With the agreement of the Administering Authority the payment can be spread as follows:

Major Employing bodies: up to 5 years

Community Admission Bodies and Designating Employers: up to 3 years

Academies: up to 3 years

Transferee Admission Bodies: payable immediately.

Ill health early retirement costs

8.12 Admitted Bodies will usually have an 'ill health allowance'. Scheduled Bodies may have this also, depending on their agreement terms with the Administering Authority. The Fund monitors each employer's ill health experience on an ongoing basis. If the cumulative cost of ill health retirement in any financial year exceeds the allowance at the previous valuation, the employer may be charged additional contributions to cover the additional liability. For small employers, a single ill health retirement may result in a significant increase to liabilities.

Ill health insurance

8.13 If an employer provides satisfactory evidence to the Administering Authority of a current insurance policy covering ill health early retirement strains, then:

- the employer's contribution to the Fund each year is reduced by the amount of that year's insurance premium, so that the total contribution is unchanged, and
- there is no need for monitoring of allowances.

8.14 The employer must keep the Administering Authority notified of any changes in the insurance policy's coverage or premium terms, or if the policy has ceased.

8.15 Currently, the Fund is giving consideration to the taking out of ill health insurance in respect of all fund employers.

Employers with no remaining active members

8.16 In general, an employer ceasing in the Fund, due to the departure of the last active member, will pay a cessation debt on an appropriate basis and consequently have no further obligation to the Fund. Thereafter it is expected that one of two situations will eventually arise:

- The employer's asset share runs out before all its ex-employees' benefits have been paid. In this situation the other Fund employers will be required to contribute to pay all remaining benefits: this will be done by the Fund actuary apportioning the remaining liabilities on a pro rata basis at successive formal valuations;

- The last ex-employee or dependant dies before the employer's asset share has been fully utilised. In this situation, the remaining assets would be apportioned pro rata by the Fund's actuary to the other employers in the Fund in proportion to each employer's assets.

8.17 In exceptional circumstances the Fund may permit an employer with no remaining active members to continue contributing to the Fund. This would require the provision of a suitable security or guarantee, as well as a written ongoing commitment to fund the remainder of the employer's obligations over an appropriate period. The Fund would reserve the right to invoke the cessation requirements in the future, however. The Administering Authority may need to seek legal advice in such cases, as the employer would have no contributing members.

9 Investment Strategy

9.1 The Fund has built up assets over the years, and continues to receive contribution and other income. All of this must be invested in a suitable manner, which is the investment strategy. The Investment strategy is set by the administering authority, after taking investment advice. The precise mix, manager make up and target returns are set out in the Statement of Investment Principles (SIP), which is available to members and employers.

9.2 The investment strategy is set for the long-term, but is reviewed regularly. Normally, a full review is carried out after each actuarial valuation, and is kept under review annually between actuarial valuations to ensure that it remains appropriate to the Fund's liability profile. The same investment strategy is currently followed for all employers.

Link between funding strategy and investment strategy

9.3 The Fund must be able to meet all benefit payments as and when they fall due. These payments will be met by contributions (resulting from the funding strategy) or asset returns and income (resulting from the investment strategy). To the extent that investment returns or income fall short, then higher cash contributions are required from employers, and vice versa. Therefore, the funding and investment strategies are inextricably linked.

Funding strategy reflecting the Fund's investment strategy

9.4 In the opinion of the Fund actuary, the proposed funding strategy is consistent with the current investment strategy of the Fund. The asset outperformance assumption contained in the discount rate is within a range that would be considered acceptable for funding purposes; it is also considered to be consistent with the requirement to take a "prudent longer-term view" of the funding of liabilities as required by the UK Government.

9.5 However, in the short term, such as the triennial assessments at formal valuations, there is scope for considerable volatility with a material chance that in the short term and even medium term, asset returns will fall short of this target. The stability measures in place will dampen, but not remove, the effect on employers' contributions. The Fund does not hold a contingency reserve to protect it against the volatility of investments.

9.6 The Actuary has developed four key measures which capture the essence of the Fund's strategies, both funding and investment:

- Prudence: the Fund should have a reasonable expectation of being fully funded in the long term;
- Affordability: how much employers can afford;
- Stewardship: the assumptions used should be sustainable in the long term, without having to resort to overly optimistic assumptions about the future to maintain an apparently healthy funding position;
- Stability: employers should not see significant moves in their contribution rates from one year to the next, and this will help to provide a more stable budgeting environment.

9.7 The key problem is that objectives can often conflict. For example, minimising the long term cost of the scheme, i.e., keeping employer rates affordable, is best achieved by investing in higher returning assets, e.g., equities. However, equities are also very volatile, which can conflict with the objective to have stable contribution rates.

9.8 Therefore a balance needs to be maintained between risk and reward, which has been considered by the use of Asset Liability Modelling (a set of calculation techniques applied by the Fund's actuary), to model the range of potential future solvency levels and contribution rates.

9.9 The Actuary was able to model the impact of these four key areas, for the purpose of setting a stabilisation approach. The modelling demonstrated that retaining the present investment strategy, coupled with constraining employer contribution rate changes, struck an appropriate balance between the above objectives. In particular, the stabilisation approach currently adopted meets the need for stability of contributions without jeopardising the Administering Authority's aims of prudent stewardship of the Fund. Whilst the current stabilisation mechanism is to remain in place until 2017, it should be noted that this will need to be reviewed following the 2016 valuation.

Monitoring of overall funding position

9.10 The Administering Authority monitors the relative funding position, i.e., changes in the relationship between asset values and the liabilities regularly. It reports this to the Pension Fund Committee meetings.

A1 Why does the Fund need an FSS?

The Department for Communities and Local Government (DCLG) has stated that the purpose of the FSS is:

- *"to establish a **clear and transparent fund-specific strategy** which will identify how employers' pension liabilities are best met going forward;*
- *to support the regulatory framework to maintain **as nearly constant employer contribution rates as possible**; and*
- *to take a **prudent longer-term view** of funding those liabilities."*

These objectives are desirable individually, but may be mutually conflicting.

The requirement to maintain and publish a FSS is contained in LGPS Regulations which are updated from time to time. In publishing the FSS the Administering Authority has to have regard to any guidance published by Chartered Institute of Public Finance and Accountancy (CIPFA) (most recently in 2012) and to its Statement of Investment Principles.

This is the framework within which the Fund's actuary carries out triennial valuations to set employers' contributions and provides recommendations to the Administering Authority when other funding decisions are required, such as when employers join or leave the Fund. The FSS applies to all employers participating in the Fund.

A2 Does the Administering Authority consult anyone on the FSS?

Yes. This is required by LGPS Regulations. It is covered in more detail by the most recent CIPFA guidance, which states that the FSS must first be subject to "consultation with such persons as the authority considers appropriate", and should include "a meaningful dialogue at officer and elected member level with council tax raising authorities and with corresponding representatives of other participating employers".

In practice, the consultation process for this FSS was as follows:

a) A draft version of the FSS will be issued to all participating employers in March 2014 for comment.

b) Comments required within 30 days;

c) Following the end of the consultation period, the FSS will be updated as required and then published in April 2014.

A3 How is the FSS published?

The FSS is made available through the following routes:

- Published on the website at www.surreypensionfund.org
- A copy sent by post and mail to each participating employer in the Fund;
- A copy sent to the employee and pensioner Pension Fund Committee representative;

- A copy included in the annual report and accounts of the Fund;
- Copies sent to investment managers and independent advisers;
- Copies made available on request.

A4 How often is the FSS reviewed?

The FSS is reviewed in detail at least every three years as part of the triennial valuation. This version is expected to remain unaltered until it is consulted upon as part of the formal process for the next valuation in 2016.

It is possible that (usually slight) amendments may be needed within the three year period. These would be needed to reflect any regulatory changes, or alterations to the way the Fund operates (e.g. to accommodate a new class of employer). Any such amendments would be consulted upon as appropriate:

- trivial amendments would be simply notified at the next round of employer communications,
- amendments affecting only one class of employer would be consulted with those employers,
- other more significant amendments would be subject to full consultation.

In any event, changes to the FSS would need agreement by the Surrey Pension Fund Committee and would be included in the relevant Committee Meeting minutes.

A5 How does the FSS fit into other Fund documents?

The FSS is a summary of the Fund's approach to funding liabilities. It is not an exhaustive statement of policy on all issues, for example, there are a number of separate statements published by the Fund including the Statement of Investment Principles, Governance Strategy and Communications Strategy. In addition, the Fund publishes an Annual Report and Accounts with up to date information on the Fund.

These documents can be found on the web at www.surreypensionfund.org

Appendix B: Responsibilities of key parties

The efficient and effective operation of the Fund needs various parties to play their part.

B1 The Administering Authority should:-

- operate the Fund as per the LGPS Regulations;
- effectively manage any potential conflicts of interest arising from its dual role as Administering Authority and a Fund employer;
- collect employer and employee contributions, and investment income and other amounts due to the Fund;
- ensure that cash is available to meet benefit payments as and when they fall due;
- pay from the Fund the relevant benefits and entitlements that are due;
- invest surplus monies (i.e. contributions and other income which are not immediately needed to pay benefits) in accordance with the Fund's Statement of Investment Principles (SIP) and LGPS Regulations;
- communicate appropriately with employers so that they fully understand their obligations to the Fund;
- take appropriate measures to safeguard the Fund against the consequences of employer default;
- manage the valuation process in consultation with the Fund's actuary;
- prepare and maintain a FSS and a SIP, after consultation;
- notify the Fund's actuary of material changes which could affect funding (this is covered in a separate agreement with the actuary); and
- monitor all aspects of the fund's performance and funding and amend the FSS/SIP as necessary and appropriate.

B2 The Individual Employer should:-

- deduct contributions from employees' pay correctly;
- liaise regularly with the Administering Authority to ensure correct data and records are held in respect of employees' benefits;
- pay all contributions, including their own as determined by the actuary, promptly by the due date;
- have a policy and exercise discretions within the regulatory framework;
- make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits, early retirement strain; and
- notify the Administering Authority promptly of all changes to its circumstances, prospects or membership, which could affect future funding.

