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SURREY
COUNTY COUNCIL

Making Surrey a better place

Surrey Pension Fund

Annual Report 2012

Introduction

The year 2011/12 was dominated by the volatility of financial markets and the impact on the investment performance of the fund. The outcome of the negotiations on the future of the LGPS was also awaited - there were concerns that some of the proposals under consideration could have an adverse impact on employee participation which would require changes to the investment strategy if the fund ceased to be cash flow positive.

Following the implementation of the 2010 actuarial review, the Investment Advisors Group initiated a strategy review in July 2011 amid concerns that there was a significant value at risk in the portfolio given the allocation to equities and the limited exposure to liability matching assets. Overall, 85% of the liabilities of the fund are linked to gilts but the funds exposure was weighted 70% to equities. The strategy review concluded that exposure to equities should be reduced and that 10% of the fund should be invested in 'Diversified Growth' funds. These funds can generate outperformance in line with the actuary's assumptions whilst reducing risk and volatility through the use of a wide range of instruments including derivatives. The projected range of returns is much narrower than solely investing in equities hence the decreased volatility. Benchmarks are usually linked to cash or base rates and target several percentage points outperformance.

The review also recommended the removal of the regional specialist mandates, a move to passive management for asset classes where active management was not seen to add value, and the reallocation of funds between managers to reflect performance expectations.

Implementation of the review commenced in December 2011 with the termination of the Esemplia active emerging market mandate. Further specific actions agreed, which are being implemented during 2012/13, are:

- Establishment of two diversified growth funds with Standard Life (£125m) and Baillie Gifford (£75m)
- Termination of the JP Morgan (Pacific Basin inc Japan) and TCW (US equities) mandates
- Transfer of Index Linked Bonds from Western Asset Management to Legal and General for passive management
- Reduction in UBS portfolio by £80m
- Additional allocation of 2% of fund to Majedie
- Reduction in property allocation to CBRE by 1%
- Changes to Legal and General balancing mandate to establish agreed asset allocation.

These changes are expected to be fully implemented by 31 October 2012. During 2011/12 the net contributions exceeded benefit payments by only £5m. However, this was distorted by the bulk transfer of employees in the Surrey and Sussex probation service to East Sussex. The transfer value was £26m. Investment income increased by £4m to £37m but unlike the previous two years there was only marginal increase in the market value of investments reflecting the slow-down in the economic recovery.

Overall, the value of the fund increased by £43m over the year to £2,196m. At the time of writing the fund value has fallen slightly to £2,150m reflecting the continued volatility.

The performance of the fund during 2011/12 largely reflects the old fund structure. The overall return on investments was 1.2% compared with a benchmark of 3.3% and a target of 4.3%. The average local authority fund returned 2.7% with Surrey ranking 73rd out of 102 funds. The underperformance is largely attributable to asset allocation with equities performing below bonds. Individual fund manager performances were mixed (see chart on page 28). Performance over a three year period is better at 16.5% per annum compared with the local authority average of 14.5% per annum. Over the three year period Surrey ranked 12th out of 102 funds.

In May 2012 the LGA and local government unions announced that agreement had been reached on proposals for a revised LGPS to be implemented from April 2014 (to coincide with the implementation of the results of the 2013 actuarial review). The proposed scheme is a Career Average Revalued Earnings (CARE) scheme with an accrual rate of 1/49th and revaluation rate of Consumer Prices Index (CPI). Normal pension age will increase with the state pension age. A 50/50 option is offered whereby members can contribute 50% of normal contributions in exchange for 50% of the benefits. The average member contribution is 6.5%, the same as the current scheme although higher earners will pay more. Based on a hypothetical model fund, the package is estimated to reduce employer contributions by 2% of payroll although the impact on individual funds will vary depending on member profile and investment returns. The saving is said to arise largely from the increase in normal retirement age.

Previously accrued benefits remain intact and therefore existing deficits will not be reduced as a result of the new scheme. There will be a cost capping mechanism which will put a ceiling on employer contributions in the future but details have yet to be released.

