Surrey Pension Fund Annual Report 2014

Contents **Page**

Chairman's Statement

The new Local Government Pension Scheme (LGPS) scheme was born on 6 April 2014. We welcomed its safe delivery and, while still in infancy, the transition went relatively smoothly.

Our joint working on pension administration with East Sussex continues to go from strength to strength. I am pleased to report that Westminster City Council has appointed us to handle its pension administration on its behalf and other LGPS administrations have expressed a similar interest.

This example of collaboration is bound to expand to other areas of the fund in the future, for example, through joint procurement or asset pooling. We are in the early stages of exploring such ways to deliver better value for money for the Surrey fund with potentially suitable partners.

On 1 May 2014, the Government launched a second consultation on further proposed changes to the LGPS entitled: Opportunities for Collaboration, Cost Savings and Efficiencies. Over 200 responses were received and evaluated. Surrey Pension Fund's reply was relatively robust and focused mainly on good governance.

The consultation paper proposed a rather simplistic solution, based on cutting fees, moving all actively managed assets to passive funds, and the establishment of collective investment vehicles (CIVs). Surrey argued that reform should focus on value for money for scheme members, employers and taxpayers rather than costs. We acknowledged that there are benefits to be derived by leveraging scale but that CIVs are not the only answer. A collaborative approach with local accountability that remains flexible to invest where we can add value, including internal and active investment strategies, is our preferred approach. We are also concerned about the governance of CIVs or other arms-length vehicles, as these must be structured to preserve the long-term interests of the fund.

Costs are important but need to be considered on a risk-adjusted basis. Surrey Pension Fund relies heavily on alpha generation as we move along the flight plan to full funding.

For example, over the 12 months to 31 March 2014, the Fund returned a solid +8.6% overall, surpassing the benchmark target of +7.1%. Equities provided substantial investment returns with significant above benchmark returns from our active UK equity managers, UBS and Majedie, and active global equity manager Marathon. The property market also rallied strongly in 2014, leading to double-digit returns from property manager, CBRE. Without our active managers, some of whom have consistently returned above benchmark performance over the past decade, the fund's performance and funding level would have suffered adversely.

Governance has been at the heart of Surrey Pension Fund's advance over the past year. The new Pension Fund Board, with full council committee status and decision-making powers, has come through its first full year's work since inception in March 2013. This year, we are reviewing the fund's investment strategy. Part of the process will be to establish a framework that will enable us to commence a de-risking programme when interest rates 'normalise' and ensuing lagging inflation begins to bite. The timing of rate rises is anyone's guess but continued low real yields could have an impact on long term inflation expectations which, in turn, could adversely impact our liabilities and investment returns. We will monitor this closely.

Good governance will remain the key to success as we transition through to 2015 but there is a need to address as to what ‘good’ looks like. The Surrey Fund is widely considered to be an exemplar of how LGPS funds should be governed and is widely quoted by consultants and fund managers as being a flagship of excellence in governance practices within the LGPS.

What constitutes good governance across the LGPS is not easy to describe. For Surrey, good governance is more than just the structure of pension boards, having good strategies and policies in place, and appropriate reporting frameworks to monitor progress. On top, good governance has to encompass the appropriateness of the arrangements, given the scale of resources available, market conditions, the skills and knowledge of those involved, and even the personalities of the individuals concerned.

Our fund is fortunate to have some natural advantages. With over £2.8bn in assets, it is large enough to consider a diverse range of investment opportunities. It has elected members with considerable financial market experience. Our proximity to the City allows us frequent and direct contact with our investment managers.

Having said this, the Board continues to place great emphasis on the development of member skills and knowledge. Regular training forms part of all Board meetings and Members attend external seminars and other training sessions. The Board also draws on the knowledge of Mercer as its investment consultant and our experienced Independent Investment Advisor, John Harrison.

All of this serves to enhance our investment performance and administration efficiency, demonstrated by superior manager selection, above average data quality and below average unit costs.

The current Pension Board structure will continue to evolve, particularly as it does not currently satisfy the most recent guidance for the LGPS to adopt a separate Pension Board with a guidance/scrutiny remit rather than an implementation role. We will adapt this structure quickly and efficiently in order to retain the governance characteristics that enable the Surrey Pension Fund to stand out within the sector.

Finally, ongoing good governance will reap dividends in fund performance and, in turn, strong performance will be the key to meeting our long-term objectives of closing the funding gap and meeting our future pension obligations. This will not be possible without the prudential stewardship and sheer hard work of the Surrey Pension Fund team, employers, employees, Members, investment managers, service providers, advisors, consultants, etc. I thank you all sincerely for your considerable contribution to the continued success of the Surrey Fund.

Denise Le Gal

Chairman, Surrey Pension Fund Board

Director of Finance Introduction

A lot has happened since our last report. We have successfully completed the 2013 actuarial valuation. We have welcomed a number of new employers into the scheme. We have completed our first auto-enrolment process. We have implemented the new LGPS 2014 Scheme. And finally, we have implemented a number of new investment mandates.

The 2013 Actuarial Valuation was completed by the deadline of March 2014. I would like to thank our employers who provided the necessary information in a timely manner and to a very high standard. This was of great benefit to the actuary. Also to the pensions administration staff who worked very hard in terms of the data submission and the queries that were fed back to us. We recognise that for a number of our employers, the outcome of the valuation process was an increase in the amount they have to pay in contributions. These increases were somewhat mitigated by the fact that the investment returns for the three years to March 2013 comfortably exceeded the actuary's assumption made in the 2010 valuation.

In the 2013/14 year, the Fund’s investments continued to deliver excellent returns. The Fund increased in value by £249 million, to over £2.8 billion. On the administration side we have seen the number of employers increase this year as a number of schools chose to convert to academy status and employers considered alternative means of service delivery.

A number of our employers (including Surrey County Council) have carried out their first auto-enrolment exercise and I am pleased to report that we have enrolled new members and the majority of them have elected to remain in the scheme.

A considerable amount of work has been invested in the preparation of the LGPS 2014 new scheme, with officers meeting with many employers and employees to explain how changes will impact them. We held our Annual Meeting on 22 November 2013. This was well attended with particular focus also on the 2013 actuarial valuation process.

The Surrey Pension Fund continues to perform strongly. Following last year's strategy review, the Fund transferred half of its UK Gilt portfolio into an absolute return fund, run by Franklin Templeton. This performed well in the 2013/14 financial year. Our investment strategy continues to be reviewed with diversification and de-risking changes planned for the current financial year.

This year has seen many challenges, trials and tribulations for the fund. We have kept the global economic situation under close review. We have actively contributed to the various consultations and Calls for Evidence regarding the LGPS, as well as working hard to ensure that all employee and employer members are aware of the changes from April 2014.

Considerable progress was made in 2013/14 and there are still many changes and challenges to face in 2014/15 and beyond.

Sheila Little

Director of Finance and Chief Administrator of the Surrey Pension Fund

Members and Advisors

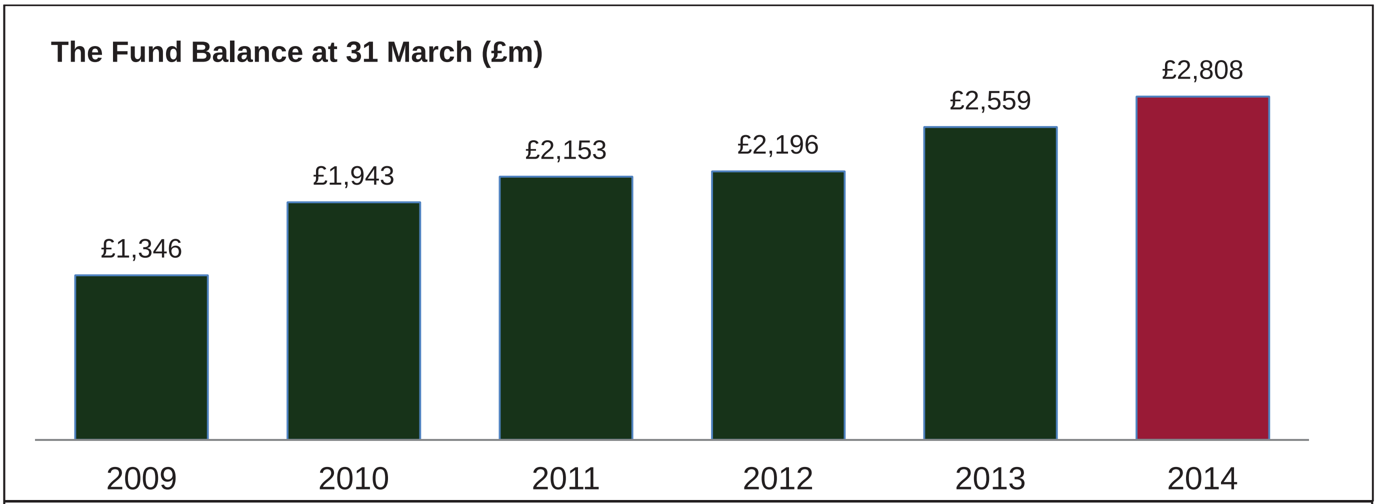
Administering Authority	Surrey County Council County Hall Kingston upon Thames Surrey KT1 2EA
Chief Administrator of the Surrey Pension Fund	Sheila Little *Director of Finance*
Pension Fund Board **County Council Members**	Councilor Denise Le Gal *(Chairman)* Councilor Nicholas Skellett *(Vice Chairman)* Councilor Bill Barker Councilor Mike Goodman Councilor John Orrick Councilor Stuart Selleck
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*
Employee Representative	Phil Walker
Professional Investment Advisors	Steve Turner, *Mercer* John Harrison, *Independent*
Director of Finance	Sheila Little
Strategic Manager Pension Fund & Treasury	Phil Triggs