B3 The Fund Actuary should:-

- prepare valuations, including setting employers' contribution rates. This will involve agreeing assumptions with the Administering Authority, having regard to the FSS and LGPS Regulations, and targeting each employer's solvency appropriately;
- provide advice relating to new employers in the Fund, including the level and type of bonds or other forms of security (and the monitoring of these);
- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters;
- assist the Administering Authority in considering possible changes to employer contributions between formal valuations, where circumstances suggest this may be necessary;
- advise on the termination of Admission Bodies' participation in the Fund; and
- fully reflect actuarial professional guidance and requirements in the advice given to the Administering Authority.

B4 Other parties:-

- investment advisers (either internal or external) should ensure the Fund's SIP remains appropriate, and consistent with this FSS;
- investment managers, custodians and bankers should all play their part in the effective investment (and dis-investment) of Fund assets, in line with the SIP;
- auditors should comply with their auditing standards, ensure Fund compliance with all requirements, monitor and advise on fraud detection, and sign off annual reports and financial statements as required;
- governance advisers may be appointed to advise the Administering Authority on efficient processes and working methods in managing the Fund;
- legal advisers (either internal or external) should ensure the Fund's operation and management remains fully compliant with all regulations and broader local government requirements, including the Administering Authority's own procedures.

Appendix C: Key risks and controls

C1 Types of risk

The Administering Authority has an active risk management programme in place. The measures that it has in place to control key risks are summarised below under the following headings:

- financial;
- demographic;
- regulatory; and governance

C2 Financial risks

Risk	Summary of Control Mechanisms
Fund assets fail to deliver returns in line with the anticipated returns underpinning valuation of liabilities over the long-term.	Only anticipate long-term returns on a relatively prudent basis to reduce risk of under-performing. Assets invested on the basis of specialist advice, in a suitably diversified manner across asset classes, geographies, managers, etc. Analyse progress at three yearly valuations for all employers. Inter-valuation roll-forward of liabilities between valuations at whole Fund level. Review of advisor performance undertaken on an annual basis.
Inappropriate long-term investment strategy.	Overall investment strategy options considered as an integral part of the funding strategy. Use of asset liability modelling to measure four key outcomes. Chosen option considered to provide the best balance. Full training provided to Pension Fund Committee members and officers.
Fall in risk-free returns on Government bonds, leading to rise in value placed on liabilities.	Stabilisation modelling at whole Fund level allows for the probability of this within a longer term context. Inter-valuation monitoring, as above. Some investment in bonds helps to mitigate this risk.

Risk	Summary of Control Mechanisms
Active investment manager under-performance relative to benchmark.	Quarterly investment monitoring analyses market performance and active managers relative to their index benchmark.
Pay and price inflation significantly more than anticipated.	The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases. Inter-valuation monitoring, as above, gives early warning. Some investment in index-linked bonds also helps to mitigate this risk. Employers pay for their own salary awards and should be mindful of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer-serving employees.
Effect of possible increase in employer's contribution rate on service delivery and admission/scheduled bodies	An explicit stabilisation mechanism for eligible employers has been agreed as part of the funding strategy. Other measures are also in place to limit sudden increases in contributions through deficit spreading and phasing in of contributions.
Orphaned employers give rise to added costs for the Fund	The Fund seeks a cessation debt (or security/guarantor) to minimise the risk of this happening in the future. If it occurs, the Actuary calculates the added cost spread pro rata among all employers.

C3 Demographic risks

Risk	Summary of Control Mechanisms
Pensioners living longer, thus increasing cost to Fund.	Set mortality assumptions with some allowance for future increases in life expectancy.The Fund Actuary has direct access to the experience of over 50 LGPS funds which allows early identification of changes in life expectancy that might in turn affect the assumptions underpinning the valuation. The Fund also sets life expectancy assumptions using ClubVita, which is a specialised longevity company and provides life expectancy assumptions based on the profile of the Fund's own membership.

Risk	Summary of Control Mechanisms
Maturing Fund – i.e. proportion of actively contributing employees declines relative to retired employees leading to the possibility of there not being sufficient liquid funds available to pay liabilities as they fall due.	Continue to monitor at each valuation, consider seeking monetary amounts rather than % of pay for deficit contributions. Between valuations regularly monitor level of active members on both a total Fund basis and by individual employer. Regularly monitor how cash flow positive the Fund is. Regularly review investment strategy.
Deteriorating patterns of early retirements	Employers are charged the extra cost of non ill-health retirements following each individual decision. Employer ill health retirement experience is monitored. The Pension Fund Committee decided to participate in ill health insurance at its meeting on 14 February 2014 and this procurement process is under way.
Reductions in payroll causing insufficient deficit recovery payments	In many cases this may not be sufficient cause for concern, and will in effect be caught at the next formal valuation. However, there are protections where there is concern, as follows: Employers in the stabilisation mechanism may be brought out of that mechanism to permit appropriate contribution increases (see Note (b) to Table 1. For other employers, review of contributions is permitted in general between valuations (see Note (f) to Table 1) and may require a move in deficit contributions from a percentage of payroll to fixed monetary amounts.

C4 Regulatory risks

Risk	Summary of Control Mechanisms
Changes to national pension requirements and/or HMRC rules e.g. changes arising from public sector pension reform.	The Administering Authority considers all consultation papers issued by the Government and comments where appropriate. The results of the most recent reforms have been built into the 2013 valuation. Any changes to member contribution rates or benefit levels will be carefully communicated with members to minimise possible opt-outs or adverse actions.
Failure to collect and account for contributions from employers and employees on time	Regular monthly monitoring and reconciliation of Fund contributions received, including a detailed analysis of individual employer contributions and employee contributions by pay banding. Robust debt management processes are in place to recover any late payments
Loss of funds through fraud or misappropriation	Procedures and processes are in place and applied in relation to eg: checking for "ghost" scheme members; multiple levels of authorisation for claims and fund payments plus secondary checking of lump sum payments. Procedures are documented and staff are trained and managed in carrying these out. The Fund's internal auditors carry out regular reviews.

C5 Governance risks

Risk	Summary of Control Mechanisms
Administering Authority unaware of structural changes in an employer's membership (e.g. large fall in employee members, large number of retirements) or not advised of an employer closing to new entrants.	The Administering Authority has a close relationship with employing bodies and communicates required standards e.g. for submission of data. The Actuary may revise the rates and Adjustments certificate to increase an employer's contributions (under Regulation 38) between triennial valuations Deficit contributions may be expressed as monetary amounts.

Risk	Summary of Control Mechanisms
Actuarial or investment advice is not sought, or is not heeded, or proves to be insufficient in some way	The Administering Authority maintains close contact with its specialist advisers. Advice is delivered via formal meetings involving Elected Members, and recorded appropriately. Actuarial advice is subject to professional requirements such as peer review.
Administering Authority failing to commission the Fund Actuary to carry out a termination valuation for a departing Admission Body.	The Administering Authority requires employers with Best Value contractors to inform it of forthcoming changes. Community Admission Bodies' memberships are monitored and, if active membership decreases, steps will be taken.
An employer ceasing to exist with insufficient funding or adequacy of a bond.	The Administering Authority believes that it would normally be too late to address the position if it was left to the time of departure. The risk is mitigated by: Seeking a funding guarantee from another scheme employer, or external body, where-ever possible (see Notes (h) and (j) to Table 1). Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice. Vetting prospective employers before admission. Where permitted under the regulations requiring a bond to protect the Fund from various risks. Requiring new Community Admission Bodies to have a guarantor. Reviewing bond or guarantor arrangements at regular intervals (see Note (f) to Table 1). Reviewing contributions well ahead of cessation if thought appropriate (see Note (a) to Table 1).

Risk	Summary of Control Mechanisms
Failure to comply with the Myners' Investment Principles	Compliance as detailed in the Statement of Investment Principles is kept under review.
Lack of relevant expertise, knowledge and skills at officer and member level in relation to administering the LGPS	Training needs assessments for the Administering Authority are carried out and an annual training plan produced and delivered. The Fund subscribes to the CIPFA Knowledge and Skills Framework for the LGPS and makes this information available to all members of the Pension Committee and relevant officers. Appropriately qualified external advisers and consultants are used as appropriate.
Failure to hold personal data securely and keep pension records up-to-date and accurate	Personal data and scanned documents relating to scheme members are maintained in an online system via individual password access for those that need to maintain and access this information. Procedures for maintaining pension records are documented and the process is monitored and managed within the Pensions Administration team. Procedures are regularly reviewed by the Fund's internal auditors.

Appendix D: The calculation of Employer contributions

The calculations involve actuarial assumptions about future experience, and these are described in detail in Appendix E.

D1 What is the difference between calculations across the whole Fund and calculations for an individual employer?

Employer contributions are normally made up of two elements:

a) the estimated cost of future benefits being accrued, referred to as the "future service rate"; plus
b) an adjustment for the funding position of accrued benefits relative to the Fund's solvency target, "*past service adjustment*". If there is a surplus there may be a reduction in the employer's contribution rate. If there is a deficit there will be an increase in the employer's contribution rate, with the surplus or deficit spread over an appropriate period. The aim is to return the employer to full funding over that period.
c)

The Fund's actuary is required by the regulations to report the *Common Contribution Rate*[1], for all employers collectively at each triennial valuation. It combines items (a) and (b) and is expressed as a percentage of pay; it is in effect an average rate across all employers in the Fund.

The Fund's actuary is also required to adjust the Common Contribution Rate for circumstances which are deemed "peculiar" to an individual employer[2]. It is the adjusted contribution rate which employers are actually required to pay. The sorts of "peculiar" factors which are considered are discussed below.

In effect, the *Common Contribution Rate* is a notional quantity. Separate future service rates are calculated for each employer together with individual past service adjustments according to employer-specific past service deficit spreading and increased employer contribution phasing periods.

D2 How is the Future Service Rate calculated?

The future service element of the employer contribution rate is calculated with the aim that these contributions will meet benefit payments in respect of members' **future** service in the Fund. This is based upon the cost (in excess of members' contributions) of the benefits which employee members earn from their service each year.