The freezing of contribution rates for the majority of members should help maintain participation in the scheme. This should, in turn, ensure that the fund remains cash-flow positive for at least ten years. This lets us continue to take a long term view of investments as the fund will not have to sell investments to pay for benefits for many years.

The Investment Advisors Group continues to monitor the performance of the fund closely, taking account of the long term nature of the liabilities of the fund. Performance of individual fund managers comes under close scrutiny and the Investment Advisors Group will make adjustments to the strategic and tactical deployment of assets to ensure the fund remains viable and employers' contributions can be kept to a minimum.

The County Council commissioned Hymans Robertson to undertake a review of the fund's governance. The review concluded that whilst the governance arrangements were good and no immediate action was necessary, there are improvements that can be made. The Investment Advisors Group and the Audit and Governance Committee have agreed an action plan to implement the improvements over the next twelve months.

Sheila Little
Chief Finance Officer and Fund Administrator

Members and Advisors

Administering Authority	Surrey County Council County Hall Kingston upon Thames Surrey KT1 2EA
Administrator	Chief Finance Officer
Investment Advisors	
County Council Members	Denise Le Gal Chair Tony Elias John Orrick David Wood
Representatives of Employing Bodies	Cllr Paul Tuley, Runnymede BC (to June 2012) Cllr Stuart Selleck, Elmbridge BC
Employee Representative	Don Josey
Professional Investment Advisors	Steve Turner, Mercer Ltd Paul Meredith, Independent
Chief Finance Officer	Sheila Little
Pension Fund & Treasury Manager	Tracey Milner (to May 2012)
Pensions Manager	Paul Baker

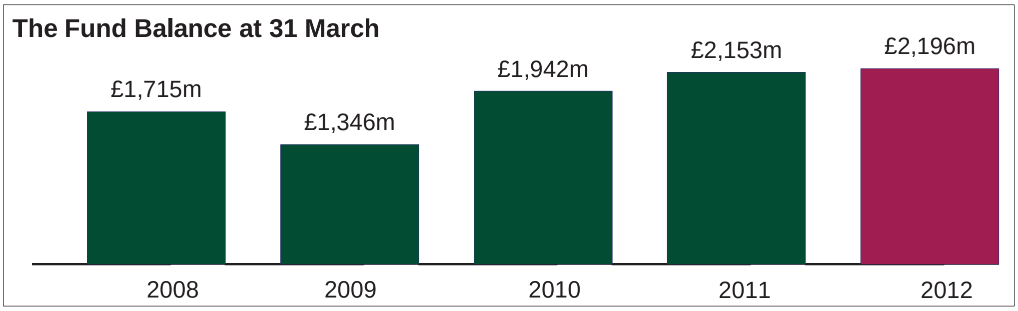
Fund Managers	Esemplia Emerging Markets (to Dec 2011) CBRE Global Investors (formerly ING Real Estate) JP Morgan Asset Management (to May 2012) Legal and General Investment Management Majedie Asset Management Marathon Asset Management Mirabaud Investment Management Ltd Newton Investment Management TCW Investment Management Company (to May 2012) UBS Global Asset Management Western Asset Management
Global Custodian	Northern Trust
Private Equity	BlackRock Capital Dynamics Goldman Sachs Asset Management HG Capital ISIS Equity Partners Standard Life Capital Partners
Fund Actuary	Bryan Chalmers, Hymans Robertson LLP
AVC Provider	Prudential Assurance Company Equitable Life Assurance Society
Auditors	Audit Commission
Bankers	HSBC