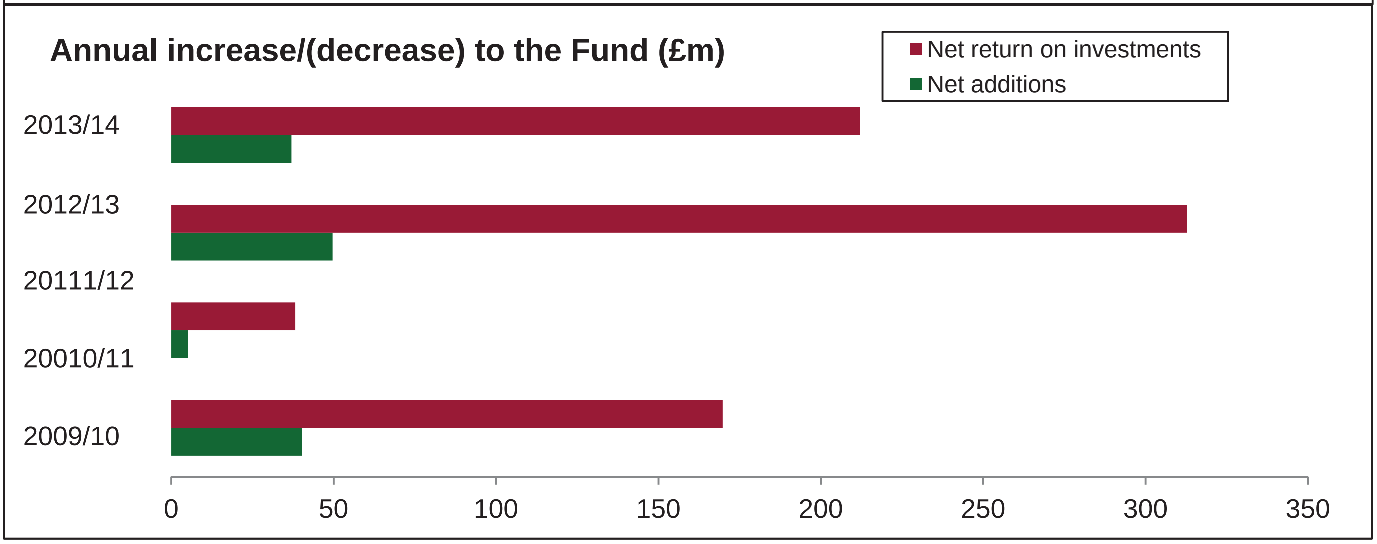
Fund Managers	Baillie Gifford CBRE Global Investors Franklin Templeton Investments Legal and General Investment Management Majedie Asset Management Marathon Asset Management Mirabaud Investment Management Newton Investment Management Standard Life Investments UBS Global Asset Management Western Asset Management
Global Custodian	Northern Trust
Private Equity Advisors	BlackRock Capital Dynamics Goldman Sachs Asset Management Hg Capital ISIS Equity Partners Standard Life Capital Partners Darwin Property Investment Management
Fund Actuary	Barry McKay, Hymans Robertson LLP
AVC Provider	Prudential Assurance Company Equitable Life Assurance Society
Auditors	Grant Thornton UK LLP
Bankers	HSBC

Financial Summary

	2009/10 £000	2010/11 £000	2011/12 £000	2012/13 £000	2013/14 £000
Contributions	157,423	157,703	152,550	173,377	164,366
Less benefits and expenses paid	-113,960	-117,439	-147,352	-123,705	-127,406
Net additions	43,463	40,264	5,198	49,672	36,960
Net investment income **	28,869	32,592	36,737	33,789	36,402
Change in Market Value	524,163	137,170	1,441	278,985	175,422
Net return on investments	553,032	169,762	38,178	312,774	211,824
Net increase in Fund	596,495	210,026	43,376	362,446	248,784
Fund Balance at 31 March (Market Value)	1,942,868	2,152,894	2,196,270	2,558,716	2,807,500

Note **Net of expenses and tax withheld





Regulatory Background

Pensions Regulations

The Local Government Pension Scheme Regulations 1997 are made under the Superannuation Act 1972 and require the County Council to maintain a Pension Fund for certain of its own employees together with the majority of employees of Probation Committees, the District Councils within the County area and eligible employees within the Surrey Police Authority and former County Educational Establishments. The same regulations empower the County Council to admit certain other bodies to the Fund and a list of such bodies within the Fund is shown on page 136. The regulations also allow for the admission of private sector contractors providing outsourced services. The Fund does not cover teachers and fire fighters for whom separate statutory schemes exist.

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 core benefits payable under the 1997 Regulations are mandatory. In addition the regulations have become more flexible to give members and employers a certain degree of choice in determining their benefits package.

Prior to 1 April 2008, employees' contributions were standardised at the rate of 6% of pensionable pay, although there was a protected rate of 5% for certain existing employees who were previously classed as manual workers. On 1 April 2008 a new scheme came into force, which meant that employees paid pension contributions at a rate determined by their full time equivalent level of pay as follows:

FTE Pay	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%

The pay bands above increased each April in line with increases in the Consumer Prices Index (CPI). The pay bands shown above were those applicable during 2013-2014.

From April 2014 the benefits accrued by members will be calculated according to a career average revalued earnings methodology rather than a final salary methodology.

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.

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 Board has agreed the following knowledge and skills policy statement.

1. The Pension Fund Board 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 Board to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills

.

The members of the Board 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 65 of the Local Government Pension Scheme (Administration) Regulations 2008.

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.

Performance Management

In order to assess performance and identify areas for improvement, the pension fund has selected a number of key performance indicators (KPIs) and accompanying targets, against which the fund will be appraised. The results will be reported to the Pension Fund Board on a quarterly basis to challenge areas of weaker performance and to ensure targets set are rigorous and achievable.

The KPIs cover a wide range of activities within the pension fund including administration of pension benefits, data quality, administration costs and investment performance.

The below table shows the performance of the fund against the KPIs as at the 31 March 2014.

Description	Target	Actual score	Reporting period
Death Benefits			
Notify potential beneficiary of lump sum death grant within 5 days	95%	100.00%	12 months to 31 Mar 14
Write to dependant and provide relevant claim form within 5 days of notification of death	90%	93.9%	12 months to 31 Mar 14
Pay death grant within 5 days of receipt of relevant documentation	90%	96.8%	12 months to 31 Mar 14
Issue notification of dependant's pension within 5 days of receipt of relevant claim forms	90%	96.8%	12 months to 31 Mar 14
Retirements			
Retirement options to members within 10 days	90%	89.4%	12 months to 31 Mar 14
New retirement benefits processed for payment following receipt of election within 10 days	95%	97.7%	12 months to 31 Mar 14
Benefit Statements			
ABS issued to 95% of eligible active members by 30th September	95%	100.0%	2014
DBS issued to 85% of eligible deferred members by 30th June	95%	100.0%	2014
New Joiners			
New starters processed within 20 days	90%	98.5%	12 months to 31 Mar 14
Transfers			
Non LGPS transfers-in quotations processed within 20 days	90.00%	99.0%	12 months to 31 Mar 14
Non LGPS transfers-in payments processed within 20 days	90.00%	99.7%	12 months to 31 Mar 14
Non LGPS transfers-out quotations processed within 20 days	90.00%	99.3%	12 months to 31 Mar 14
Non LGPS transfers out payments	90.00%	100.00%	12 months to

Description	Target	Actual score	Reporting period
processed within 20 days			31 Mar 14
Customer Service Overall satisfaction score for members to be 80%	80%	92%	12 months to 31 Mar 14
Investment Performance Investment returns to match or surpass the benchmark	Benchmark	Benchmark 7.1% Actual 8.5%	12 months to 31 Mar 14
Data Quality Data quality within the Fund should be at least 90% accurate.	90%	99.0%	12 months to 31 Mar 14
Cost Administration cost per member to remain in lowest CIPFA benchmarking quartile	within lowest quartile	Achieved £22.7 per member	12 months to 31 Mar 14
Timeliness of Contributions 98% of total value to be received by 21st day of the ensuing period	98%	98%	12 months to 31 Mar 14

Market Commentary 2013/14

Economic background

The recovery in developed market economies that financial markets had been anticipating for some while finally started to take root in the financial year 2013/14.

In the UK the cumulative impact of several years of low interest rates, expansionary monetary policy (Quantitative Easing, or QE) and government measures targeted at stimulating the housing market have underpinned an initially patchy and then more broadly based economic recovery. Unemployment is falling towards 7%, consumer confidence improving and house prices rising strongly, at least in the South East. The Bank of England now expects the economy to grow by more than 3% in 2014. There has been sufficient progress that investor focus is now on when rather than whether base rates will be increased.

In the US growth also appeared to be on a steady recovery path, although extreme weather in January and February 2014 caused a temporary stumble in the improving economic picture. As with the UK the exceptionally low interest rates required during the emergency of the financial crisis no longer appear appropriate. As economic activity returns to a more normal level, monetary policy should also become more normal, which implies setting base rates a little higher than inflation. The pace of interest rate rises is likely to be slow, but the trend over the coming years is now clearly upwards.

Elsewhere improvements in economic growth are less clear-cut. Whereas in the UK and US the central banks are indicating to markets that they will soon begin unwinding QE, central banks in Europe and Japan are considering expanding their programmes in the response to disappointing growth.

In Europe growth remains sluggish with inflation worryingly close to zero and unemployment stubbornly high at close to 12%. This is uncomfortable territory for policymakers. If an economic shock, such as an escalation of the conflict in the Ukraine, disruption to oil production in the Middle East or a financial crisis in China, were to tilt economies into deflation, it would be very difficult to reverse and might prompt renewed concern about the sustainability of the euro. For the time being, however, investors have taken comfort from the European Central Bank stated commitment to doing “whatever it takes” to stimulate growth through interest rates at or below zero and aggressive QE programmes.

In Japan the optimism prompted last year by the election of a new government with an expansionary policy agenda has waned a little. The Yen has fallen significantly relative to other major currencies and the resultant improvement in competitiveness has improved industrial activity and enabled unemployment to fall. However, the need to raise consumption taxes to address a growing debt mountain may choke off the recovery too soon.

In emerging markets the picture is also less buoyant. The prospect of the US reining back its QE programme caused a withdrawal of capital that exposed imbalances in economies with high budget deficits and high levels of debt. Social unrest in Turkey and political tension in Russia also undermined confidence. The economies that had been powerhouses of global growth in previous years, such as China, India and Brazil, all experienced a slowdown albeit to levels that developed economies would still envy. The outlook for China is perhaps the most important and least predictable. There is concern that the financial system within China may be vulnerable following excessive credit expansion since 2008, as evidenced by the first significant corporate bond default. However, the Chinese economy is more heavily controlled than most and it is possible that the central authorities will be able to engineer a managed economic slowdown while avoiding a serious financial crisis.

Market returns

Financial market returns were more modest and more mixed than in the previous year. Once again developed markets provided better returns than emerging markets, although for sterling investors some of the gains were eroded by the strength of sterling as investors anticipated the UK leading the economic recovery.

UK equities provided a return of 9% and overseas equities 7%. In local currency terms US equities returned 22%, with Europe and Japan just behind on about 18% each. However, after adjusting for the fall in the US dollar by 10%, the euro by 2% and the Yen by 20% the sterling returns were 11% for the US, 16% for Europe and -2% for Japan. Emerging markets, by contrast, fell with returns for sterling investors of -11%.

Bond market returns were much less healthy than equities. Long dated gilts returned -3% and long index linked gilts -4%. Only corporate bonds were able to provide positive returns as credit spreads continued to narrow reflecting greater investor optimism. Long dated corporate bonds returned +2%.

The improving economic picture was helpful for commercial property, with a return of 13%. Hedge funds also benefited averaging a return of 9%. By contrast commodities suffered from lower growth in emerging markets and returned -8%.

Fund performance

The Surrey County Council Pension Fund performed well in 2013/14 achieving a return of 8.6%.

In absolute terms the return achieved was comfortably ahead of the long-term annual return assumed by the actuary in the most recent triennial valuation. It was also significantly better than the change in the value attributed to the liabilities, which is mostly driven by bond returns. The end result is that the pension fund experienced a sizable improvement in its funding level.

In relative terms the return achieved also compares well to both the fund's bespoke benchmark (7.1%) and the average local authority pension fund as measured by WM (6.4%). The main reason for the better relative return was the strong performance of fund's active managers, particularly in UK equities and in bonds.

Economic and market outlook

The period since the financial crisis in 2008/09 has been quite exceptional for financial markets. The collapse of the banking system globally led the world economy to the brink of an abyss and necessitated exceptional measures by policymakers. These measures succeeded in averting what might otherwise have been a depression similar to or perhaps even worse than the 1930s. While the policy steps taken proved successful, we are still working through the aftermath of the crisis.