The future service rate is calculated separately for all the employers, although employers within a pool will pay the contribution rate applicable to the pool as a whole. The calculation is on the "ongoing" valuation basis (see Appendix E), but where it is considered appropriate to do so the Administering Authority reserves the right to set a future service rate by reference to liabilities valued on a more prudent basis.

The approach used to calculate each employer's future service contribution rate depends on whether or not new entrants are being admitted. Employers should note that it is only Admission Bodies and Designating Employers that may have the power not to automatically admit all eligible new staff to the Fund, depending on the terms of their Admission

[1] See LGPS (Administration) Regulations 36(5).

[2] See LGPS (Administration) Regulations 36(7).

Agreements and employment contracts.

a) Employers which admit new entrants

These rates will be derived using the "Projected Unit Method" of valuation with a one year period, i.e. only considering the cost of the next year's benefit accrual and contribution income. If future experience is in line with assumptions, and the employer's membership profile remains stable, this rate should be broadly stable over time. If the membership of employees matures (e.g. because of lower recruitment) the rate would rise over time.

b) Employers which do not admit new entrants

To give more long term stability to such employers' contributions, the "Attained Age" funding method is normally adopted. This measures benefit accrual and contribution income over the whole future anticipated working lifetimes of current active employee members.

Both approaches include expenses of administration to the extent that they are borne by the Fund, and include allowances for benefits payable on death in service and ill health retirement.

D3 How is the Solvency / Funding Level calculated?

The Fund's actuary is required to report on the "solvency" of the whole Fund in a valuation which should be carried out at least once every three years. As part of this valuation, the actuary will calculate the solvency position of each employer.

'Solvency" is defined to be the ratio of the market value of the employer's asset share to the value placed on accrued benefits on the Fund actuary's chosen assumptions. This quantity is known as a funding level.

For the value of the employer's asset share, see D5 below.

For the value of benefits, the Fund actuary agrees the assumptions to be used with the Administering Authority – see Appendix E. These assumptions are used to calculate the present value of all benefit payments expected in the future, relating to that employer's current and former employees, based on pensionable service to the valuation date only (i.e. ignoring further benefits to be built up in the future).

The Fund operates the same target funding level for all employers of 100% of its accrued liabilities valued on the ongoing basis, unless otherwise determined.

D4 What affects a given employer's valuation results?

- past contributions relative to the cost of benefits accrued;
- different liability profiles of employers (e.g. mix of members by age, gender, service vs. salary);
- differences in the valuation basis on the value placed on the employer's liabilities;
- different deficit/surplus spreading periods or phasing of contribution changes;
- differences between actual and assumed rises in pensionable pay;
- differences between actual and assumed increases to pensions in payment and deferred pensions;

- differences between actual and assumed retirements on grounds of ill-health from active status;
- differences between actual and assumed amounts of pension ceasing on death;
- additional costs of any non ill-health retirements relative to any extra payments made;

over the period between each triennial valuation.

Actual investment returns achieved on the Fund between each valuation are applied proportionately across all employers, to the extent that employers in effect share the same investment strategy. Transfers of liabilities between employers within the Fund occur automatically within this process, with a sum broadly equivalent to the reserve required on the ongoing basis being exchanged between the two employers.

D5 How is each employer's asset share calculated?

The Administering Authority does not account for each employer's assets separately. Instead, the Fund's actuary is required to apportion the assets of the whole Fund between the employers, at each triennial valuation.

This apportionment uses the income and expenditure figures provided for certain cash flows for each employer. The process adjusts for transfers of liabilities between employers participating in the Fund, but does make a number of simplifying assumptions. The split is calculated using an actuarial technique known as "analysis of surplus".

The Fund actuary does not allow for certain relatively minor events, including but not limited to:

- the actual timing of employer contributions within any financial year;
- the effect of the premature payment of any deferred pensions on grounds of incapacity.

These effects are swept up within a miscellaneous item in the analysis of surplus, which is split between employers in proportion to their liabilities.

The methodology adopted means that there will inevitably be some difference between the asset shares calculated for individual employers and those that would have resulted had they participated in their own ring-fenced section of the Fund.

The asset apportionment is capable of verification but not to audit standard. The Administering Authority recognises the limitations in the process, but it considers that the Fund actuary's approach addresses the risks of employer cross-subsidisation to an acceptable degree.

Appendix E: Actuarial assumptions

E1 What are the actuarial assumptions?

These are expectations of future experience used to place a value on future benefit payments ("the liabilities"). Assumptions are made about the amount of benefit payable to members (the financial assumptions) and the likelihood or timing of payments (the demographic assumptions). For example, financial assumptions include investment returns, salary growth and pension increases; demographic assumptions include life expectancy, probabilities of ill-health early retirement, and proportions of member deaths giving rise to dependants' benefits.

Changes in assumptions will affect the measured value of future service accrual and past service liabilities, and hence the measured value of the past service deficit. However, different assumptions will not of course affect the actual benefits payable by the Fund in future.

The combination of all assumptions is described as the "basis". A more optimistic basis might involve higher assumed investment returns (discount rate), or lower assumed salary growth, pension increases or life expectancy; a more optimistic basis will give lower liability values and lower employer costs. A more prudent basis will give higher liability values and higher employer costs.

E2 What basis is used by the Fund?

The Fund's standard funding basis is described as the "ongoing basis", which applies to most employers in most circumstances. This is described in more detail below. It anticipates employers remaining in the Fund in the long term.

However, in certain circumstances, typically where the employer is not expected to remain in the Fund long term, a more prudent basis applies: see Note (a) to Table 1.

E3 What assumptions are made in the ongoing basis?

a) Investment return / discount rate

The key financial assumption is the anticipated return on the Fund's investments. This "discount rate" assumption makes allowance for an anticipated out-performance of Fund returns relative to long term yields on UK Government bonds ("gilts"). There is, however, no guarantee that Fund returns will out-perform gilts. The risk is greater when measured over short periods such as the three years between formal actuarial valuations, when the actual returns and assumed returns can deviate sharply.

Given the very long-term nature of the liabilities, a long term view of prospective asset returns is taken. The long term in this context would be 20 to 30 years or more.

For the purpose of the triennial funding valuation at 31 March 2013 and setting contribution rates effective from 1 April 2014, the Fund actuary has assumed that future investment returns earned by the Fund over the long term will be 1.6% per annum greater than gilt yields at the time of the valuation (this is the same as that used at the 2010 valuation). In the opinion of the Fund actuary, based on the current investment strategy of the Fund, this asset out-performance assumption is within a range that would be considered acceptable for the purposes of the funding valuation.

b) Salary growth

Pay for public sector employees is currently subject to restriction by the UK Government until 2016. Although this "pay freeze" does not officially apply to local government and associated employers, it has been suggested that they are likely to show similar restraint in respect of pay awards. Based on long term historical analysis of the membership in LGPS funds, the salary increase assumption at the 2013 valuation has been set to 0.5% above the retail prices index (RPI) per annum. This is a change from the previous valuation, which assumed a two year restriction at 1% per annum followed by longer term growth at RPI plus 1.5% per annum.

c) Pension increases

Since 2011 the consumer prices index (CPI), rather than RPI, has been the basis for increases to public sector pensions in deferment and in payment. This change was allowed for in the valuation calculations as at 31 March 2010. Note that the basis of such increases is set by the Government, and is not under the control of the Fund or any employers.

As at the previous valuation, we derive our assumption for RPI from market data as the difference between the yield on long-dated fixed interest and index-linked government bonds. This is then reduced to arrive at the CPI assumption, to allow for the "formula effect" of the difference between RPI and CPI. At this valuation, we have proposed a reduction of 0.8% per annum. This is a larger reduction than at 2010, which will serve to reduce the value placed on the Fund's liabilities (all other things being equal).

d) Life expectancy

The demographic assumptions are intended to be best estimates of future experience in the Fund based on past experience of LGPS funds which participate in Club Vita, the longevity analytics service used by the Fund, and endorsed by the actuary.

The longevity assumptions that have been adopted at this valuation are a bespoke set of "VitaCurves", produced by the Club Vita's detailed analysis, which are specifically tailored to fit the membership profile of the Fund. These curves are based on the data provided by the Fund for the purposes of this valuation.

It is acknowledged that future life expectancy and, in particular, the allowance for future improvements in life expectancy, is uncertain. There is a consensus amongst actuaries, demographers and medical experts that life expectancy is likely to improve in the future. Allowance has been made in the ongoing valuation basis for future improvements in line with the CMI model of "medium cohort" and a 1.25% per annum minimum underpin to future reductions in mortality rates. This is a higher allowance for future improvements than was made in 2010.

The combined effect of the above changes from the 2010 valuation approach is to add around 1 year of life expectancy on average. The approach taken is considered reasonable in light of the long term nature of the Fund and the assumed level of security underpinning members' benefits.

e) General

The same financial assumptions are adopted for all employers, in deriving the past service deficit and the future service rate. These calculated figures are translated in different ways into employer contributions, depending on the employer's circumstances.

The demographic assumptions, in particular the life expectancy assumption, in effect vary by type of member and so reflect the different membership profiles of employers.

Governance Compliance Statement

The Local Government Pension Scheme (England and Wales) (Amendment) (No 2) Regulations 2005 came into effect on 14 December 2005. The Regulations provided the statutory framework within which LGPS administering authorities were required to publish a governance policy statement by 1 April 2006. The policy intention was that the statement also described and explained the administering authority's arrangements for the representation and participation of Scheme stakeholders. A copy of the Surrey Pension Fund's current governance policy statement can be found on Surrey CC's website.