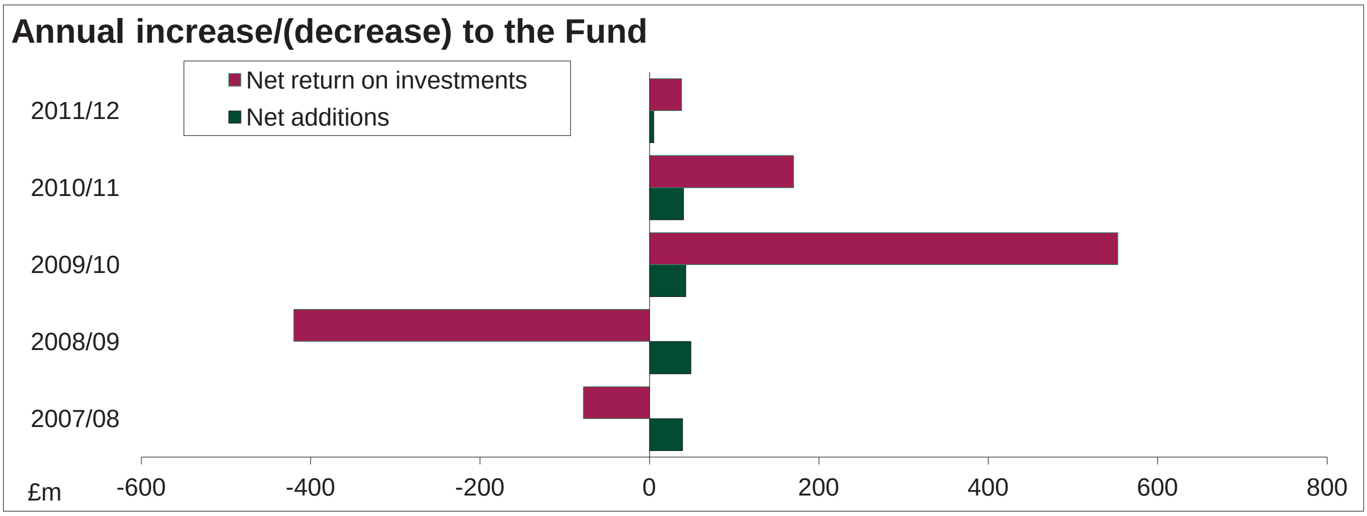
Five Year Profile

Financial Summary

	2007/08 £000	2008/09 £000	2009/10 £000	2010/11 £000	2011/12 £000
Contributions	133,749	145,998	157,423	157,703	152,550
Less benefits and expenses paid	94,664	94,484	113,960	117,439	147,352
Net additions	39,085	51,514	43,463	40,264	5,198
Net investment income **	32,278	36,220	28,869	32,592	36,737
Change in Market Value	-110,227	-456,126	524,163	137,170	1,441
Net return on investments	-77,949	-419,906	553,032	169,762	38,178
Net increase in Fund	-38,864	-368,392	596,495	210,026	43,376
Fund Balance at 31 March (Market Value)	1,714,765	1,346,373	1,942,868	2,152,894	2,196,270