Perhaps the biggest influence on markets during this period was the adoption of extremely lax monetary policy. We still see this policy in action in interest rates in most developed markets at close to zero and in massive QE programmes. The combination of high levels of liquidity and low returns on safe assets is a cocktail specifically intended to encourage buying of riskier assets to stimulate growth. This has resulted in the prices of most financial assets rising more rapidly than would have been justified purely on underlying fundamentals, such as profits or dividends.

The problem for investors as always is trying to work out what happens next. The next few years should see a gradual return to normality, with QE programmes at first scaled back and eventually unwound and interest rates slowly increased to a sustainable long-term level slightly above inflation. However, this process is unlikely to be smooth and policymakers will face challenges along the way.

In the meantime, many assets now appear quite highly rated. Developed market equities are more highly rated than average at a time when profits are also quite high relative to the size of the economy, especially in the US. Steady economic recovery will be required to justify such ratings. The rating of emerging market equities is not as high and expectations are less demanding, but the differentiation between individual markets is becoming more important.

The outlook for bonds is also uncertain. On a pure valuation basis bonds continue to appear unattractive for long-term investors, with long-dated gilts offering a nominal yield of 3.4% pa and long-dated index linked gilts offering a real yield of -0.1% pa. Investors may be willing to accept such low yields when the return on cash is set well below inflation but as monetary policy reverts to normal one would expect investors to demand rather higher returns for investing in long dated assets. This would imply bonds had further to fall.

However, QE is not the only distortion faced by bond markets. In index linked markets is particular a continuing mismatch between high demand from pension funds, insurance companies and other liability constrained investors and low issuance of new index linked securities by the government may mean index linked yields remain low for many years to come. The likely outcome is that bonds will produce a disappointingly low long-term trend return but with rather more volatility than in recent years.

In an environment where investors are faced with significant economic uncertainty and few assets are cheap, there is likely to be continued interest both in diversification to smooth returns and in income generation to make returns more predictable. Property has benefited from this trend this year but still offers high yields relative to other asset types and some protection against long-term inflation.

Strategic asset allocation

The pension fund has a long-term investment horizon. Following the triennial actuarial review in March 2013 the Fund is expected to have positive cash flow for many years to come. The investment priority therefore remains long-term return generation rather than short-term risk mitigation.

The current investment strategy seeks to achieve this by having a core allocation to equities within a strategically diversified overall portfolio. The target allocation to equities (both quoted and private) at 65% is broadly similar to the average Local Authority pension fund. A further 16% is invested in growth assets offering strategic diversification, with 6.5% in property and 9.5% in a Diversified Growth Fund. This leaves 19% invested in bonds. During the year there were no material changes in the asset allocation strategy or in any of the mandates.

John Harrison

15th August 2014

Information contained in this report is provided for information purposes only. Nothing contained herein should be construed as a recommendation or solicitation to buy or sell any security.

Please remember past performance is not necessarily a guide to future returns.

Investment Arrangements

At Surrey the overall direction of the Fund’s investment is the responsibility of the Pension Fund Board. The Board 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, ISIS Equity Partners, Capital Dynamics and Standard Life Capital Partners.

At 31 March 2014the market value of assets under management was £2,653.0m, 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.

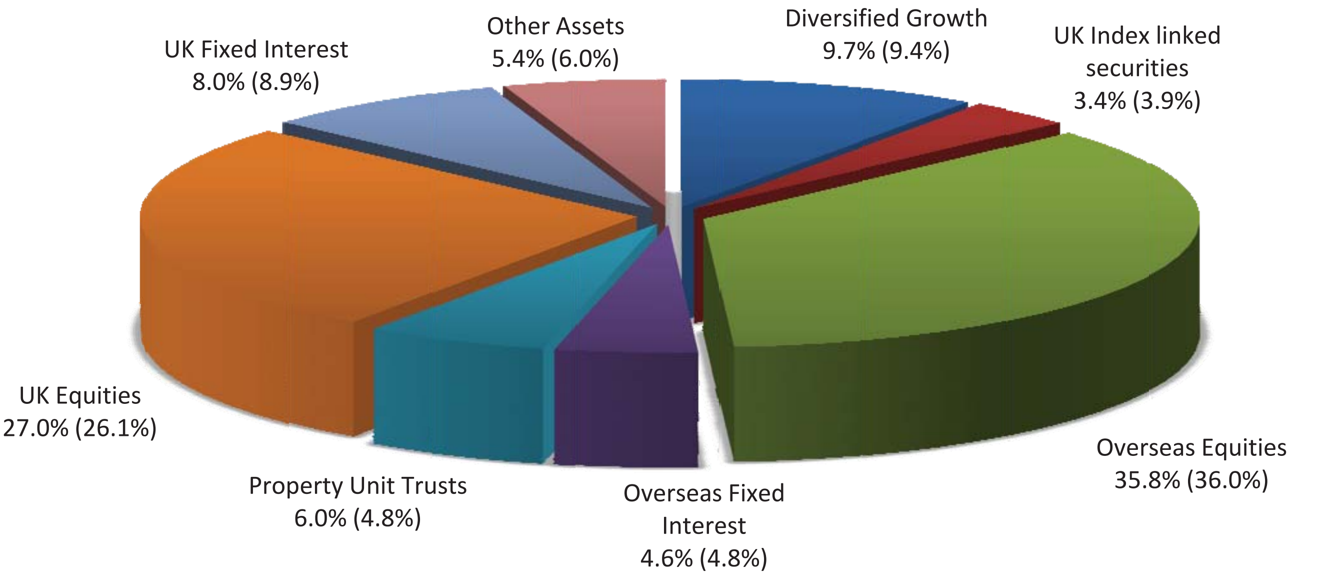
Investment Manager	Mandate	Funds Under Management	Percentage of Funds Under Management
		£m	
Passive			
Legal & General Investment Managers	Multi Asset	865.1	32.6%
Active			
Majedie Asset Management	UK Equities	190.1	32.6%
Mirabaud Asset Management	UK Equities	106.8	7.2%
UBS Asset Management	UK Equities	236.6	4.0%
Marathon Asset Management	Global Equities	365.0	8.9%
Newton Investment Management	Global Equities	200.9	13.8%
Western Asset Management	Fixed Income	205.7	7.6%
Franklin Templeton Investments	Unconstrained Fixed Income	68.8	7.8%
Standard Life Investments	Diversified Growth	148.4	2.6%
Baillie Gifford Life Limited	Diversified Growth	122.5	5.6%
CBRE Global Multi Manager	Property	143.1	4.6%
Total		**2,653.0**	

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

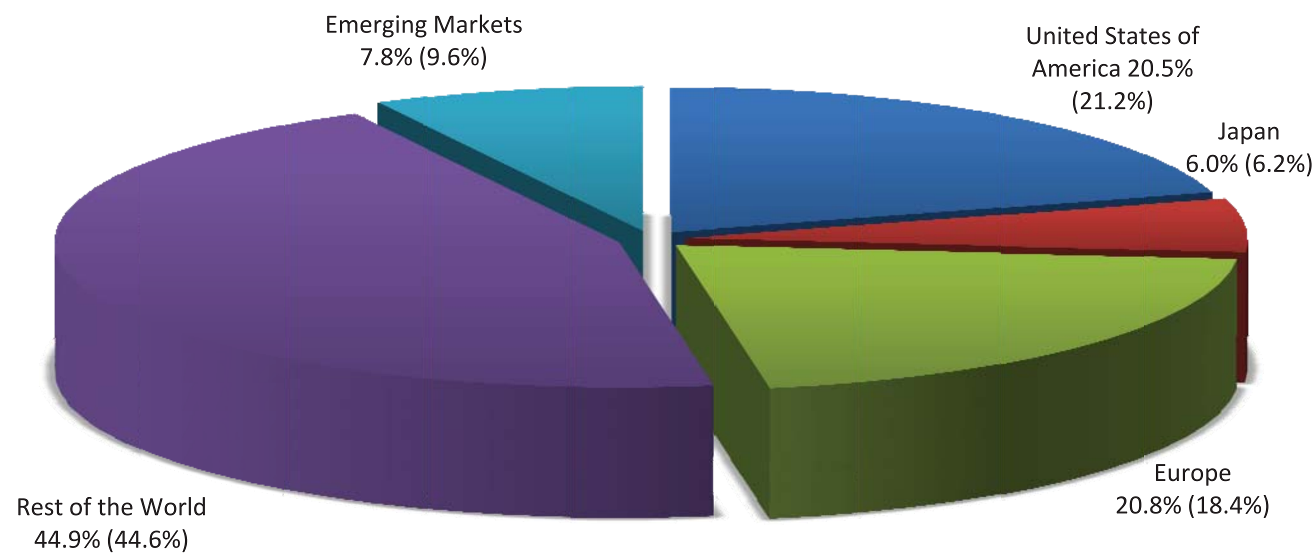
Portfolio Distribution

The distribution of the portfolio at 31 March 2014 is shown below. The first chart shows distribution over the entire structure of the portfolio, whereas the second chart provides more detailed analysis of the overseas equity sectors. The portfolio distribution as at 31 March 2013 is shown in brackets in each respective chart.

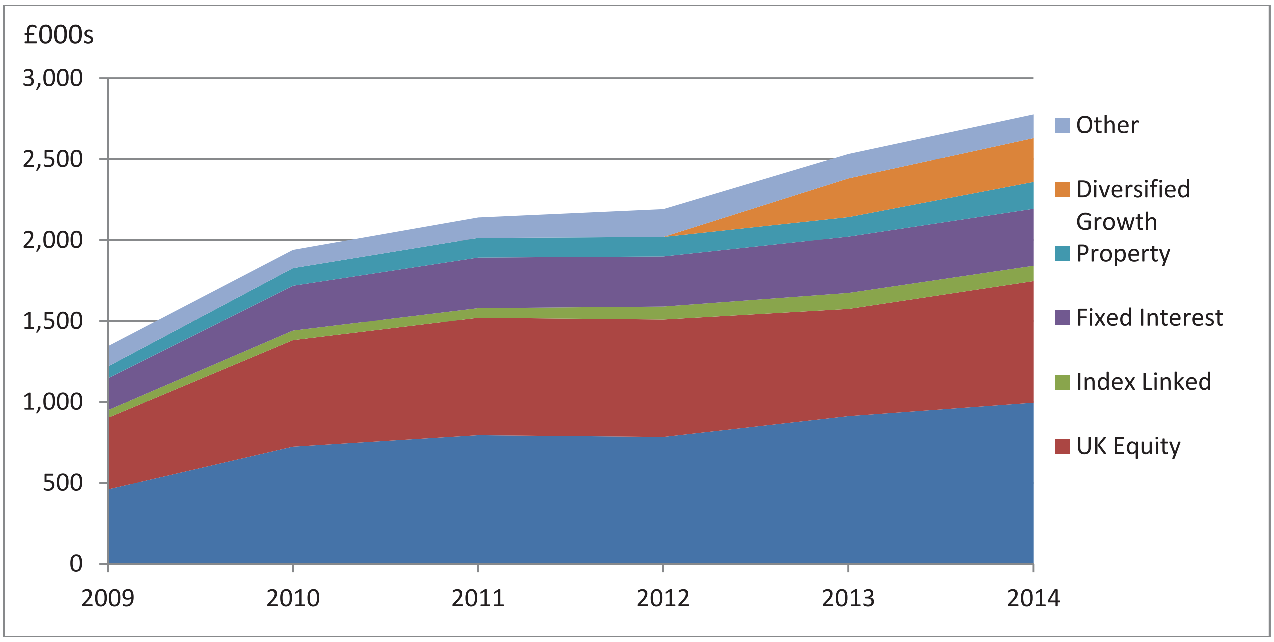
Portfolio distribution at 31 March 2014



Overseas equities distribution at 31 March 2014



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 2013	Actual Allocation 31 March 2014	Movement in Year
Fixed interest securities	15.2%	13.7%	12.7%	-1.0%
Index linked securities	3.8%	3.9%	3.4%	-0.5%
Equities	59.8%	62.2%	62.9%	0.7%
Property unit trusts	6.7%	4.8%	6.0%	1.2%
Diversified growth	9.5%	9.4%	9.8%	0.4%
Private equity	5.0%	3.6%	3.7%	0.1%
Cash and other	0.0%	2.4%	1.5%	-0.9%
Total	**100.0%**	**100.0%**	**100.0%**	