The Local Government Pension Scheme (Amendment)/(No 3) Regulations 2007 (SI 2007 No 1561) provided further statutory framework, including the provision that administering authorities produce a statement disclosing the degree to which it complies with best practice in its governance procedures. This statement is reproduced in full below:

GOVERNANCE COMPLIANCE STATUTORY GUIDANCE

Principle	Surrey's Approach	Compliance
STRUCTURE		
The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.	Surrey County Council delegates the management of the Surrey Pension Fund to the Pension Fund Committee. The Committee is responsible for these areas under the terms of reference contained in the Council's Constitution.	Comply
That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.	Surrey is compliant with these principles. Employers and employee representatives are represented on the Pension Fund Committee. The Committee comprises county councilors, borough/district councilors, an external employer representative and a union representative to represent employees and pensioners. All Committee members have full voting rights.	Comply
That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.	There is currently no secondary committee..	n/a
That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.	There is currently no secondary committee.. Should a secondary committee be established, all members of that secondary committee would sit on the main Pension Fund Committee.	n/a

Principle	**Surrey's Approach**	**Compliance**
REPRESENTATION		
That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include: • employing authorities (including non-scheme employers, e.g., admitted bodies);	With over 150 employer bodies, not all stakeholders are directly represented on the Pension Fund Committee. All stakeholders are free to make representations in writing to the Committee. The County Council, the eleven districts and boroughs, Office of the Police and Crime Commissioner and employees are directly represented on the Pension Fund Committee.	Explain
• scheme members (including deferred and pensioner scheme members);	The Pension Fund Committee membership includes a trade union representative.	Comply
• independent professional observers; and	The Committee employs an independent consultant who is an experienced ex Chief Investment Officer of an investment house. The consultant is present at all Committee meetings.	Comply
• expert advisors (on an ad hoc basis).	Expert advisors attend the Committee as required, depending on the nature of the decisions to be taken. For example, the actuary attends when the valuation is being considered and the investment consultant attends when strategic asset allocation decisions and investment matters are being discussed.	Comply
That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and	All members are treated equally in terms of access to papers and to training that is given as part of the Committee processes.	Comply

are given full opportunity to contribute to the decision making process, with or without voting rights.		

Principle	Surrey's Approach	Compliance
SELECTION AND ROLE OF LAY MEMBERS		
That Committee or Panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.	Committee members are given initial and ongoing training to support them in their role as trustees.	Comply
VOTING		
The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.	Surrey is fully compliant with this principle. Most decisions are reached by consensus, but voting rights remain with the Pension Fund Committee because the Council retains legal responsibility as the administering authority.	Comply
TRAINING/FACILITY TIME/EXPENSES		
That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.	This falls within the County Council's normal approach to member expenses. Pension Fund Committee members receive expenses. Training has been referred to above.	Comply
That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.	The policy applies equally to all members of the Pension Fund Committee. All members currently enjoy voting rights.	Comply

Principle	Surrey's Approach	Compliance
MEETINGS (FREQUENCY/QUORUM)		
That an administering authority's main committee or committees meet at least quarterly.	Surrey is fully compliant with this principle by holding quarterly and special appointment meetings. The Chief Finance Officer sends performance data and relevant information as appropriate. The quorum for the committee is three.	Comply
That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits.	There is currently no secondary committee.	n/a
That administering authorities who do not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented	The Pension Fund holds an annual meeting in November each year to which all key stakeholders are invited. The meeting is a two-way process in which all delegates have the opportunity to ask questions and express their views. The Committee welcomes representations on any issue in writing at any time.	Comply
ACCESS		
That subject to any rules in the council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.	All members of the Pension Fund Committee have equal access to committee papers, documents and advice.	Comply

Principle	Surrey's Approach	Compliance
SCOPE		
That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements	Surrey is fully compliant with this principle by bringing all investment, liability, benefit and governance issues to the Pension Fund Committee. An agenda will usually include a fund monitoring report, individual reports from managers, and reports on specific investment, administration and governance issues. A business plan is approved each year.	Comply
PUBLICITY		
That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.	Surrey is fully compliant with this principle by publishing statements in the Annual Report and on its website.	Comply

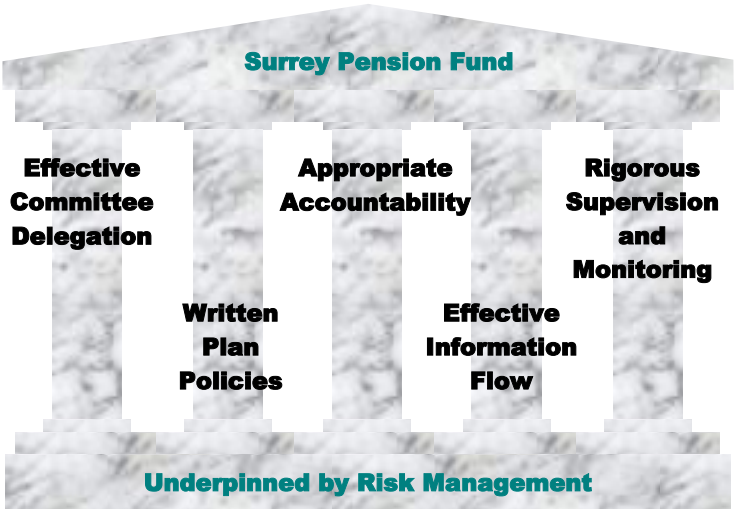
Governance Policy Statement for the Purposes of The Local Government Pension Scheme (Amendment) (No 2) Regulations 2005

This Statement is prepared for the purposes of the above Regulations. It sets out the policy of the Administering Authority in relation to its governance responsibilities for the Local Government Pension Scheme (LGPS).

Contents

1. Overall Governance Framework

The Administering Authority with its advisors has identified the following key areas (the “five principles”) to support its overall governance framework.



The governance framework focuses on:

- The effectiveness of the Pension Fund Committee and officers to which delegated function has been passed, including areas such as decision-making processes, knowledge and competencies.
- The establishment of policies and their implementation.
- Clarity of areas of responsibility between officers and Pension Fund Committee members.
- The ability of the Pension Fund Committee and officers to communicate clearly and regularly with all stakeholders.
- The ability of the Pension Fund Committee and officers to ask for the appropriate information and advice and to interpret that information in their supervision and monitoring of the Scheme in all areas.
- The management of risks and internal controls to underpin the framework.

Overall responsibility for the governance of the Local Government Pension Scheme and for the approval of this document resides with the Pension Fund Committee.

2. Delegation of Functions

The following functions are delegated by the Administering Authority:

Scheme Administration

Governance Principles: Effective Committee delegation; appropriate accountability; rigorous supervision and monitoring

Including, but not exclusively or limited to, record keeping, calculation of and payment of benefits, reconciliation and investment of contributions, preparation of annual accounts, provision of membership data for actuarial valuation purposes.

The Administering Authority has responsibility for "Scheme Administrator" functions as required by HM Revenues and Customs (HMRC) under the Finance Act 2004.

Delegated to:

Pension Fund Committee (monitoring)

Chief Finance Officer (Pension Fund administration implementation)

Funding

Governance Principles: Effective Committee delegation; appropriate accountability; written plan policies

Including, but not exclusively or limited to, setting of the appropriate funding target for the Local Government Pension Scheme. The Chief Finance Officer shall be responsible for maintaining the Funding Strategy Statement (FSS). The Pension Fund Committee shall be responsible for approving the FSS.

Delegated to:

Pension Fund Committee (policy approval)

Chief Finance Officer (maintaining FSS and policy implementation)

Investment

Governance Principles: Effective Committee delegation; appropriate accountability; written plan policies

Including, but not exclusively or limited to, setting of an appropriate investment strategy or strategies, selection of investment managers, setting of performance benchmarks and regular monitoring of performance. The Pension Fund Committee shall be responsible for maintaining the Statement of Investment Principles.

Delegated to:

Pension Fund Committee (strategy approval, manager selection, benchmarks, monitoring)

Chief Finance Officer (Pension Fund investment implementation)

Communications

Governance Principle: Effective Information Flow; written plan policies

Including setting of a communication strategy, issuing or arranging to be issued re benefit statements, annual newsletters, annual report. The Pension Fund Committee shall be responsible for maintaining the Communications Policy.

Delegated to:

Pension Fund Committee (policy approval)

Chief Finance Officer (Pension Fund policy implementation)

Risk Management

Effective Committee delegation; appropriate accountability; written plan policies

Including the identification, evaluation and monitoring of risks inherent within the Local Government Pension Scheme. The Pension Fund Committee shall be responsible for approving the Risk Register. The Chief Finance Officer shall be responsible for maintaining the risk register.

Delegated to:

Pension Fund Committee (policy approval)

Chief Finance Officer (Pension Fund policy implementation)

3 Terms of Reference and Decision Making

Terms of Reference:

Governance Principle: Effective Committee delegation; written plan policies

The Pension Fund Committee's Terms of Reference as approved by Full Council on 19 March 2013.

Administration, Funding, Investment, Communications and Risk Management

In line with the Council's Constitution, the Pension Fund Committee shall oversee Pension Fund investments, the overall management of the Fund, the governance surrounding the Fund, and the administration of the Pension Scheme.

Structure of the Pension Fund Committee and representation:

Governance Principle: Effective Committee delegation

The Pension Fund Committee shall be made up of:

4 Conservative members;

1 Liberal Democrat member;

1 Independent member;

2 Districts and Boroughs Members

1 Employer Representative;

1 Employee Representative

Decision Making:

Governance Principle: Effective Committee delegation; rigorous supervision and monitoring

The Pension Fund Committee shall have full decision-making powers.

Each member of the Pension Fund Committee shall have full voting rights.

4. Operational Procedures

Frequency of Meetings:

Governance Principle: Effective Committee delegation; effective information flow

The Pension Fund Committee shall convene no less frequently than four times per year. The Pension Fund Committee shall receive full reports upon all necessary matters as decided by the Chief Finance Officer and any matters requested by members of the Pension Fund Committee.

Provision exists for the calling of special meetings if circumstances demand.

Competencies, Knowledge and Understanding:

Governance Principle: Effective Committee delegation; appropriate accountability

Officers and Members of the Pension Fund Committee shall undertake training to ensure that they have the appropriate knowledge, understanding and competency to carry out the delegated function. It is recommended that such knowledge, understanding and competency is evaluated on an annual basis to identify any training or educational needs of the Officers and the Pension Fund Committee.

Reporting and Monitoring:

Governance Principle: Rigorous supervision and monitoring; effective information flow

The Pension Fund Committee shall report to the Audit and Governance Committee on a frequency, and with such information as shall be agreed and documented, on a no less than annual basis, the minimum provision being the Pension Fund's annual report.