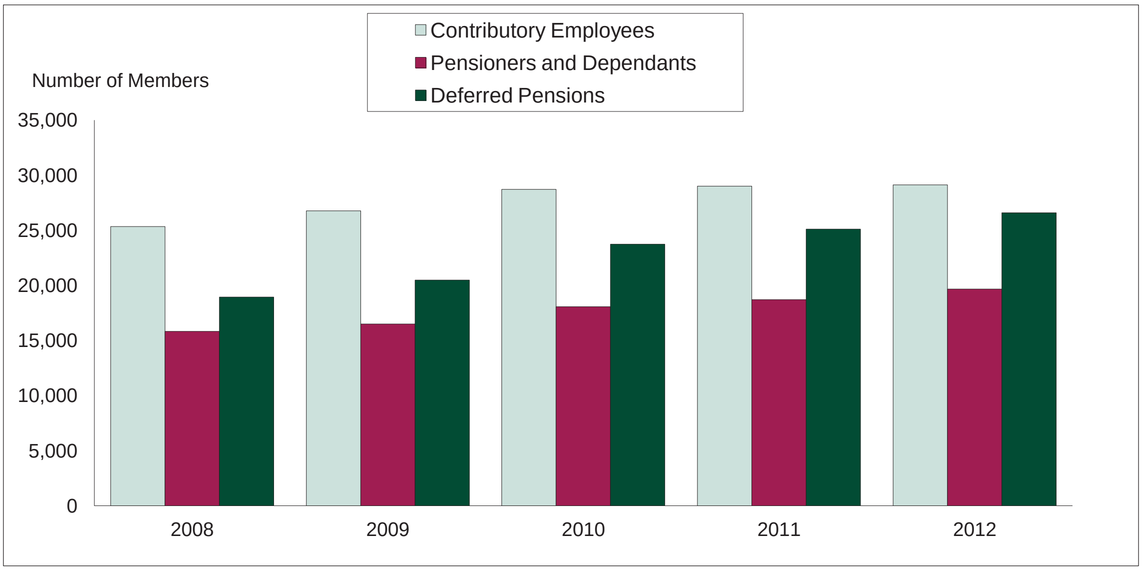
Note ***Net of expenses*





Membership Summary

	2007/08	2008/09	2009/10	2010/11	2011/12
Contributory Employees					
Scheduled Bodies	25,489	26,791	27,383	27,706	27,696
Admitted Bodies	1,509	1,438	1,339	1,290	1,424
	26,998	**28,229**	**28,722**	**28,996**	**29,120**
Pensioners and Dependants					
Scheduled Bodies	15,389	16,027	16,786	17,316	18,200
Admitted Bodies	1,109	1,190	1,283	1,385	1,464
	16,498	**17,217**	**18,069**	**18,701**	**19,664**
Deferred Pensions					
Scheduled Bodies	19,053	20,854	22,168	23,507	24,929
Admitted Bodies	1,441	1,520	1,582	1,604	1,654
	20,494	**22,374**	**23,750**	**25,111**	**26,583**
	63,990	**67,820**	**70,541**	**72,808**	**75,367**



Pensions Report

Regulatory Background
Pensions Regulations

The Local Government Pension Scheme Regulations 1997 are made under the 1972 Superannuation Act 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 65. 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 now pay pension contributions at a rate determined by their full time equivalent level of pay as follows:

FTE Pay			**Contribution Rate**
£0	-	£13,500	5.5%
£13,500.01	-	£15,800	5.8%
£15,800.01	-	£20,400	5.9%
£20,400.01	-	£34,000	6.5%
£34,000.01	-	£45,500	6.8%
£45,500.01	-	£85,300	7.2%
More than £85,300			7.5%

The pay bands above will increase each April in line with increases in the Retail Price Index (RPI). The pay bands shown above are those applicable during 2012-2013.

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 **and**
- 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.

Employers' Contributions in 2011/2012

The results of the actuarial valuation undertaken at 31 March 2010 applied for the three years commencing 1 April 2011 as detailed below.

- The common contribution rate payable by each participating body in order to maintain funding for future service at 100% of liabilities is 16.3% of pensionable payroll

  and

- An individual adjustment to the common rate which was an average of 8.9% of pensionable payroll, expressed as a cash amount for most Scheduled Bodies.

The basis and assumptions used by the actuary can be found in the Actuary's disclosure statement on page 75.

Public Sector Pensions Review

In last year's report we advised that the Government had asked Lord Hutton of Furness to chair an independent Public Service Commission to undertake a fundamental review of public sector pension provision. Lord Hutton produced his report and the Government has accepted his recommendations. Lord Hutton recommended that long-term changes to public sector pensions should be made from April 2015 and in the meantime, in order to make short-term savings, that employee contributions across public sector pension schemes should be increased between 2012 and 2015. The Government however recognised that the LGPS as a funded scheme is in a different position to other public sector pension schemes and, as an alternative to increasing employee contributions in the short-term, it has agreed that the long-term scheme changes to the LGPS could be brought forward to April 2014 to achieve the required savings.

Following discussions between the Local Government Association (LGA) and the trade unions an agreement has been reached on proposals for the new scheme, which have also been accepted by the Government. The current position at the time of writing this report is that the LGA has entered into consultation with scheme employers and the trade unions with their members on the new scheme proposals. If the employers and trade union members accept the proposals the intention is that draft pension regulations will be produced and formal consultation commence in the autumn with a view to having final regulations in place by April 2013.