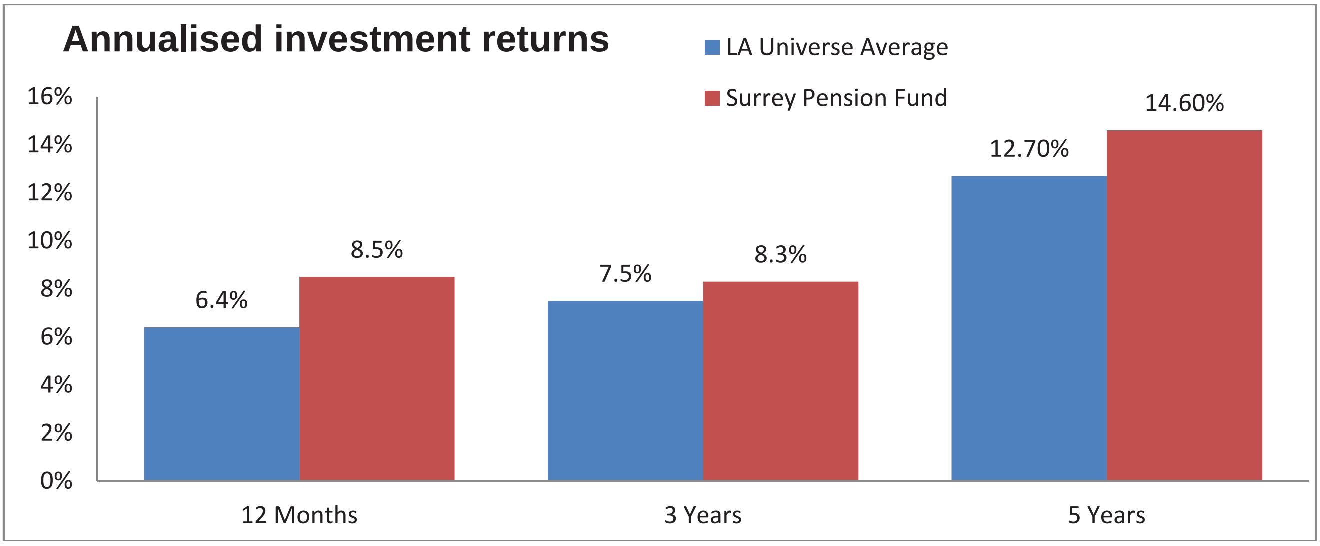
Investment Activity

Eleven fund managers undertook the management of investments during 2013/2014 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 22.

The Fund participates in two investment performance measurement services that assess the rate of return achieved by the Fund and provide comparisons with the performance achieved by other pension funds. The Society of County Treasurers and the Chartered Institute of Public Finance and Accountancy, through the WM Company, provide one of these services, covering local authority pension funds. Surrey's global custodian Northern Trust provides the other service, measuring the Fund's performance against the customised benchmark performance.

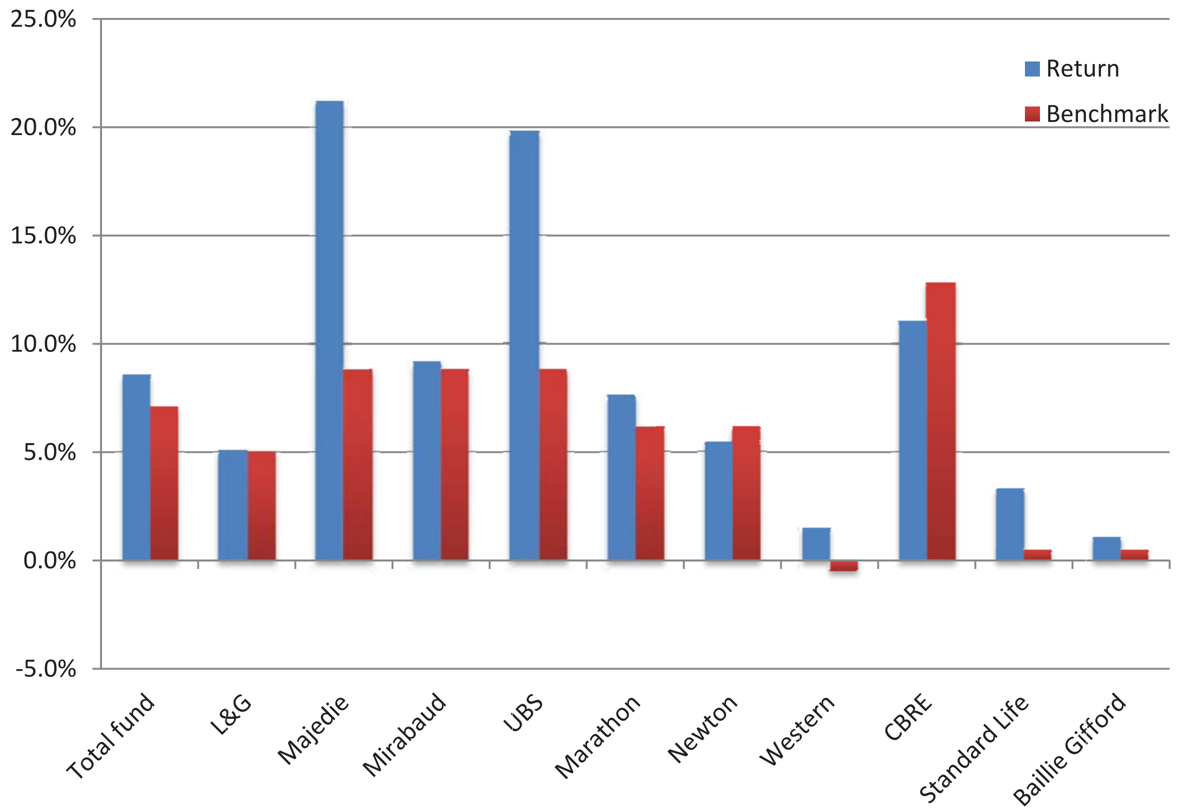
Performance against target and benchmark is continually reviewed at regular intervals, as stated in the Fund's Statement of Investment Principles.

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

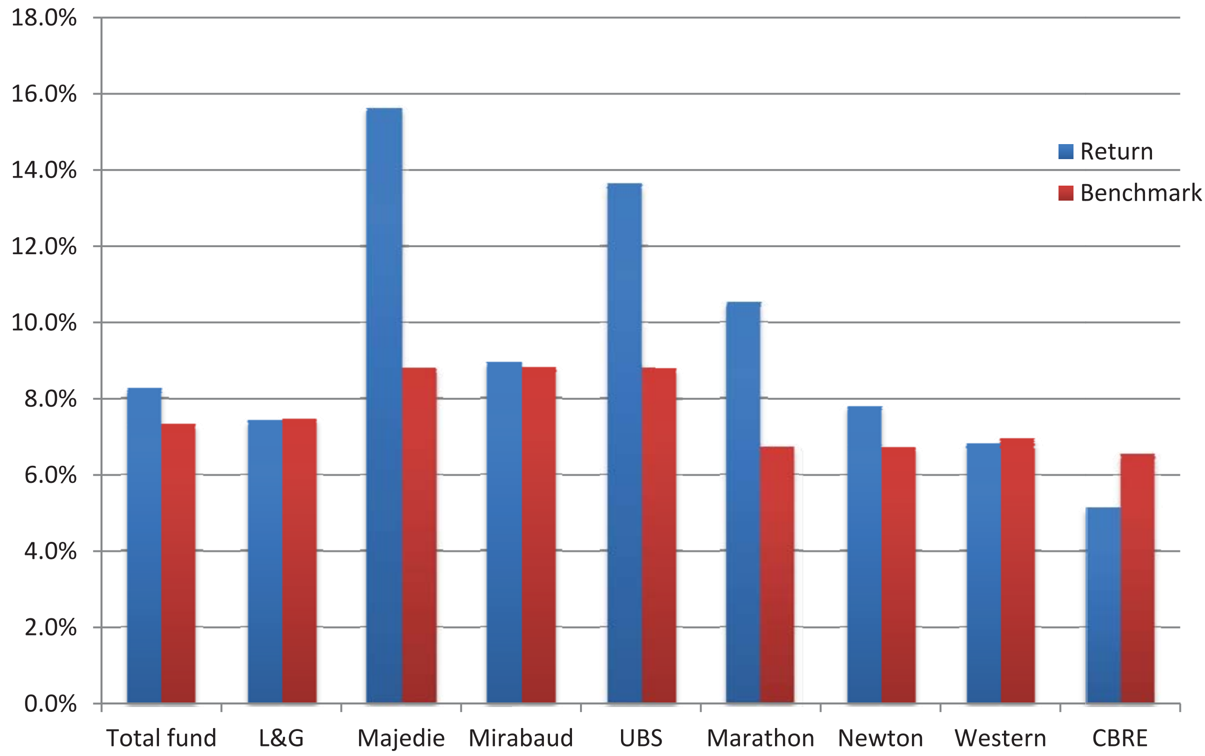


The fund has recorded consistent above benchmark performance for the periods shown in the above table. The outperformance above the benchmark is partly a result of particular asset allocation but the fund has benefited from strong investment returns generated actively managed portfolios. The annual and three year investment returns as at 31 March 2014 for each fund manager are shown in the below table.

Manager performance versus investment benchmark - 1 Year



Manager performance versus investment benchmark - 3 Year



The mandates with Standard Life, Baillie Gifford and Franklin Templeton are less than three years.

The below table shows the investment return for each asset class for the twelve months to 31 March 2014. The table does not include the impact of the Fund's currency hedge.

	Annual Investment Return 12 months to 31 March 2014
Fixed interest securities	1.5%
Index linked securities	-3.52%
Equities	10.39%
Property unit trusts	11.1%
Diversified growth	2.2%
Private equity	1.91%
Cash and other assets	-1.2%

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 page 43.