5 Review of this policy statement

Responsibility for this document resides with the Chief Finance Officer. It will be reviewed by the Chief Finance Officer no less frequently than annually. This document will be reviewed if there are any material changes in the administering authority's governance policy or if there are any changes in relevant legislation or regulation.

Pension Fund Committee: Terms of Reference

a) To undertake statutory functions on behalf of the Local Government Pension Scheme and ensure compliance with legislation and best practice.
b) To determine policy for the investment, funding and administration of the pension fund.
c) To consider issues arising and make decisions to secure efficient and effective performance and service delivery.
d) To appoint and monitor all relevant external service providers:

- fund managers;
- custodian;
- corporate advisors;
- independent advisors;
- actuaries;
- governance advisors;
- all other professional services associated with the pension fund.

e) To monitor performance across all aspects of the service.
f) To ensure that arrangements are in place for consultation with stakeholders as necessary
g) To consider and approve the annual statement of pension fund accounts.
h) To consider and approve the Surrey Pension Fund actuarial valuation and employer contributions.

F10	Chief Finance Officer/ Strategic Finance Manager (Pension Fund and Treasury)	Borrowing, lending and investment of County Council Pension Fund moneys, in line with strategies agreed by the Pension Fund Committee. Delegated authority to the Chief Finance Officer to take any urgent action as required between Committee meetings but such action only to be taken in consultation with and by agreement with the Chairman and/or Vice Chairman of the Pension Fund Committee and any relevant Consultant and/or Independent Advisor.
H4	Lead Pensions Manager	To exercise discretion (excluding decisions on admitted body status) in relation to the Local Government Pension Scheme where no policy on the matter has been agreed by the Council and included in the Discretionary Pension Policy Statement published by the Council, subject to any limitations imposed and confirmed in writing from time to time by the Chief Finance Officer.
H5	Chief Finance Officer	To determine decisions conferring ‘admitted body’ status to the Pension Fund where such requests are submitted by external bodies.

Responsible Investment and Stewardship Policy

Introduction

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.

The Fund takes seriously its responsibility to ensure that its voting rights are exercised in an informed, constructive and considered manner.

The fund complies with the Myners Principles of investment management and the UK Stewardship Code.

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 Committee for consideration.

Scope

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.

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.

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.

General Principles

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.

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.

Voting Policy

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.

2 The Committee & Committees

- **Nomination & Succession Planning**

There should be a formal, rigorous and transparent procedure for the appointment of new directors to the Committee. The Committee 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.

- **Committee Balance and Diversity**

Companies should seek to ensure that their Committees 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 lead 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 Committee 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.

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 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.

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 Committee 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 Committee. This includes anti-takeover measures.

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.

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.

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.

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.

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

Statement of Responsibilities and Certification of Accounts

The Responsibilities of the County Council

The County Council is required:

- to make arrangements for the proper administration of the financial affairs of the Fund and to secure that one of its officers has the responsibility for the administration of those affairs. In this Authority, that officer is the Chief Finance Officer & Deputy Director for Business Services (Chief Finance Officer).

- to manage the Fund's affairs to secure economic, efficient and effective use of resources and safeguard its assets; and

- to approve the statement of accounts.

The Responsibilities of the Chief Finance Officer

The Chief Finance Officer is responsible for the preparation of the Fund's statement of accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in Great Britain ("the Code of Practice").

In preparing this statement of accounts, the Chief Finance Officer has:

- selected suitable accounting policies and then applied them consistently;

- made judgements and estimates that were reasonable and prudent;

- complied with the Code of Practice;

The Chief Finance Officer has also:

- kept proper accounting records which were up to date;

- taken reasonable steps for the prevention and detection of fraud and other irregularities.

I certify that the statement of accounts set out on pages 106 present a true and fair view of the Surrey County Council Pension Fund at 31 March 2016 and its income and expenditure for the year then ended.

Sheila Little BA CPFA

Director of Finance and Chief Finance Officer

Independent auditor's report to the members of Surrey County Council on the consistency of the pension fund financial statements included in the pension fund annual report

The accompanying pension fund financial statements of Surrey County Council (the "Authority") for the year ended 31 March 2016 which comprise the Surrey pension fund account, the Net asset statement and the related notes are derived from the audited pension fund financial statements for the year ended 31 March 2016 included in the Authority's Statement of Accounts. We expressed an unmodified audit opinion on the pension fund financial statements in the Statement of Accounts in our report dated 27 July 2016. The pension fund annual report, and the pension fund financial statements, do not reflect the effects of events that occurred subsequent to the date of our report on the Statement of Accounts. Reading the pension fund financial statements is not a substitute for reading the audited Statement of Accounts of the Authority.

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 paragraph 20(5) of the Local Audit and Accountability Act 2014 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 work has been undertaken so that we might state to the members of the Authority 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.

Director of Finance responsibilities for the pension fund financial statements in the pension fund annual report

Under the Local Government Pension Scheme Regulations 2013 the Director of Finance is responsible for the preparation of the pension fund financial statements, which must include the fund account, the net asset statement and supporting notes and disclosures prepared in accordance with proper practices. Proper practices for the pension fund financial statements in both the Authority Statement of Accounts and the pension fund annual report are set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

Auditor's responsibility

Our responsibility is to state to you whether the pension fund financial statements in the pension fund annual report are consistent with the pension fund financial statements in the Authority's Statement of Accounts in accordance with International Standard on Auditing 810, Engagements to Report on Summary Financial Statements.

In addition, we read the other information contained in the pension fund annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the pension fund financial statements. The other information consists of Members and Advisors, Financial Summary, Pensions and Governance Summary, Investment Report, Fund Policies, Report of the Actuary, Financial Forecasts, Contacts, Glossary of Terms.

Opinion

In our opinion, the pension fund financial statements in the pension fund annual report derived from the audited pension fund financial statements in the Authority Statement of Accounts for the year ended 31 March 2016 are consistent, in all material respects, with those financial statements in accordance with proper practices as defined in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and applicable law.

Emily Hill

Emily Hill
for and on behalf of Grant Thornton UK LLP, Appointed Auditor
Grant Thornton House
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1 December 2016

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**
7,656	Transfers in	8	**5,518**
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**
-1,550	Administration expenses		**-1,121**
-149,715			**-154,043**
31,389	**Net additions from dealings with members**		**38,376**
	Return on investments		
56,444	Investment income	16	**61,346**
-1,023	Taxes on income	15	**-924**
299,210	Change in market value of investments	17	**-68,655**
354,631	**Net return on investments**		**-8,233**
386,020	**Net increase in the fund during the year**		**30,143**
2,807,500	**Net assets of the fund At 1 April**		**3,193,520**
3,193,520	**At 31 March**		**3,223,663**

Net asset statement

31 Mar 2015 £000		Note	31 Mar 2016 £000
	Investment assets	17	
350,859	Fixed interest securities		**342,581**
161,260	Index linked securities		**168,470**
1,908,092	Equities		**1,851,024**
199,410	Property unit trusts		**225,690**
360,061	Diversified growth		**376,686**
112,642	Private equity		**129,353**
	Derivatives	17c	
0	- Futures		**26**
3,082	- Foreign exchange contracts		**44**
77,218	Cash		**64,294**
0	Other short term investments		**37,000**
9,033	Other investment balances	17b	**8,649**
	Investment liabilities		
	Derivatives	17c	
-288	- Futures		**0**
-11,501	- Foreign exchange contracts		**-6,331**
-2,441	Other investment balances	17b	**-1,148**
0	Borrowings		**0**
3,167,427	**Net investment assets**		**3,196,338**
12,705	**Long-term debtors**	12	**10,890**
18,949	**Current assets**	11	**23,090**
-5,561	**Current liabilities**	13	**-6,655**
3,193,520	**Net assets of the fund at 31 March**		**3,223,663**

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	1/80th of final salary	1/60th 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	1/60th of salary	1/49th 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 contacts 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 polices

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

2014/2015 £000		2015/2016 £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 £000		2015/2016 £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 £000		2015/16 £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 £000		2015/2016 £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 £000		2015/2016 £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 £000		2015/2016 £000
2,816	Contributions - employees	3,262
10,196	Contributions - employer	12,025
5,937	Sundry debtors	7,803
18,949		**23,090**

Analysis of current assets

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

Note 12: Long term debtors

2014/2015 £000		2015/2016 £000
12,705	Central government bodies	10,890
12,705		**10,890**

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 £000		2015/2016 £000
5,541	Sundry creditors	6,595
20	Benefits payable	60
5,561		**6,655**

Analysis of current liabilities

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

Note 14: Investment and governance expenses

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

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

Note 16: Investment income

2014/2015 £000		2015/2016 £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 £000	Purchases during the year and derivative payments £000	Sales during the year and derivative receipts £000	Market movements £000	Market value at 31 Mar 2016 £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	**-6,261**
	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 £000	Purchases during the year and derivative payments £000	Sales during the year and derivative receipts £000	Market movements £000	Market value at 31 Mar 2015 £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 £6,261 (net unrealised loss of £8,419k at 31 March 2015).

2015/16

No of contracts	Contract settlement date within	Currency Bought	Currency Sold	Notional amount (local currency) Bought (000)	Notional amount (local currency) Sold (000)	Asset £'000	Liability £'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 Bought	Currency Sold	Notional amount (local currency) Bought (000)	Notional amount (local currency) Sold (000)	Asset £'000	Liability £'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 £000	%	Manager	Market value 31 March 2016 £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	Using observable inputs Level 2	With significant unobservable inputs Level 3	Total
	£000	£000	£000	£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	Using observable inputs Level 2	With significant unobservable inputs Level 3	Total
	£000	£000	£000	£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 2016 £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	
		+100 bps	- 100 bps
	£000	£000	£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	
		+100 bps	- 100 bps
	£000	£000	£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 £000		2015/2016 £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
64,074		**65,019**

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

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

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 timeBarry McKay FFA
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 £m	31 March 2016 £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
9,613		**10,207**

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.