The table below shows a brief comparison between the current scheme and the proposed LGPS 2014.

	LGPS 2014	**LGPS 2008**
Accrual rate	**1/49th**	**1/60th**
Revaluation rate	**Consumer Price Index (CPI)**	**Based on final salary**
Pensionable pay	**Actual pay including non-contractual overtime and additional hours for part-time staff**	**Pay excluding non-contractual overtime and non-pensionable additional hours**

<table>
<tr>
<td>Employee contribution rate – average 6.5% in both LGPS 2014 and LGPS 2008

(In the LGPS 2014 part-time members will have their contribution rates based on their actual pay and not the whole time equivalent pay)</td>
<td>
<table>
<tr><th>Actual pay from</th><th>Actual pay to</th><th>Rate</th></tr>
<tr><td colspan="2">Up to £13,500</td><td>5.5%</td></tr>
<tr><td>£13,501</td><td>£21,000</td><td>5.8%</td></tr>
<tr><td>£21,001</td><td>£34,000</td><td>6.5%</td></tr>
<tr><td>£34,001</td><td>£43,000</td><td>6.8%</td></tr>
<tr><td>£43,001</td><td>£60,000</td><td>8.5%</td></tr>
<tr><td>£60,001</td><td>£85,000</td><td>9.9%</td></tr>
<tr><td>£85,001</td><td>£100,000</td><td>10.5%</td></tr>
<tr><td>£100,001</td><td>£150,000</td><td>11.4%</td></tr>
<tr><td colspan="2">More than £150,000</td><td>12.5%</td></tr>
</table>
</td>
<td>
<table>
<tr><th>WTE* pay from</th><th>WTE* pay to</th><th>Rate</th></tr>
<tr><td colspan="2">Up to £13,500</td><td>5.5%</td></tr>
<tr><td>£13,501</td><td>£15,800</td><td>5.8%</td></tr>
<tr><td>£15,801</td><td>£20,400</td><td>5.9%</td></tr>
<tr><td>£20,401</td><td>£34,000</td><td>6.5%</td></tr>
<tr><td>£34,001</td><td>£45,500</td><td>6.8%</td></tr>
<tr><td>£45,501</td><td>£85,300</td><td>7.2%</td></tr>
<tr><td colspan="2">More than £85,300</td><td>7.5%</td></tr>
</table>
* Whole time equivalent
</td>
</tr>
<tr><td>Contribution flexibility</td><td>Members can pay 50% of contributions for 50% of the pension benefit</td><td>No such option</td></tr>
<tr><td>Normal Pension Age</td><td>Equal to the individual members State Pension Age (Minimum 65)</td><td>Age 65</td></tr>
<tr><td>Vesting Period</td><td>2 years</td><td>3 months</td></tr>
</table>

Only scheme membership accrued from 1 April 2014 will be used in the new LGPS 2014. Scheme membership that has accrued before 1 April 2014 will be calculated under the current scheme regulations. There will also be additional protection for members who were within 10 years of age 65 on 1 April 2012. These members will be protected from the new scheme changes if they produce a lower pension than under the current scheme.

Auto-Enrolment

The previous Government was concerned that too many individuals were not making any retirement provision beyond relying on the State pension. It therefore decided to introduce legislation through the Pensions Act 2008 to encourage individuals to start paying into a pension scheme.

The Pensions Act has made all employers responsible for ensuring that their *eligible jobholders* are auto-enrolled into a pension scheme if they are not already a member of a qualifying pension scheme. An *eligible jobholder* is an employee who is aged between 22 and state pension age and earns more than £8,105 pa.

If an employer does not have its own qualifying pension scheme into which eligible employees can be auto-enrolled, they must be auto-enrolled into a scheme created by the Government, called the National Employment Savings Trust (NEST). Employers who have access to the LGPS will not be required to auto-enrol their *eligible jobholders* into NEST because the LGPS is a qualifying pension scheme.