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**

Investment policy and associated monitoring and review are delegated to the Surrey Pension Fund Board, 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 Board is advised by a representative of the Fund's professional investment advisor, an independent advisor, the Chief Finance Officer and the Strategic Finance Manager (Pension Fund and Treasury).

The Pension Fund Board meets on a quarterly basis.

2. Investment Objectives

The Pension Fund Board 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 Board 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 Board 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 Board 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 Board 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 Board 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 Board 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 Board 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 %	Control Range% +/-
Equities			**63.0**	**+/-3.0**
UK			29.0	
Legal and General	*Passive*	*10.0*		
Majedie	*Concentrated Active*	*7.0*		
Mirabaud	*Concentrated Active*	*4.0*		
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			**7.0**	**+/-3.0**
CBRE	*Core Active*	7.0		
Alternatives			***10.0***	**+/-3.0**
Standard Life	*Diversified growth*	*6.0*		
Baillie Gifford	*Diversified growth*	*4.0*		
Bonds			**20.0**	**+/-3.0**
Fixed interest gilts			5.25	
Legal and General	*Passive*	*2.5*		
Western	*Core Active*	*2.75*		
Index linked gilts			4.0	
Legal and General	*Passive*	*4.0*		
Corporate bonds			8.0	
Legal and General	*Passive*	*2.5*		
Western	*Core Active*	*5.5*		
Total Return			*2.75*	
Franklin Templeton	*Unconstrained*	*2.75*		
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 Board 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. The following table shows the Fund's private equity investments as at 31 March 2014.

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
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	$	2013	20.0
US Fund of Funds			
Blackrock Div PEP I	$	2001	5.0
Blackrock Div PEP II	$	2003	5.0
Blackrock Div EP 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 Board, 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	%	
Gilts	5.25	5.0
Corporate Bonds	8.0	7.6
Index-Linked gilts	4.0	3.8
Unconstrained	2.75	2.6
Property	7.0	6.7
Total Bonds/Property	27.0	25.7
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	10.0	9.5
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 only permitted subject to specific approval.

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
Mirabaud	UK Equities	FTSE All Share	+2.5% p.a. (gross of fees) over rolling 3-year periods
Marathon	Global Equities	MSCI AC World	+2.0% p.a. (gross of fees) over rolling 3-year periods
Majedie	UK Equities – Long Only UK Equities – Directional Long/Short	FTSE All Share FTSE All Share	+2.5% p.a. (gross of fees) over rolling 3-year periods Absolute return focused, but aims to out-perform the FTSE All Share Index by an unspecified amount over the long term
Newton	Global Equities	MSCI AC World	+2.0% p.a. (gross of fees) over rolling 3-year periods
Western	Fixed Income	70.0%: Markit i Boxx £ Non-Gilts ex-BBB All Stocks 30.0%: FTSE A UK Gilts – All Stocks	+0.75% p.a. (gross of fees) over rolling 3-year periods
Franklin Templeto	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 AA - All Stocks Gilts Index CN - AAA-AA-A Bonds - All Stocks Index Y - All Stocks Index-Linked Gilts	 FTSE All Share FTSE AW – Dev'd World (ex UK) FTSW AW – All Emerging FTSE A UK Gilts All Stocks Markit iBoxx GBP Non Gilts ex BBB All stock FTSE A Index-Linked All Stocks	To track the performance of the respective indices within a lower level of tracking deviation (gross of fees) over rolling 3-year periods
CBRE	Property	IPD UK All Balanced Funds	+0.5% p.a. (gross of fees) over rolling 3-year periods
Baillie Gifford	Diversified Growth	UK Base Rate	+3.5% p.a. (net of fees) over rolling 5-year periods
Standard Life	Diversified Growth	6 month LIBOR	+5.0% p.a. (gross of fees) over rolling 5-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 Board 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 Board seeks to spread risks across a range of different sources, believing that diversification limits the impact of any single risk. The Pension Fund Board 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 Board:

Mismatch risk: the primary risk upon which the Pension Fund Board 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 Board and is reviewed on a regular basis.

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

Concentration risk: the Pension Fund Board 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 Board 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 Board 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 Board 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 Board's prior consent.

Arrangements are in place to monitor the Fund's investments to help the Pension Fund Board check that nothing has occurred that would bring into question the continuing suitability of the current investments. To facilitate this, the Pension Fund Board 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 Board 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 Board.

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 Board 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 Board, 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 Board is supported in its decision making role by the Chief Finance Officer and the Pension Fund and Treasury Manager.

Members of the Pension Fund 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 Board on a quarterly basis. Fund managers present to the officers or the Pension Fund Board 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 Board, although options other than measuring meeting attendance and the success of the Board'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 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 <u>Appendix E</u>.

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 Board meetings.

Appendix A: Regulatory framework

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 Board 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 Board 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 Board 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 Board 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.
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	The Administering Authority believes that it would

Risk	Summary of Control Mechanisms
insufficient funding or adequacy of a bond.	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).
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.

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 Agreements and employment contracts.

1 See LGPS (Administration) Regulations 36(5).
2 See LGPS (Administration) Regulations 36(7).

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 Board. The Board 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 Board. The Board comprises county councillors, borough/district councillors, an external employer representative and a union representative to represent employees and pensioners. All Board 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 Board.	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 100 employer bodies, not all stakeholders are directly represented on the Pension Fund Board. All stakeholders are free to make representations in writing to the Board. The County Council, the eleven districts and boroughs, Office of the Police and Crime Commissioner and employees are directly represented on the Pension Fund Board.	Explain
• scheme members (including deferred and pensioner scheme members);	The Pension Fund Board membership includes a trades union representative.	Comply
• independent professional observers; and	The Board employs an independent consultant who is an experienced ex Chief Investment Officer of an investment house. The consultant is present at all Board meetings.	Comply
• expert advisors (on an ad hoc basis).	Expert advisors attend the Board 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 are given full opportunity to contribute to the decision making process, with or without voting rights.	All members are treated equally in terms of access to papers and to training that is given as part of the Board processes.	Comply

Principle	Surrey's Approach	Compliance
SELECTION AND ROLE OF LAY MEMBERS		
That Board 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.	Board 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 Board 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 Board 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 Board. 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 Board 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 Board 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 Board. 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

Actuarial statement for 2013/14 - funding arrangements

This statement has been prepared in accordance with Regulation 34(1)(d) of the Local Government Pension Scheme (Administration) Regulations 2008, and Chapter 6 of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the UK 2013/14.

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 my 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 slightly better than expected since the last valuation (excluding the effect of any membership movements). Real bond yields have risen and asset returns have been broadly in line with that expected meaning that funding levels are likely to have improved since the 2013 valuation.

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

Barry McKay
Fellow of the Institute and Faculty of Actuaries
For and on behalf of Hymans Robertson LLP
3 June 2014

Actuarial statement on present value of future retirement benefits

CIPFA's Code of Practice on Local Authority Accounting 2013/14 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 2014 £m	31 March 2013 £m
Present value of promised retirement benefits	4,151	3,982

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 2013 comprises £1,768m in respect of employee members, £818m in respect of deferred pensioners and £1,565m in respect of pensioners. The approximation involved in the roll forward model means that the split of scheme liabilities between the three classes of members 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 2014 is to increase the actuarial present value by £68m.

Financial assumptions

My recommended financial assumptions are summarised below:

Year ended	31 March 2014	31 March 2013
Inflation/pension increase rate	2.8%	2.8%
Salary increase rate	4.1%	5.1%*
Discount rate	4.3%	4.5%

*Salary increases are 1% p.a. nominal until 31 March 2015 reverting to long term rate thereafter

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.
Please note that the assumptions have changed since the previous IAS26 disclosure for the Fund.

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 2014 for IAS19 purposes’ dated 14 April 2014. 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
3 June 2014
For and on behalf of Hymans Robertson LLP

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 XX-XX present a true and fair view of the Surrey County Council Pension Fund at 31 March 2014 and its income and expenditure for the year then ended.

Sheila Little BA CPFA

Director of Finance and Chief Finance Officer

INDEPENDENT AUDITOR'S STATEMENT TO THE MEMBERS OF SURREY COUNTY COUNCIL ON THE PENSION FUND FINANCIAL STATEMENTS

We have examined the pension fund financial statements for the year ended 31 March 2014, which comprise the Fund Account, the Net Assets Statement and the related notes.

This report is made solely to the members of Surrey County Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. 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 the auditor

As explained more fully in the Statement of the Director of Finance's Responsibilities, the Director of Finance is responsible for the preparation of the pension fund's financial statements in accordance with applicable United Kingdom law.

Our responsibility is to report to you our opinion on the consistency of the pension fund financial statements within the pension fund annual report with the pension fund financial statements in the statement of accounts of Surrey County Council, and its compliance with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

We also 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.

We conducted our work in accordance with guidance issued by the Audit Commission. Our report on the administering authority's full annual statement of accounts describes the basis of our opinion on those financial statements.

Opinion

In our opinion, the pension fund financial statements are consistent with the full annual statement of accounts of Surrey County Council for the year ended 31 March 2014 and comply with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

We have not considered the effects of any events between the date we signed our report on the full annual statement of accounts (4 August 2014) and the date of this statement.

Grant Thornton UK LLP

Explorer Building
Fleming Way
Manor Royal
RH10 9GT

27 November 2014

Statement of Accounts 2013/14

The accounts on the following pages give a stewardship report on the financial transactions of the Surrey Pension Fund during 2013/2014 and of the disposition of its assets at 31 March 2014.

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 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 2013 and 31 March 2014 are:

31 Mar 2013		**31 Mar 2014**
30,608	Employees in the fund	32,530
20,553	Pensioners	21,598
27,648	Deferred pensioners	30,639
78,809	**Total**	**84,767**

Surrey pension fund account

2012/2013 £000		Note	2013/2014 £000
	Contributions and benefits		
159,544	Contributions receivable	7	**149,615**
13,833	Transfers in	8	**14,751**
173,377			**164,366**
-113,893	Benefits payable	9	**-119,223**
-7,945	Payments to and on account of leavers	10	**-6,255**
-1,867	Administrative expenses	14	**-1,928**
-123,705			**-127,406**
49,672	**Net additions from dealings with members**		**36,960**
	Return on investments		
41,687	Investment income	17	**47,758**
-1,042	Taxes on income	16	**-1,081**
278,985	Change in market value of investments	18	**175,422**
-6,856	Investment management expenses	15	**-10,275**
312,774	**Net return on investments**		**211,824**
362,446	**Net increase in the fund during the year**		**248,784**
	Net assets of the fund		
2,196,270	**At 1 April**		**2,558,716**
2,558,716	**At 31 March**		**2,807,500**

Net asset statement

31 Mar 2013 £000		Note	31 Mar 2014 £000
	Investment assets	18	
347,863	Fixed interest securities		**352,134**
99,100	Index linked securities		**94,675**
1,574,687	Equities		**1,747,131**
120,748	Property unit trusts		**165,824**
238,986	Diversified growth		**270,937**
90,336	Private equity		**101,814**
	Derivatives	18c	
-	- Futures		**31**
2,153	- Foreign exchange contracts		**7,865**
59,723	Cash		**39,212**
11,128	Other investment balances	18b	**9,676**
	Investment liabilities		
	Derivatives	18c	
-310	- Futures		**-66**
-7,500	- Foreign exchange contracts		**-3**
-3,810	Other investment balances	18b	**-7,718**
-	Borrowings		**-4,500**
2,533,104	**Net investment assets**		**2,777,012**
16,335	**Long-term debtors**	12	**14,520**
13,582	**Current assets**	11	**20,761**
-4,305	**Current liabilities**	13	**-4,793**
2,558,716	**Net assets of the fund at 31 March**		**2,807,500**

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 page 81 of this report

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 county council is the reporting entity for this pension fund.