Scheme Advisory Committee Statistics

Financial Performance and Forecast:

	2015/16 Budget £000	2015/16 Actuals £000	2015/16 Variance £000	2016/17 Budget £000
Income				
Employers contributions	141,172	149,848	8,676	144,008
Members contributions	37,331	37,053	-278	37,609
Total contributions	**173,448**	**186,901**	**13,453**	**181,617**
Transfers in	8,210	**5,518**	**-2,692**	**6,360**
Investment income	61,029	**61,337**	**308**	**61,062**
Total income	**242,687**	**253,756**	**11,069**	**249,038**
Expenditure				
Pensions	-111,484	-110,904	580	-115,174
Commutation and lump sum retirement benefits	-17,500	-17,276	224	-17,500
Other benefits	-2,300	-3,150	-850	-2,300
Total benefits	**-131,284**	**-131,330**	**-46**	**-134,974**
Leavers	-6,150	**-6,762**	**-612**	**-6,970**
Administrative expenses	-1,412	**-1,121**	**291**	**-1,143**
Oversight and governance costs	-714	**-672**	**42**	**-731**
Investment expenses	-16,494	**-14,151**	**2,343**	**-13,951**
Taxes on income	-1,160	**-924**	**236**	**-1,160**
Total expenditure	**-157,214**	**-154,960**	**2,254**	**-158,929**
Net income	**85,473**	**98,796**	**13,323**	**90,109**
Change in market value	**131,488**	**-68,645**	**-200,093**	**223,877**
Net Asset Value	**3,410,442**	**3,223,671**	**-186,771**	**3,537,657**

Significant variances between budget and actuals for 2015/16 financial year were related to employer contributions, transfers into the fund, investment management expenses and the change in market value of investments.

During the 2015/16 financial year an employer exited the fund and in accordance with LGPS regulations was required to make a cessation payment to the Fund to cover any accumulated deficit. This cessation payment received by the Fund was £6.4m.

Investment management expenses incurred was below forecast, weaker investment performance for the year led to a reduction of performance fees.

The financial forecast for the 2014/15 financial year did not take into account changes to the financial reporting requirements for local government pension funds to ensure more comprehensive and comparable reporting of management expenses. Key changes included the inclusion of layered private equity fees and transaction costs.

The volatility inherent within investment markets does not lend itself well to short term forecasting, Concerns over a slowing Chinese economy, monetary policy action from central banks and concerns over mounting geo political risk led to negative returns for the Fund over the 2015/16 year.

Three Year Forecast:

	2016/17 Budget £000	2017/18 Budget £000	2018/19 Budget £000	2016/19 Budget £000
Income				
Contributions	181,617	183,287	189,629	**554,533**
Transfers in	6,360	6,100	6,100	**18,560**
Investment income	61,062	61,624	63,403	**186,089**
Total income	**249,038**	**251,011**	**259,133**	**759,181**
Expenditure				
Benefits	-134,974	-140,041	-146,054	**-421,069**
Transfer out	-6,970	-7,000	-7,120	**-21,090**
Management expenses	-16,986	-18,381	-19,308	**-54,675**
Total expenditure	**-158,929**	**-165,423**	**172,482**	**496,834**
Net income	**90,109**	**85,588**	**86,651**	**262,347**

Investment Assets and Income

Investment Assets	UK	Non UK	Global	Total
	£m	£m	£m	£m
Equities	777	1,074		1,851
Bonds	83	428		511
Property	224	2		226
Alternatives	28	101	377	506
Cash and cash equivalent			64	64
Other			38	38
Total	**1,112**	**1,605**	**479**	**3,196**

Investment Income	UK	Non UK	Global	Total
	£000	£000	£000	£000
Equities	21,266	12,322		33,588
Bonds	5,394	7,047		12,441
Property	7,943			7,943
Alternatives			6,651	6,651
Cash and cash equivalent			137	137
Other			534	534
Total	**34,603**	**19,369**	**7,322**	**61,294**

Asset Allocation Movement

	Asset Allocation Target	Actual Allocation 31 March 2015	Actual Allocation 31 March 2016	Movement in Year
Fixed interest securities	15.2%	11.1%	10.7%	-0.4%
Index linked securities	3.8%	5.0%	5.3%	0.3%
Equities	59.8%	60.2%	57.9%	-2.3%
Property unit trusts	6.7%	6.3%	7.1%	0.8%
Diversified growth	9.5%	11.4%	11.8%	0.4%
Private equity	5.0%	3.6%	4.0%	0.4%
Cash and other	0.0%	2.4%	3.2%	0.8%
Total	**100.0%**	**100.0%**	**100.0%**	

Membership and Employer Statistics

	31 March 2011	**31 March 2012**	**31 March 2013**	**31 March 2014**	**31 March 2015**	**31 March 2016**
Contributory Employees	28,996	29,120	30,023	32,530	32,851	34,072
Pensioners and Dependants	18,701	19,664	20,572	21,598	22,481	23,197
Deferred Pensions	25,111	26,583	28,256	30,639	33,833	34,158
Total	**72,808**	**75,367**	**78,851**	**84,767**	**89,165**	**91,427**

A summary of the number of employers in the fund analysed by scheduled bodies and admitted bodies which are active (with active members) and ceased (no active members but with some outstanding liabilities).

	Active	Ceased	Total
Scheduled	161	4	167
Admitted	41	21	62
Total	**202**	**25**	**227**

A table of the active employers with employee and employer contributions made during the year is shown overleaf.

List of Contributing Employers

Employing Organisation	Employees Contributions £000	Employers Contributions £000
A2 Housing Group	9	233
Ability Housing Association	5	15
Accent Peerless Housing Association	0	6,406
Achieve Lifestyle	17	61
Ash Parish Council	6	32
Ashley CoE Primary School	24	99
Babcock 4S	189	1,468
Banstead School	13	49
Barnsbury Primary School	19	71
Beaufort Primary School	26	92
Bishop David Brown School	20	91
Bisley Parish Council	2	6
Blenheim High School	59	312
Boxgrove Primary School	50	208
Bramley Parish Council	1	5
Broadmere Community Primary School	17	78
Brooklands College	173	766
Brookwood Primary School	6	26
Burstow Parish Council	2	5
Care Quality Commission	4	119
Caring Daycare Limited	2	7
Carwarden House School	24	91
Chaldon Village Council	1	3
Chiddingfold Parish Council	3	11
Childhood First	19	204
Christ's College	14	61
Circle Housing Group	35	191
Claygate Parish Council	0	3
Cleves School	34	138
Cobham Free School	17	47
Collingwood College	99	393
Compass Contract Services	8	19
Compton Parish Council	0	0
Connaught Junior School	18	73
Cordwalles Junior School	10	27
Cranleigh Parish Council	4	24
Cross Farm Infant School	5	20
Cuddington Croft School	18	76
Danetree Junior School	20	77
East Horsley Parish Council	1	6
East Surrey College	201	730
East Surrey Rural Transport	0	4
Effingham Parish Council	1	5
Elmbridge Council	727	2,734

Employing Organisation	Employees Contributions £000	Employers Contributions £000
Epsom & Ewell Council	481	1,836
Epsom and Ewell High School	52	213
Esher Church School	16	86
Esher College	69	232
Esher High School	77	294
Farnham Heath End School	36	167
Farnham Town Council	19	59
Frensham Parish Council	1	5
Fullbrook School	54	254
Fusion Lifestyle	8	24
G Burley & Sons	0	0
George Abbot School	113	450
GLF	19	65
Glyn School	69	261
Godalming College	69	228
Godalming Town Council	12	32
Godstone Parish Council	1	3
Goldsworth Primary School	30	130
Gordons School Trust	20	107
Guildford College	333	1,683
Guildford Council	1,353	5,239
Guildford County School	41	180
Guildford Freedom Leisure	59	184
Hammond School	4	20
Hanover Housing Association	148	1,839
Haslemere Town Council	4	9
Heathside School	33	145
Hermitage Junior	24	107
Hillcroft County Primary	24	89
Hinchley Wood School	67	351
Hoe Valley School	5	20
Horley Town Council	8	36
Horsell Village School	15	62
Howard of Effingham School	103	409
iESE Ltd	73	131
Jubilee High School	32	141
Kenyngton Manor Primary School	27	101
Kings College Guildford	39	168
Lakeside Primary School	11	47
Leatherhead Trinity School	36	147
Lightwater Village School	5	22
Lime Tree Primary School	15	60
Lingfield Parish Council	1	4
Look Ahead Housing and Care Ltd	0	0
Magna Carta School	50	197
Marden Lodge Primary	30	125

Employing Organisation	Employees Contributions £000	Employers Contributions £000
Matthew Arnold School	45	197
May Gurney	10	103
Mears Ltd	0	0
Merton & Sutton Joint Cemetery Board	4	30
Mole Valley Council	507	1,808
Moor House School	31	302
Morrison Facilities Services Ltd	5	20
Mytchett Primary School	6	27
NESCOT	212	1,124
New Haw Junior School	20	83
New Monument School	17	83
Oaktree School	22	108
Oxted Parish Council	0	0
Oxted School	42	190
Paragon Elmbridge Housing Trust	13	134
Peaslake Free School	3	11
Pinnacle Housing Limited	14	50
Pond Meadow Trust	50	214
Princess Alice Hospice	0	0
Pyrcroft Grange Primary	20	79
Pyrford Primary School	31	138
Queen Eleanor's School	13	59
Raven Housing Trust	59	409
Ravenscote Junior School	21	105
Reef Cleaning GSO LTD	0	2
Reigate & Banstead Council	758	3,264
Reigate College	93	361
Reigate Grammar School	128	517
Riverside Housing Group	4	12
Rodborough Technology College	43	181
Rosebery Housing Association	4	251
Rosebery School	52	230
Royal Grammar School Guildford	31	281
Runnymede Council	667	2,345
Rydens Enterprise School	51	198
Salfords Primary School	14	69
Sandfield Primry School	10	47
Sandringham School	9	37
Saxon Primary School	22	74
Sayes Court School	15	59
Send Parish Council	1	4
SERCO	25	97
Sight for Surrey	11	156
Sir William Perkin's School	21	140
Skanska Streetlighting	18	82