Auto-enrolment will be phased in from October 2012. Each employer has been given their own auto-enrolment date, known as a staging date. An employer's staging date is dependent on the number of employees it employed on 1 April 2012, the greater the number of employees, the earlier the staging date. The Surrey Pension Fund employers staging dates will start from April 2013.

Auto-enrolment does not mean that employees will have to remain in the scheme once auto-enrolled. Once auto-enrolled they can then opt out of the scheme. Local authorities already have a form of automatic enrolment as, unless employees confirm in writing before they take up employment that they do not wish to join the LGPS, they are automatically brought into the scheme. Therefore, as all the eligible jobholders that will be auto-enrolled have already opted out of the LGPS, it is expected that the majority of eligible jobholders will opt out again. However, some will no doubt remain in the scheme and therefore it is likely that there will be a small increase in active membership as a result of auto-enrolment.

As mentioned above, the LGPS already has a form of auto-enrolment but the current arrangements of allowing an employee to opt out before they commence employment will not comply with the auto-enrolment requirement that employees have to be auto-enrolled into the scheme before they can opt out. Furthermore, once auto-enrolled, if an employee wants to opt out of the scheme, it is not a simple matter of the employee informing their employer that they do not want to be a member. The auto-enrolment regulations require the employee to contact their pension scheme administrators directly, not their employer, who will then provide the employee with the necessary opt out forms in a format prescribed by the Pensions Regulator. The employee will then have to submit the opt-out form to their employer who will then have to arrange a refund of pension contributions through their payroll.

Auto-enrolment will result in a significant increase in administration for pension staff and employers and will also require significant amendments to computer systems, procedures and scheme literature.

Pension Contributions

The pay ranges determining the rate of contribution that scheme members pay are increased each April in line with movements in the Consumer price Index (CPI). The increase in the CPI during the 12-month review period from October 2010 to September 2011 was 5.2%. Therefore, the revised pay ranges applicable from 1 April 2012 are as follows:

Whole-time equivalent pay			Contribution rate
£0	to	£13,500	5.5%
£13,501	to	£15,800	5.8%
£15,801	to	£20,400	5.9%
£20,401	to	£34,000	6.5%
£34,001	to	£45,500	6.8%
£45,501	to	£85,300	7.2%
More than £85,300			7.5%

New Scheme Employers

Academies

Glyn School	Joined	01.04.2011
Sunbury Manor School	Joined	01.04.2011
Weydon School	Joined	01.04.2011
Collingwood College	Joined	01.07.2011
George Abbot School	Joined	01.07.2011
South Farnham School	Joined	01.07.2011
Fullbrook School	Joined	01.08.2011
Rodborough School	Joined	01.08.2011
Woolmer Hill School	Joined	01.08.2011
Rydens School	Joined	01.08.2011
Thamesmead School	Joined	01.08.2011
Magna Carta School	Joined	01.08.2011
The Raleigh School	Joined	01.08.2011
Epsom & Ewell High School	Joined	01.10.2011
Rosebery School	Joined	01.12.2011
The Beacon School	Joined	01.12.2011
Goldsworth School	Joined	01.02.2012
Hinchley Wood School	Joined	01.02.2012
Blenheim High School	Joined	01.03.2012

Admitted Bodies

May Gurney	Joined	28.04.2011
Riverside Group Ltd	Joined	11.07.2011
Look Ahead Housing Ltd	Joined	15.08.2011
Guildford Freedom Leisure	Joined	01.11.2011
Woking Freedom Leisure	Joined	01.12.2011

Parish & Town Councils

Chaldon Village Council	Joined	15.11.2011
Chiddingfold Parish Council	Joined	12.01.2012
Whyteleafe Village Council	Joined	12.03.2012

Scheme Administration

The Surrey Pension Fund is a member of the CIPFA Pensions Administration Benchmarking Club, which publishes a report each year comparing administration costs of local authority pension funds. The Surrey Pension Fund appears in the lower cost quartile for administration costs.