The following description of the fund is a summary only. For more detail, reference should be made to the Surrey Pension Fund Annual Report 2013/14 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 Superannuation Act 1972. The fund is administered in accordance with the following secondary legislation:

- The LGPS (Benefits, Membership & Contributions) Regulations 2007 (as amended)
- The LGPS (Administration) Regulations 2008 (as amended)
- The LGPS (Management & Investment of Funds) Regulations 2009

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 2013/14 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 7.5% of pensionable pay for the financial year ending 31 March 2014. 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 will apply from April 2014 onwards. Currently employer contribution rates range from 12.0% to 30.0% of pensionable pay.

d) Benefits
Pension benefits accrued under the LGPS to 31 March 2014 are based on final pensionable pay and length of pensionable service.

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). The LGPS was changed on the 1st April 2008 adjusting the method by which entitlements are accrued. Benefits earned prior to the change are unaffected.

	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

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	
Pensionable payroll banding	Contribution rate
Up to £13,500	5.5%
£13,501 to £21,000	5.8%
£21,001 to £34,000	6.5%
£34,001 to £43,000	6.8%
£43,001 to £60,000	8.5%
£60,001 to £85,000	9.9%
£85,001 to £100,000	10.5%
£100,001 to £150,000	11.4%
More than £150,000	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 2013/14 financial year and its position at the year end at 31 March 2014. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 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 page 81 of this report

These accounts have been prepared on a going concern basis.

Note 3: Summary of significant accounting policies

Fund account – revenue recognition

a) Contribution income
   Normal contributions, both from the members and from the employer, are accounted for on an accruals basis at the percentage rate recommended by the fund actuary 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/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 in 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.

Fund account – expense items

d) 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.

e) 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 2014 is reported as a current liability.

f) Administration expenses
Pensions administrative expenses reflect the costs incurred in the payment of pensions and other benefits, actuarial advice, dealing with transfer values and the maintenance of member records. 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 pensions administration team are recharged to the fund. Management, accommodation and other overheads are apportioned to the fund in accordance with council policy.

g) Investment management expenses
All investment management expenses are accounted for on an accruals basis. Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under management and therefore increase or reduce as the value of these investments change.
Investment management expenses also include fees for investment advice and performance measurement services together with the county council costs incurred on administration and monitoring of investment related issues.

Net assets statement

h) 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, and financial liabilities 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 in 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.

i) 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.

j) 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.

k) 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.

l) 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.

m) 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.

n) 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 2014 was £102 million (£90 million at 31 March 2013).

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 summarized on page 81 of this report. 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 as at 31 March 2014 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 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 £102 million. There is a risk that this investment may be over or under stated in the accounts.

Note 6: Events after the balance sheet date

The Statement of Accounts will be authorised for issue by the Chief Financial Officer in July 2014. 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

2012/2013 £000		2013/2014 £000
109,514	Employers	115,441
31,880	Members	34,174
18,150	Magistrates Court Services deficit funding	-
159,544		**149,615**

2012/2013 £000		2013/2014 £000
78,045	Administering authority	77,812
50,889	Scheduled bodies	59,663
12,460	Admitted bodies	12,140
18,150	Magistrates Court Services deficit funding	-
159,544		**149,615**

Magistrates Court Services deficit funding for 2012/13 reflects the merger of the Magistrates Court Services. A detailed explanation is shown in note 12 long term debtors.

Note 8: Transfers in from other pension funds

2012/2013 £000		2013/2014 £000
-	Group transfers from other schemes	-
13,833	Individual transfers in from other schemes	14,751
13,833		**14,751**

Note 9: Benefits payable

By category

2012/13 £000		2013/14 £000
94,191	Pensions	99,529
16,818	Commutation and lump sum retirement benefits	17,092
2,840	Lump sum death benefits	2,519
44	Interest on late payment of benefits	83
113,893		**119,223**

By employer

2012/2013 £000		2013/2014 £000
54,388	Administering Authority	55,943
50,875	Scheduled Bodies	53,503
8,586	Admitted Bodies	9,694
113,849		**119,140**

The total does not include interest on late payment of benefits £83,427 (£43,874 2012/13)

Note 10: Payments to and on account of leavers

2012/2013 £000		2013/2014 £000
96	Group transfers to other schemes	0
7,814	Individual transfers to other schemes	6,222
30	Refunds of contributions	31
5	Payments for members joining state schemes	2
7,945		**6,255**

Note 11: Current assets

2012/2013 £000		2013/2014 £000
2,445	Contributions - employees	3,364
9,239	Contributions - employer	13,314
1,898	Sundry debtors	4,083
13,582		**20,761**

Analysis of current assets

2012/2013 £000		2013/2014 £000
713	Central government bodies	1,984
10,907	Other local authorities	16,980
1,962	Other entities and individuals	1,797
13,582		**20,761**

Note 12: Long term debtors

2012/2013 £000		2013/2014 £000
16,335	Central government bodies	14,520
16,335		**14,520**

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 a that 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 2014 remains £16.335m but £1.815m is due in 2014/15, leaving a long term debtor of £14.520m.

Note 13: Current liabilities

2012/2013 £000		2013/2014 £000
4,257	Sundry creditors	4,731
48	Benefits payable	62
4,305		**4,793**

Analysis of current liabilities

2012/2013 £000		2013/2014 £000
1,157	Central government bodies	1,225
1,592	Other local authorities	1,550
1,556	Other entities and individuals	2,018
4,305		**4,793**

Note 14: Administrative expenses

2012/2013 £000		2013/2014 £000
901	Employee related	941
826	Support services	626
20	External audit fee	27
6	Legal and other professional fees	1
114	Actuarial fees	333
1,867		**1,928**

Note 15: Investment expenses

2012/2013 £000		2013/2014 £000
6,446	Management fees	9,929
252	Custody fees	218
7	Performance measurement services	7
151	Investment consultancy fees	87
-	Interest paid	34
6,856		**10,275**

Note 16: Taxes on Income

2012/2013		2013/2014
£000		**£000**
697	Withholding tax - equities	790
345	Withholding tax - property	291
1,042		**1,081**

Note 17: Investment income

2012/2013		2013/2014
£000		**£000**
	Fixed interest	
8,143	UK	5,859
3,051	Overseas	5,554
	Index linked	
55	UK	2
	Equities	
15,648	UK	18,017
8,317	Overseas	10,244
5,116	**Property unit trusts**	6,069
1,118	**Diversified growth**	1,788
239	**Cash**	152
-	**Other**	73
41,687		**47,758**

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 18a: Reconciliation of movements in investments and derivatives

	Market value at 31 Mar 2013 £000	Purchases during the year and derivate payments £000	Sales during the year and derivative payments £000	Market movements £000	Market value at 31 Mar 2014 £000
Fixed interest securities	**347,863**	65,341	-52,108	-8,962	**352,134**
Index linked securities	**99,100**	3,190	-4,096	-3,519	**94,675**
Equities	**1,574,687**	397,612	-362,932	137,764	**1,747,131**
Property unit trusts	**120,748**	49,281	-13,330	9,125	**165,824**
Diversified growth	**238,986**	25,135	0	6,816	**270,937**
Private equity	**90,336**	48,404	-37,804	878	**101,814**
Derivatives					
- Futures	**-310**	347	-345	273	**-35**
- Forex contracts	**-5,347**	5,727	-25,720	33,202	**7,862**
	2,466,063	**595,037**	**-496,335**	**175,577**	**2,740,342**
Cash	**59,723**			-155	**39,212**
Other investment balances	**7,318**				**1,958**
Borrowing	**-**				**-4,500**
	2,533,104			**175,422**	**2,777,012**

	Market value at 1 April 2012	Purchases during the year and derivate payments	Sales during the year and derivative payments	Market movements	Market value at 31 Mar 2013
	£000	**£000**	**£000**	**£000**	**£000**
Fixed interest securities	**309,600**	209,052	-190,222	19,433	**347,863**
Index linked securities	**79,752**	74,945	-64,442	8,845	**99,100**
Equities	**1,510,160**	878,231	-1,051,499	237,795	**1,574,687**
Property unit trusts	**120,306**	12,745	-8,685	-3,618	**120,748**
Diversified growth	**-**	224,025		14,961	**238,986**
Private equity	**84,776**	13,283	-17,890	10,167	**90,336**
Derivatives					
- Futures	**126**	192	-763	135	**-310**
- Forex conts	**6,525**	13,027	-16,271	-8,628	**-5,347**
	2,111,245	**1,425,500**	**-1,349,772**	279,090	**2,466,063**
Cash	**70,564**			-105	**59,723**
Other investment balances	**9,984**				**7,318**
Borrowing					
	2,191,793			**278,985**	**2,533,104**

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.

Transaction costs are included in the cost of purchases and sale proceeds. Transaction costs include costs charged directly to the scheme such as commissions, stamp duty and other fees.

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 18b: Analysis of investments

	31 Mar 2013	31 Mar 2014
Fixed interest securities	**£000s**	**£000s**
UK public sector & quoted	137,890	136,448
UK pooled funds	87,769	86,739
Overseas public sector & quoted	52,316	60,175
Overseas pooled fund	69,888	68,772
	347,863	**352,134**
Index linked securities		
UK public sector & quoted	2,945	2,199
UK pooled funds	96,155	92,476
	99,100	**94,675**
Equities		
UK quoted	452,587	513,497
UK pooled funds	209,571	237,645
Overseas quoted	423,779	460,880
Overseas pooled funds	488,750	535,109
	1,574,687	**1,747,131**
Property unit trusts	**120,748**	**165,824**
Diversified growth	**238,986**	**270,937**
Private equity		
Limited partnerships	38,683	49,201
Fund of funds	51,653	52,613
	90,336	**101,814**
Derivatives		
Futures	-310	-35
FX forward contracts	-5,347	7,862
	-5,657	**7,827**
Cash deposits	**59,723**	**39,212**
Borrowings		**-4,500**
Other investment balances		
Outstanding sales	5,008	3,291
Outstanding purchases	-3,810	-7,693
Tax due on accrued income		-25
Accrued income - dividends and interest	6,120	6,385
	7,318	**1,958**
Total investments	**2,533,104**	**2,777,012**

Note 18c: 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 2014 the fund had two futures contracts in place with a net unrealised loss of £35,740 (net unrealised loss of £310,410 at 31 March 2013).

2013/14

Contract	Expiration date	Expiration date within	Type of underlying investment	Economic exposure £'000	Asset £'000	Liability £'000
Futures	20/06/2013	3 Months	UK Equity	3,992	31	
Futures	26/06/2013	3 Months	UK Government Bonds	10,077		-66

2012/13

Contract	Expiration date	Expiration date within	Type of underlying investment	Economic exposure £'000	Asset £'000	Liability £'000
Futures	28/06/2013	3 Months	Exchange traded UK government bonds	16,867	0	-310

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 2014 the Fund had forward currency contracts in place with a net unrealised gain of £7,862,075 (net unrealised loss of £5,346,696 at 31 March 2013).