Employing Organisation	Employees Contributions £000	Employers Contributions £000
Skanska Rashleigh Weatherfoil	3	9
South Farnham School	57	249
Southern Addictions Advisory Service	34	131
Spelthorne Council	540	2,138
Springfield Primary School	22	75
St John's Primary and Nursery Dorking	17	62
St John's Primary School Knaphill	16	66
St Lawrence Primary	10	50
St Mary's Primary School	9	40
St Pauls Primary	17	61
Strodes College	72	239
Sunbury Manor School	49	184
Surrey Choices	125	251
Surrey County Council Pool	19,511	65,019
Surrey Heath Council	480	1,767
Surrey Police Authority	2,943	14,703
Surrey Sports Park	12	50
SWT Countryside Services	16	113
Sythwood Primary School	66	242
Tandridge Council	613	2,591
Thamesmead School	56	253
The Beacon School	59	258
The Bishop Wand School	40	176
The Echelford Primary School	24	100
The Grove Primary School	11	49
The Raleigh School	22	97
The Weald Primary School	11	51
Thomas Knyvett College	33	132
Tomlinscote School	72	352
Tongham Parish Council	0	0
University for the Creative Arts	875	3,341
University of Surrey	782	4,281
Valuation Tribunal Service	1	32
Warlingham Parish Council	1	3
Warlingham School	72	346
Warlingham Village Primary	8	34
Warren Mead School	15	57
Waverley Community Transport	9	36
Waverley Council	722	3,172
West End Parish Council	1	5
Weydon School	52	189
Weyfield Primary	27	120
Whyteleafe School	16	84
Whyteleafe Village Council	1	2
Wilson Jones Catering	0	1

Employing Organisation	Employees Contributions £000	Employers Contributions £000
Windlesham Parish Council	3	13
Wishmore Cross School	29	123
Witley Parish Council	3	20
Woking College	30	185
Woking Community Transport	0	31
Woking Council	624	3,017
Woking Freedom Leisure	32	62
Woking High School	71	318
Woolmer Hill School	26	130
Worplesdon Parish Council	3	8
Total Employer Contributions	37,053	149,848

Benefits and Contributions
Enquiries should be directed in writing to Pension Services at the following address:

Pensions Unit
Room 243
Kingston Upon Thames
Surrey KT1 2EB
Telephone: 020 8541 9289 or 9292
E Mail:
pensions@surreycc.gov.uk
Fax: 020 8541 9287

Accounts and Investments
Information regarding the accounts and investments can be obtained from The Pension Fund and Treasury Manager on 020 8541 9894.

Pension Scheme Regulations
1997 Regulations S.I. 1997/1612
Copies may be obtained from:

The Stationery Office Ltd
2nd Floor, St Crispins
Duke Street
Norwich
NR3 1PD

Website:
www.opsi.gov.uk/si/si1997/19971612.htm

Useful Addresses
Occupational Pensions Board

PO Box 1NN
Newcastle upon Tyne
NE99 1NN

Tel: 0191 225 6316

The Pensions Advisory Service (TPAS)
11 Belgrave Road
London
SW1V 1RB

Tel: 0845 601 2923

Email:
enquiries@pensionsadvisoryservice.org.uk

Pensions Ombudsman
11 Belgrave Road
London
SW1V 1RB

Tel: 0207 630 2200
Email:
enquiries@pensions-ombudson.org.uk

Employee and Employer Guides
The Department for Community and Local Government has produced guides to the Pension Scheme Regulations. These are available on request from Pension Services.

National Website
www.lgps.org.uk

Active Management
A style of management where the fund manager aims to outperform a **benchmark** by superior **asset allocation**, market timing or **stock selection** (or a combination of these). Compare with **passive management**.

Actuary
An independent consultant who advises the County Council on the financial position of the Fund. See **actuarial valuation.**

Actuarial Valuation
This is an assessment done by an **actuary**, usually every three years. The actuary will work out how much money needs to be put into a pension fund to make sure pensions can be paid in the future.

Additional Voluntary Contribution (AVC)
An option available to individuals to secure additional pensions benefits by making regular payments in addition to the 5.5%-7.5% of basic earnings payable.

Admitted Bodies
Employers whose staff can become members of the Fund by virtue of an admission agreement made between the administering authority and the employer.

Asset Allocation
The apportionment of a fund's assets between asset classes and/or world markets. The long-term strategic asset allocation of a fund will reflect the fund's investment objectives. In the short term, the fund manager can aim to add value through **tactical asset allocation** decisions.

Benchmark
A yardstick against which the investment policy or performance of a fund manager can be compared. The Surrey Fund's benchmark is customised, meaning that it is tailored to the Fund's **liability profile**.

Bond
A debt investment with which the investor loans money to an entity (company or government) that borrows the funds for a defined period of time at a specified interest rate.

Book cost
The value of an asset as it appears on a balance sheet, equivalent to how much was paid for the asset (less liabilities due). Book cost often differs substantially from **market value**.

Broker
An individual or firm that charges a fee or commission for executing buy and sell orders submitted by an investor.

Commission
A service charge assessed by an agent in return for arranging the purchase or sale of a security or real estate. The commission must be fair and reasonable, considering all the relevant factors of the transaction. (Underwriting commission)

Corporate Bond
A debt security issued by a corporation, as opposed to those issued by the government.

Corporate Governance
The system by which companies are run, and the means by which they are responsible to their shareholders, employees and other stakeholders.

Creditors
Amounts owed by the pension fund.

Custody
Safe-keeping of securities by a financial institution. The custodian keeps a record of the client's investments and may also collect income, process tax reclaims and provide other services such as performance measurement.

Debtors
Amounts owed to the pension fund.

Derivative
Used to describe a specialist financial instrument such as **options** or **futures contracts**. Financial instruments are agreements to buy or sell something, under terms laid out in a contract.

Diversification
A risk management technique that mixes a wide variety of investments within a portfolio. It is designed to minimize the impact of any one security on overall portfolio performance.

Dividend
Distribution of a portion of a company's earnings, decided by the board of directors, to a class of its shareholders. The amount of a dividend is quoted in the amount each share receives or in other words dividends per share.

Dividend Yield
An indication of the income generated by a share, calculated as Annual Dividend per Share/Price per Share

Emerging Markets
There are about 80 stock markets around the world of which 22 markets are generally considered to be mature. The rest are classified as emerging markets.

Equity
Stock or any other security representing an ownership interest.

Ex-dividend
Purchase of shares without entitlement to current dividends. This entitlement remains with the seller of the shares.

Final Salary Scheme
An employer pension scheme, the benefits of which are linked to length of service and the final salary of the member (also known as defined benefit).

Fixed interest
A loan with an interest rate that will remain at a predetermined rate for the entire term of the loan. See bond.

FTSE All-Share
An arithmetically weighted index of leading UK shares (by market capitalisation) listed on the London Stock Exchange (LSE). The FTSE 100 Index covers only the largest 100 companies.

Funding Level
A comparison of a scheme's assets and liabilities.

Futures Contract
A contract to buy goods at a fixed price and on a particular date in the future. Both the

buyer and seller must follow the contract by law.

Gilts
The familiar name given to sterling, marketable securities (or bonds) issued by the British Government.

Hedge
Making an investment to reduce the risk of adverse price movements in an asset. Normally, a hedge consists of taking an offsetting position in a related security, such as a **futures contract**.

Index Linked
A **bond** which pays a **coupon** that varies according to some underlying index, usually the Consumer Price Index.

LGPS
Local Government Pension Scheme.

LSE
London Stock Exchange

Mandate
The agreement between a client and investment manager laying down how the portfolio is to be managed, including performance targets.

Market Value
A security's last reported sale price (if on an exchange) i.e. the price as determined dynamically by buyers and sellers in an open market. Also called market price.

Option
The name for a contract where somebody pays a sum of money for the right to buy or sell goods at a fixed price by a particular date in the future. However, the goods do not have to be bought or sold.

Passive Management
A style of fund management that aims to construct a portfolio to provide the same return as that of a chosen index. Compare with **active management**.

Pension Fund
A fund established by an employer to facilitate and organise the investment of employees' retirement funds contributed by the employer and employees. The **pension fund** is a common asset pool meant to generate stable growth over the long term, and provide pensions for employees when they reach the end of their working years and commence retirement.

Private Equity
When equity capital is made available to companies or investors, but not quoted on a stock market. The funds raised through private equity can be used to develop new products and technologies, to expand working capital, to make acquisitions, or to strengthen a company's balance sheet. Also known as **development capital**.

Property Unit Trusts
Pooled investment vehicles that enable investors to hold a stake in a diversified portfolio of properties.

Resolution Bodies
Scheme employers with the power to decide if an employee or group of employees can join the scheme.

Return
Synonymous with profit, be it income received, capital gain or income and capital gain in combination. Usually expressed as a percentage of the nominal value of the asset.

Risk
The likelihood of performance deviating significantly from the average. The wider the spread of investment in an investment sector or across investment sectors, i.e. the greater the diversification, the lower the risk.

Scheme Employers
Local authorities and other similar bodies whose staff automatically qualify to become members of the pension fund.

Security
An investment instrument, other than an insurance policy or fixed annuity, issued by a corporation, government, or other organisation, which offers evidence of debt or equity.

Socially Responsible Investment (SRI)
Investments or funds containing stock in companies whose activities are considered ethical.

Specialist Manager
A fund management arrangement whereby a number of different managers each concentrate on a different asset class. A specialist fund manager is concerned primarily with **stock selection** within the specialist asset class. **Asset allocation** decisions are made by the investment committee, their consultant or by a specialist tactical asset allocation manager (or combination of the three).

Stock
A type of security that signifies ownership in a corporation and represents a claim on part of the corporation's assets and earnings. Also known as shares or **equity.**

Stock Selection
The process of deciding which stocks to buy within an asset class.

Tracking Error
An unplanned divergence between the price behaviour of an underlying stock or portfolio and the price behaviour of a benchmark. Reflects how closely the make-up of a portfolio matches the make-up of the index that it is tracking.

Transaction Costs
Those costs associated with managing a portfolio, notably brokerage costs and taxes.