2013/14

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	8	-56		
1	One month	EUR	DKK	31	-234		
11	One month	EUR	GBP	260	-215		
6	Two months	GBP	EUR	105,885	-127,629	351	
1	One month	GBP	HKD	34	-443		
3	Two months	GBP	JPY	55,062	-9,092,353	2,079	
5	One month	GBP	USD	1,918	-3,191	4	
10	Two months	GBP	USD	242,455	-395,044	5,431	
1	One month	HKD	SGD	495	-80		
3	One month	JPY	GBP	80,204	-470		-3
1	One month	USD	AUD	9	-9		
						7,865	**-3**

2012/13

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
2	One month	CHF	GBP	106	-74		
1	One month	DKK	GBP	545	-62		
1	One month	EUR	GBP	117	-99		
2	One month	GBP	DKK	10	-88		
2	One month	GBP	EUR	11	-12		
6	Two months	GBP	EUR	70,636	-81,796	1,433	
3	One month	GBP	JPY	234	-33,380		
4	Two months	GBP	JPY	33,187	-4,854,833		-834
1	One month	GBP	MYR	125	-588		
1	One month	GBP	SEK	110	1,083		
3	One month	GBP	USD	472	-715		
9	Two months	GBP	USD	210,711	-329,676		-6,558
1	One month	JPY	GBP	500	-4		
1	One month	JPY	USD	329,446	-3,522	26	-38
1	Four months	USD	EUR	3,207	-2,439	118	-70
1	One month	USD	GBP	221	-146		
1	Two months	USD	GBP	2,623	-1,661	67	
1	Four months	USD	GBP	5,963	-3,704	225	
1	One months	USD	JPY	3,936	-329,446	284	
						2,153	**-7,500**

Stock Lending

During the financial year 2013/14 the fund instigate a stock lending programme in partnership with the fund custodian. As at 31 March 14 the value of quoted securities on loan was £83.2m in exchange for collateral held by the fund custodian at fair value of £89.0m

Note 18d: Investments analysed by fund manager

Market value 31 March 2013 £000	%	Manager	Market value 31 March 2014 £000	%
792,326	32.8	Legal & General Investment Management	865,106	32.6
158,471	6.6	Majedie Asset Management	190,067	7.2
98,382	4.1	Mirabaud Asset Management	106,845	4.0
198,809	8.2	UBS Asset Management	236,582	8.9
341,002	14.1	Marathon Asset Management	365,046	13.8
190,680	7.9	Newton Investment Management	200,853	7.6
202,813	8.4	Western Asset Management	205,702	7.8
67,681	2.8	Franklin Templeton Investments	68,772	2.6
143,613	5.9	Standard Life Investments	148,437	5.6
95,372	3.9	Baillie Gifford Life Limited	122,500	4.6
128,307	5.3	CBRE Global Multi-Manager	143,060	5.4
2,417,457			**2,652,970**	

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 2013 £000	% of total fund	Security	Market value 31 March 2014 £000	% of total fund
366,009	14.4	Legal & General World Developed Equity Index	410,273	14.8
197,336	7.8	Legal & General UK Equity Index	221,203	8.0
143,613	5.7	Standard Life Global Absolute Return Strategies	148,437	5.3

Note 19a: 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 2013				As at 31 March 2014		
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			
347,863			Fixed interest securities	352,134		
99,100			Index linked securities	94,675		
1,574,687			Equities	1,747,131		
120,748			Property unit trusts	165,824		
238,986			Diversified growth	270,937		
90,336			Private equity	101,814		
2,154			Derivatives	7,896		
	59,723		Cash		39,212	
11,128			Other investment balances	9,676		
	29,916		Debtors		35,281	
2,485,002	**89,639**			**2,750,087**	**74,493**	
			Financial liabilities			
-7,810			Derivatives	-69		
-3,810			Other investment balances	-7,718		
		-4,305	Creditors			-4,793
			Borrowings	-4,500		
-11,620		**-4,305**		**-12,287**		**-4,793**
2,473,382	**89,639**	**-4,305**		**2,737,800**	**74,493**	**-4,793**

Note 19b: 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 2014	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 though profit & loss	2,537,799	70,289	141,999	2,750,087
Total financial assets	**2,537,799**	**70,289**	**141,999**	**2,750,087**
Financial liabilities				
Financial liabilities though profit & loss	-12,287			-12,287
Total financial liabilities	**-12,287**			**-12,287**
Net financial assets	**2,525,512**	**70,289**	**141,999**	**2,737,800**

31 March 2013	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 though profit & loss	2,322,578	62,069	100,356	2,485,002
Total financial assets	**2,322,578**	**62,069**	**100,356**	**2,485,002**
Financial liabilities				
Financial liabilities though profit & loss	-11,620			-11,620
Total financial liabilities	**-11,620**			**-11,620**
Net financial assets	**2,310,958**	**62,069**	**100,356**	**2,473,382**

Note 19c: Book cost

The book cost of all investments at 31 March 2014 is £2,284,926,883 (£2,107,273,868 at 31 March 2013).

Note 20: Outstanding commitments

At 31 March 2014 the Fund held part paid investments on which the liability for future calls amounted to £107,414,081 (£101,599,103 as at 31 March 2013).

Note 21: 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 2013/14 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. The percentage change for

Asset type	Value at 31 March 2014 £000	Change	Value on increase £000	Value on decrease £000
UK equities	751,142	11.94%	840,828	661,456
Overseas equities	995,989	12.11%	1,116,603	875,375
Total bonds	352,134	5.55%	371,677	332,591
ILG	94,675	8.32%	102,552	86,798
Cash	39,212	0.02%	39,220	39,204
Property	165,824	2.40%	169,804	161,844
Diversified Growth Fund	270,937	4.43%	282,940	258,934
Total Investment Assets (1)	**2,669,913**	**8.49%(2)**	**2,896,589**	**2,443,237**

(1) The above table excludes private equity, derivatives and other investment balances.

(2) 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.

Asset type	**Value at 31 March 2013 £000**	**Change**	**Value on increase £000**	**Value on decrease £000**
UK equities	662,158	13.10%	748,901	575,415
Overseas equities	912,529	12.70%	1,028,420	796,638
Total bonds	347,863	5.30%	366,300	329,426
ILG	99,100	8.00%	107,028	91,172
Cash	59,723	0.00%	59,723	59,723
Property	120,748	2.40%	123,646	117,850
Total Investment Assets (1)	**2,202,121**	**8.31%(2)**	**2,385,117**	**2,019,125**

(1) The above table excludes diversified growth funds, private equity, derivatives and other investment balances.

(2) 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. In February 2013 50% of UK gilts managed by Western were redeemed and the proceeds were invested in Franklin Templeton's Global Total Return Fund. This has a more diverse range of fixed income investment opportunities reducing the overall interest rate risk, as there is less exposure to individual interest rate movements.

The fund's direct exposure to interest rate movements as at 31 March 2014 and 31 March 2013 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

As at 31 March 2013		As at 31 March 2014
£000		£000
59,723	Cash & cash equivalents	39,212
347,863	Fixed interest securities	352,134
407,586	**Total**	**391,346**

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 2014	Change in net assets	
		+100 bps	- 100 bps
	£000	£000	£000
Cash & cash equivalents	39,212	392	-392
Fixed interest securities	352,134	3,521	-3,521
Total	**391,346**	**3,913**	**-3,913**

Asset type	Carrying amount as at 31 March 2013	Change in net assets	
		+100 bps	- 100 bps
	£000	£000	£000
Cash & cash equivalents	59,726	597	-597
Fixed interest securities	347,863	3,479	-3,479
Total	**407,589**	**4,076**	**-4,076**

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 2013/14 reporting period due to exchange rate movements.

The analysis assumes all other variables remain constant. A significant proportion of overseas assets are invested via pooled funds denominated in Sterling.

Asset type	Value at 31 March 2014 £000	% Change	Value on increase £000	Value on decrease £000
Overseas equities	526,139	5.30%	554,024	498,254
Fixed interest	12,268	5.30%	12,918	11,618
Property and Private Equity	83,469	5.30%	87,893	79,045
Cash and Other Assets	-388,294	5.30%	-408,874	-367,714
Total	**233,582**	**5.30%**	**245,961**	**221,203**

For comparison last year figures are included below.

Asset type	Value at 31 March 2013 £000	% Change	Value on increase £000	Value on decrease £000
Overseas equities	488,369	6.10%	518,160	458,578
Fixed interest	2,207	6.10%	2,342	2,072
Property unit trust	11,432	6.10%	12,129	10,735
Cash	2,701	6.10%	2,866	2,536
Total	**504,709**	**6.10%**	**535,497**	**473,921**

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 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'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 a call account with NatWest Bank. In line with the treasury strategy, the maximum deposit level allowed with each counterparty is £15 million. The NatWest call account has a rating of A (or equivalent) with all three credit rating agencies

Balance at 31 March 2013 £000		Balance at 31 March 2014 £000
	Call account	
15,000	NatWest	
	Money market fund	
3,910	Royal Bank of Scotland	
	Current account	
343	HSBC	-402
19,253	Internally Managed Cash	-402
40,470	Externally Managed Cash	38,810
59,723	**Total Cash**	**39,212**

The fund's cash holding under its treasury management arrangements as at 31 March 2014 was £-0.4 million (£19.3 million at 31 March 2013).

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 at NatWest. Whilst fixed term deposits are allowed under the pension fund treasury strategy, no investment of this type has been made since the implementation of the pension fund bank account in April 2011.

The fund is able to borrow cash to meet short-term cash requirements, The fund exercised this ability on a number of occasions during 2013/14 with one loan outstanding as at the 31 March 2014 for the value of £4.5m.

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 22: Related party transactions

i) Employer pension contributions paid by Surrey County Council in 2013/14 amounted to £59,321,037.33 (£55,659,746 in 2012/13).

2012/2013 £000		2013/2014 £000
37,035	Employers' current service contributions	42,483
17,354	Lump sum payments to recover the deficit in respect of past service	16,379
1,271	Payments into the fund to recover the additional cost of early retirement liabilities	459
55,660		**59,321**

ii) Surrey Pension Fund paid Surrey County Council £1,502,911 for services provided in 2013/14 (£1,537,236 in 2012/13).

2012/2013 £000		2013/2014 £000
198	Treasury management, accounting and managerial services	188
1,339	Pension administration services	1,315
1,537		**1,503**

iii) Net amounts owed by Surrey County Council to the fund as at 31 March 2014 were £9,819,633 (£5,866,326 at 31 March 2013).

Note 23: 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.

2012/13 £	Position	2013/14 £	
19,991	Chief Finance Officer	20,057	1
58,456	Pension Fund & Treasury Manager	74,780	2
51,994	Senior Accountant	48,054	3
130,441		**142,891**	

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 24: Custody

Custody arrangements for securities and cash balances are provided by the fund's global custodian, The Northern Trust Company. 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
ISIS Capital	Lloyds Banking Group
Standard Life	State Street Global Advisors, Deutsche Bank & JP Morgan
Capital Dynamics	Bank of America

Note 25: Additional Voluntary Contributions

Market Value 2012/13 £000	Position	Market Value 2013/14 £000
7,602	Prudential	8,242
7,602		**8,242**

Additional Voluntary Contributions, net of returned payments, of £1,428,220 were paid directly to prudential during the year (£1,134,656 during 2012/13).