Transfer Value
The amount transferred to/from another pension fund should a member change employment. The amount transferred relates to the current value of past contributions.

Transition
To move from one set of investment managers to another.

Underwriting
The process by which investment bankers raise investment capital from investors on behalf of corporations and governments that are issuing securities (both equity and debt).

Unit Trust
A pooled fund in which investors can buy and sell units on an ongoing basis.

Unlisted Security
A security which is not traded on an **exchange.**

Unrealised Gains/(losses)
The increase/(decrease) at year-end in the market value of investments held by the fund since the date of their purchase.

Yield
The rate of income generated from a stock in the form of dividends, or the effective rate of interest paid on a bond, calculated by the coupon rate divided by the bond's market price. Furthermore, for any investment, yield is the annual rate of return expressed as a percentage.

Surrey Local Pension Board
25 January 2017

Pension Fund Statement of Accounts 2015/16

Recommendations:

The Board is asked to **note** the content of this report.

Detail:

1. The 2015/16 Statement of Accounts for the Pension Fund were presented to the Pension Fund Committee on 23 September 2016. The report as taken to the Committee is attached as Annex1.

2. The Statement of Accounts for the Pension Fund are shown as Annex 2, with the audit opinion from Grant Thornton as Annex 3 and the Audit Findings Report as Annex 4.

Report contact: Neil Mason, Senior Advisor Pension Fund

Contact details: T: 020 8213 2739 E: neil.mason@surreycc.gov.uk

Sources/background papers:

1. Report taken to the 23/09/2016 meeting of the Pension Fund Committee for the statement of accounts 2015/16.
2. Audited statement of accounts 2015/16 for the Pension Fund.
3. The audit opinion for the 2015/16 statement of accounts.
4. The audit findings report for the 2015/16 statement of accounts.

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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 2016, 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 FI NANCE 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**
7,656	Transfers in	8	**5,518**
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**
-1,550	Administration expenses		**-1,121**
-149,715			**-154,043**
31,389	**Net additions from dealings with members**		**38,376**
	Return on investments		
56,444	Investment income	16	**61,346**
-1,023	Taxes on income	15	**-924**
299,210	Change in market value of investments	17	**-68,655**
354,631	**Net return on investments**		**-8,233**
386,020	**Net increase in the fund during the year**		**30,143**
2,807,500	**Net assets of the fund At 1 April**		**3,193,520**
3,193,520	**At 31 March**		**3,223,663**

Net asset statement

31 Mar 2015 £000		Note	31 Mar 2016 £000
	Investment assets	17	
350,859	Fixed interest securities		**342,581**
161,260	Index linked securities		**168,470**
1,908,092	Equities		**1,851,024**
199,410	Property unit trusts		**225,690**
360,061	Diversified growth		**376,686**
112,642	Private equity		**129,353**
	Derivatives	17c	
0	- Futures		**26**
3,082	- Foreign exchange contracts		**44**
77,218	Cash		**64,294**
0	Other short term investments		**37,000**
9,033	Other investment balances	17b	**8,649**
	Investment liabilities		
	Derivatives	17c	
-288	- Futures		**0**
-11,501	- Foreign exchange contracts		**-6,331**
-2,441	Other investment balances	17b	**-1,148**
0	Borrowings		**0**
3,167,427	**Net investment assets**		**3,196,338**
12,705	**Long-term debtors**	12	**10,890**
18,949	**Current assets**	11	**23,090**
-5,561	**Current liabilities**	13	**-6,655**
3,193,520	**Net assets of the fund at 31 March**		**3,223,663**

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	1/80th of final salary	1/60th 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	1/60th of salary	1/49th 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 contacts 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 polices

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

2014/2015 £000		2015/2016 £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 £000		2015/2016 £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 £000		2015/16 £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 £000		2015/2016 £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 £000		2015/2016 £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 £000		2015/2016 £000
2,816	Contributions - employees	3,262
10,196	Contributions - employer	12,025
5,937	Sundry debtors	7,803
18,949		**23,090**

Analysis of current assets

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

Note 12: Long term debtors

2014/2015 £000		2015/2016 £000
12,705	Central government bodies	10,890
12,705		**10,890**

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 £000		2015/2016 £000
5,541	Sundry creditors	6,595
20	Benefits payable	60
5,561		**6,655**

Analysis of current liabilities

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

Note 14: Investment and governance expenses

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

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

Note 16: Investment income

2014/2015 £000		2015/2016 £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	Liability
		Bought	Sold	Bought (000)	Sold (000)	£'000	£'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 Bought	Currency Sold	Notional amount (local currency) Bought (000)	Notional amount (local currency) Sold (000)	Asset £'000	Liability £'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 £000	%	Manager	Market value 31 March 2016 £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	Using observable inputs Level 2	With significant unobservable inputs Level 3	Total
	£000	£000	£000	£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	Using observable inputs Level 2	With significant unobservable inputs Level 3	Total
	£000	£000	£000	£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	
		+100 bps	- 100 bps
	£000	£000	£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	
		+100 bps	- 100 bps
	£000	£000	£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 £000		2015/2016 £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
64,074		**65,019**

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

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

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 timeBarry McKay FFA

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 £m	31 March 2016 £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
9,613		**10,207**

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

Year ended 31 March 2016

July 2016

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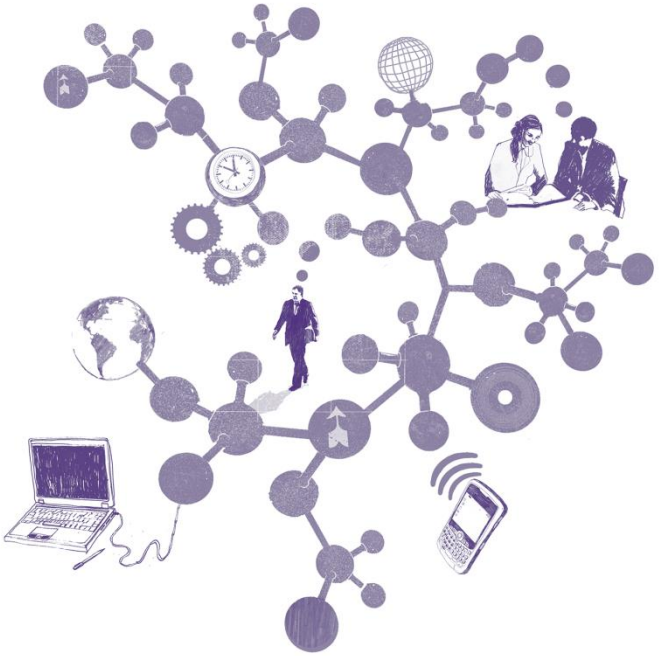

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July 2016

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

Contents

Section 1: Executive summary

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 12 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 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 two adjustments affecting the Fund's reported financial position. 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 amendments identified are highly trivial to the financial statements and are not disclosed further in this report. 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.
- Overall the audit process was much smoother than in 2014/15.

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

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.

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.	**The revenue cycle includes fraudulent transactions** Under ISA(UK&I)240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.	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.	Our audit work has not identified any material issues in respect of revenue recognition.
2.	**Management over-ride of controls** Under ISA(UK&I)240 it is presumed that the risk of management over-ride of controls is present in all entities.	Provide summary of work performed, e.g. • review of entity controls • testing of journal entries • review of accounting estimates, judgements and decisions made by management • review of unusual significant transactions	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. We set out later in this section of the report our work and findings on key accounting estimates and judgements.

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.	**Level 3 Investments – Valuation is incorrect** 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.	• 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.	Our audit work has not identified any material issues in respect of the risk identified.

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:** • 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:** • 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:** • 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)

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Contributions	Recorded contributions not correct (Occurrence)	**We have undertaken the following work in relation to this risk:** • 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.	Our audit work has not identified any material issues in respect of the risk identified.
Benefits payable	Benefits improperly computed/claims liability understated (Completeness, accuracy and occurrence)	**We have undertaken the following work in relation to this risk:** • 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.	Our audit work has not identified any material issues in respect of the risk identified.

Audit findings against other risks (continued)

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Member Data	Member data not correct. (Rights and Obligations)	**We have undertaken the following work in relation to this risk:** • 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.	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. We will update the Audit and Governance Committee with the outcome of our work. 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.

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: – 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**	• 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**	• 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**	• 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**	• A standard letter of representation has been requested from the Fund.
5.	**Confirmation requests from third parties**	• 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**	• Our review found no material omissions in the financial statements.
7.	**Matters on which we report by exception**	• 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.

	Assessment	Issue and risk	Recommendation
1.	● (Green) Deficiency - risk of inconsequential misstatement	**Cash balances** 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.	Given the potential sensitivity of cash balances, unreconciled differences on cash balances should be fully adjusted on at least an annual basis.

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

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

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.psaa.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.

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

Appendix A: Action plan

Priority
High - Significant effect on control system
Medium - Effect on control system
Low - Best practice

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

grant-thornton.co.uk

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- 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

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

Grant Thornton House
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27 July 2016

The Surrey Local Pension Board
25 January 2017
Review of Internal Dispute Resolution cases: Quarter two 2016/17

Recommendations:

1. The Board is asked to **note** the content of this report.

Detail:

Introduction

2. Pursuant to the Local Government Pension Scheme (LGPS) Regulations 2013 each scheme employer and administering authority must appoint an adjudicator to consider applications regarding the first instance decisions made by the scheme employer or where relevant the administering authority.

3. Under the Scheme of Delegation relating to section 106 agreements, the following officers are nominated to hear stage one and stage two Internal Dispute Resolution (IDRP) appeals:

    - The Director of Finance.
    - The Director of Legal and Democratic Services.
    - The Director of People and Development.
    - The Strategic Finance Manager (Pension Fund and Treasury).

Summary of the appeals in 2016/17 (quarter two)

4. There were no IDRP appeal decisions to report during quarter two, 2016/17.

Report contact: Neil Mason, Senior Advisor (Pension Fund and Treasury)
Contact details: T: 020 8213 2739 E: neil.mason@surreycc.gov.uk
Sources/background papers: The LGPS Regulations 2013
Annexes: None.

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