The Fund's Largest Shareholdings

	Market Value at 31/03/2014 £m	Percentage of overall portfolio %
Top 10 United Kingdom Equities		
Royal Dutch Shell	41.4	1.5%
BP	38.7	1.4%
Glaxosmithkline	26.0	0.9%
Vodafone Group	18.5	0.7%
HSBC	17.4	0.6%
Rio Tinto	16.4	0.6%
Centrica	15.4	0.6%
Astrazeneca	14.3	0.5%
Lloyds Banking Group	13.0	0.5%
BAE Systems	12.3	0.4%
	213.4	**7.7%**
Top 10 Overseas Equities		
Microsoft Corporation	9.2	0.3%
Nestle	7.5	0.3%
Novartis	7.2	0.3%
Roche Holdings	7.0	0.3%
Toyota Motor Corporation	6.5	0.2%
Pfizer	5.8	0.2%
Google	5.6	0.2%
Johnson & Johnson	5.5	0.2%
Air Liquide	5.4	0.2%
Ebay	5.3	0.2%
	64.9	**2.3%**
Top 5 Unit Trusts		
Legal & General World (ex UK) Developed Equity Index	410.3	14.8%
Legal & General UK Equity Index	221.2	8.0%
Standard Life Global Absolute Return Strategies	148.4	5.3%
Baillie Gifford Diversified Growth Fund	122.5	4.4%
Legal and General Index Linked Gilts Index	92.5	3.3%
	994.9	**35.8%**

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

Pensions Unit
Room G59
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. Information is also published on Surrey CC's website:
www.surreycc.gov.uk

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.

Annex 1

Financial Performance and Forecast :

	2013/14 Actuals £000	2014/15 Budget £000
Income		
Members contributions	115,441	141,347
Employers contributions	34,174	35,199
Total contributions	149,615	176,546
Transfers in	14,751	15,000
Investment income	47,758	52,414
Total income	**212,124**	**243,961**
Expenditure		
Pensions	-99,529	-103,908
Commutation and lump sum retirement benefits	-17,092	-17,800
Other	-2,602	-2,500
Total Benefits	-119,223	-124,208
Leavers	-6,255	-6150
Employee related	-941	-947
Support services	-626	-630
Audit, legal and other professional fees	-28	-18
Actuarial fees	-333	-216
Total admin expenses	-1,928	-1,811
Management fees	-9,929	-10,139
Custody fees	-218	-221
Performance measurement	-7	-10
Investment consultancy fees	-87	-123
Interest paid	-34	-3
Taxes on income	-1,081	-1,284
Total investment expenses	-11,356	-11,780
Total expenditure	**-138,762**	**-143,950**
Net income	**73,362**	**100,011**
Investment Asset Value	**2,777,012**	**2,938,950**

Three Year Forecast:

	2014/15 Budget £000	2015/16 Budget £000	2016/17 Budget £000	2014/17 Budget £000
Income				
Contributions	176,546	182,020	183,785	542,352
Transfers in	15,000	15,168	15,338	45,506
Investment income	52,414	54,249	56,148	162,811
Total income	**243,961**	**251,437**	**255,271**	**750,669**
Expenditure				
Benefits	-124,208	-129,104	-134,886	-388,198
Transfer Out	-6150	-6000	-7120	-19,270
Administrative Expenditure	-1,811	-1,857	-2,003	-5,671
Investment Expenditure	-11,780	-12,261	-12,742	-36,784
Total Expenditure	**-143,950**	**-149,222**	**-156,752**	**-449,923**
Net income	**100,011**	**102,216**	**98,519**	**300,745**

Investment Assets and Income

Investment Assets	UK £m	Non UK £m	Global £m	Total £m
Equities	751.1	996.0	-	1,747.1
Bonds	317.9	129.0	-	446.8
Property	-	-	-	-
Alternatives	-	-	277.4	277.4
Cash and cash equivalent	-	-	34.7	34.7
Other	-	-	271.0	271.0
Total	**1,069.0**	**1,125.0**	**583.1**	**2,777.0**

Investment Income	UK £000	Non UK £000	Global £000	Total £000
Equities	18,017	10,244	-	28,261
Bonds	5,861	5,554	-	11,415
Property	-	-	-	-
Alternatives	-	-	6,142	6,142
Cash and cash equivalent	-	-	152	152
Other	-	-	1,788	1,788
Total	**23,878**	**15,798**	**8,082**	**47,758**

Asset Allocation Movement

	Asset Allocation Target	Actual Allocation 31 March 2013	Actual Allocation 31 March 2014	Movement in Year
Fixed interest securities	15.2%	13.7%	12.7%	-1.0%
Index linked securities	3.8%	3.9%	3.4%	-0.5%
Equities	59.8%	62.2%	62.9%	0.7%
Property unit trusts	6.7%	4.8%	6.0%	1.2%
Diversified growth	9.5%	9.4%	9.8%	0.4%
Private equity	5.0%	3.6%	3.7%	0.1%
Cash and other	0.0%	2.4%	1.5%	-0.9%
Total	**100.0%**	**100.0%**	**100.0%**	

Membership and Employer Statistics

	31 March 2009	**31 March 2010**	**31 March 2011**	**31 March 2012**	**31 March 2013**	**31 March 2014**
Contributory Employees	28,229	28,722	28,996	29,120	30,023	32,530
Pensioners and Dependants	17,217	18,069	18,701	19,664	20,572	21,598
Deferred Pensions	22,374	23,750	25,111	26,583	28,256	30,639
Total	67,820	70,541	72,808	75,367	78,851	84,767

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	107	4	111
Admitted	40	20	60
Total	**147**	**24**	**171**

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
District, Borough County Council		
Elmbridge Borough	659	2,131
Epsom & Ewell Borough	442	1,453
Guildford Borough	1,227	4,332
Mole Valley District	415	1,539
Reigate & Banstead Borough	689	2,841
Runnymede Borough	597	1,858
Spelthorne Borough	489	1,635
Surrey County Council	18,491	59,321
Surrey Heath Borough	402	1,320
Surrey Police	3,327	6,897
Tandridge District	504	2,340
Waverley Borough	638	2,625
Woking Borough	588	2,760
Parish Councils		
Ash Parish Council	6	28
Bisley Parish Council	2	5
Bramley Parish Council	1	3
Chaldon Village Council	1	2
Chiddingfold Parish Council	2	7
Claygate Parish Council	1	3
Cranleigh Parish Council	5	19
East Horsley Parish Council	1	4
Effingham Parish Council	1	2
Farnham Town Council	18	70
Frensham Parish Council	1	2
Godalming Town Council	7	43
Godstone Parish Council	1	4
Haslemere Town Council	3	10
Horley Town Council	7	24
Lingfield Parish Council	1	2
Merton & Sutton Joint Cemetery Board	4	13
Oxted Parish Council	0	0
Send Parish Council	1	5
Valuation Tribunal Service	2	16
Warlingham Parish Council	1	2
West End Parish Council	1	4
Whyteleafe Village Council	0	2
Windlesham Parish Council	6	24
Witley Parish Council	4	16
Worplesdon Parish Council	2	6

Employing Organisation	Employees Contributions £000	Employers Contributions £000
Academies		
Barnsbury Primary School	3	15
Beaufort Primary School	4	17
Blenheim High School Academy	59	271
Boxgrove Primary Academy	22	99
Broadmere Community Primary School	16	72
Cleves Junior	32	126
Cobham Free School	6	16
Collingwood	88	313
Connaught Junior School	5	23
Cordwalles Junior School	3	9
Danetree Junior School	17	67
Epsom and Ewell High School Academy	31	130
Farnham Heath End School	39	182
Fullbrook School Academy	49	216
George Abbot	94	351
Glyn School	64	230
Goldsworth School	21	99
Gordons School Academy Trust	17	90
Guildford County Academy	39	178
Hermitage Junior School Academy	4	16
Hinchley Wood School	71	234
Horsell Village Academy	8	32
Howard of Effingham Academy	101	323
Jubilee High Academy	20	91
Kenyngton Manor Primary School	9	35
Lime Tree Primary School Academy	3	13
Magna Carta	53	204
Marden Lodge Primary Academy	16	69
Matthew Arnold School	59	267
New Monument School	10	49
Oaktree School Academy	10	45
Peaslake Free School Academy	2	6
Pyrcroft Grange Primary School	7	27
Rodborough Technology College	40	157
Rosebery School Academy	51	237
Rydens	59	184
Saxon Primary School	8	34
South Farnham	24	88
Springfield Primary School	6	22
St John's Primary and Nursery School Dorking	0	0
St John's Primary School Knaphill	14	53
St Mary's Primary School Chiddingfold	4	16
Sunbury Manor	51	180
Sythwood Primary School	12	50
Thamesmead	48	171
The Beacon School	52	214
The Bishop Wand	36	171

Employing Organisation	Employees Contributions £000	Employers Contributions £000
Academies		
The Echelford Primary School	10	46
The Raleigh	17	73
Thomas Knyvett Academy	25	92
Tomlinscote School Academy	45	228
Warlingham School	77	337
Warlingham Village Primary Academy	4	17
Weydon School	42	134
Weyfield Primary Academy	26	121
Wishmore Cross	28	116
Woking High School	43	195
Woolmer Hill Technology College	23	100
Further Education Colleges		
Brooklands College	177	593
East Surrey College	170	523
Esher College	59	181
Godalming College	62	189
Guildford College	353	1,333
NESCOT	181	792
Reigate College	74	240
Strodes College	62	185
University for the Creative Arts	800	2,812
Woking College	22	69
Admitted Bodies		
A2 Group	17	251
Ability Housing Association	7	22
Accent Peerless	9	413
Achieve Lifestyle	21	53
Babcock 4S	199	1,161
Care Quality Commission	4	101
Caring Daycare Limited	6	23
Childhood First	13	298
Circle	40	207
East Surrey Rural Transport	0	2
Fusion Lifestyle	11	30
G Burley & Sons	5	15
Guildford Freedom Leisure	72	218
Hanover Housing Association	161	1,769
iESE	60	185
Look Ahead Housing and Care Ltd	2	6
May Gurney	12	41
Mears	2	10
Moor House School	32	287
Morrison Facilities Services	11	42
Paragon	23	150
Pinnacle Housing Limited	18	68
Princess Alice Hospice	1	12
Raven Housing Trust	80	349

Employing Organisation	Employees Contributions £000	Employers Contributions £000
Admitted Bodies		
Reigate Grammar School	96	388
Riverside Housing Group	3	9
Rosebery Housing Association	4	23
Royal Grammar Schools	37	169
SERCO	21	62
Sight for Surrey	21	162
Sir William Perkin's School	20	86
Skanska	19	69
Skanska Weather Foil	2	6
Southern Addictions Advisory Service	22	76
Surrey Sports Park	15	24
SWT Countryside Services	15	71
University of Surrey	783	3,188
Waverley Community Transport	9	36
Woking Community Transport	1	9
Woking Freedom Leisure	47	88