Paul Baker
Pensions Manager
2 August 2012

Membership activity summary

Active Members		
Active Members at 1 April 2011		**28,996**
New Joiners		4,551
Retirements	- 700	
Deferred Pensions	-2,835	
Deaths	- 25	
Other Transfers, Refund etc.	-797	
Refunds Pending	- 70	
Total Leavers		- 4,427
Active Members at 31st March 2012		**29,120**
Pensioner Members (including Dependants)		
Pensions in Payment at 1 April 2011		**18,701**
New Pensioner Members		1,449
Deaths	- 450	
Other than death	-36	
Total Leavers		-486
Pensions in Payment at 31 March 2012		**19,664**
Deferred Pensioners		
Deferred Pensions at 1 April 2011		**25,111**
New Deferred Pensions (ex-employees)		2,835
New Deferred Pensions (divorce credit members)		6
Transfers	- 817	
Pensions coming into payment	-524	
Deaths	-28	
Total Leavers		-1,369
Deferred Pensioners at 31 March 2012		**26,583**
Total Membership at 31 March 2012		**75,367**

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 Investors Advisors Group has agreed the following knowledge and skills policy statement.

1. The Investment Advisors Group 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 IAG to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills.

The IAG has completed the first stage of the Training Needs Analysis. The results reflected very good knowledge of investment performance, risk management and financial markets, where training effort has been concentrated in the last year. Results showed that further training should be concentrated on governance, procurement and actuarial issues. The results will be used to develop the 2012/13 training plan.

Training activity during 2011/12 was as follows:

27 May 2011	Hedge Funds	Man Investment
14 July 2011	Non-normality	JP Morgan
	Investment strategy	Mercer/T Milner
18 November 2011	Diversified growth funds	Baillie Gifford
	Investment strategy	Mercer/T Milner

Attendance at IAG meetings and training

	27/05/11	14/07/11	15/09/11	18/11/11	09/03/12
Tony Elias		√	√		√
Don Josey	√	√	√	√	√
Denise Le Gal	√	√	√	√	√
Sheila Little	√	√	√	√	√
John Orrick	√		√		
Stuart Selleck		√	√	√	√
Paul Tuley		√	√	√	
David Wood	√	√	√		√

Communication Policy Statement

This Policy Statement provides an overview of how we communicate with members, representatives of members, prospective members and scheme employers.

Method of Communication	Media	Frequency of Issue	Method of Distribution	Audience Group (Active, Deferred, Pensioner, Employer or All)
Scheme overview and joiner form	Paper based and on website	On commencing employment and by request	Via employer	Active
Scheme booklet and joiner pack	Paper based and on website	On joining the scheme and by request	Home address or via employer	Active
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
Pre-retirement courses	Face to face	As requested by employer	Via employer	Active
Briefing reports	Paper based and electronic	As and when required	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	Employer
Annual report and accounts	Paper based or 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	Every three years	Email	All

Investment Management

Investment Powers
The principal powers governing investment activity and management are defined in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (as amended), which permit a wide range of investments subject to the following restrictions:

- No more than 15% of the Fund may be invested in securities that are not quoted on a recognised stock exchange.
- No more than 10% of the Fund may be invested in a single holding, and no more than 35% of the Fund may be invested in unit trust schemes managed by any one body and open-ended investment companies managed by any one body.
- No more than 10% of the Fund may be deposited with any one bank.
- Loans from the Fund, including money lent to other local authorities (which may include the administering authority), but not including loans to the Government, may not in total exceed 10% of the value of the Fund.

Investment Management
The main regulatory stipulations applying during the year were:

- An administering authority may appoint one or more investment managers to manage and invest fund monies on its behalf.
- When appointing fund managers the administering authority:
  - must be aware that the investment manager is suitably qualified.
  - must be satisfied that there are an adequate number of managers and that the sums to be managed by any one will not be excessive.
  - must take proper advice.
- The investment manager must provide at least once every three months a report setting out his actions.
- The investment manager must have regard to the need for diversification of investments of fund monies and to the suitability of investments that he proposes to make.
- The regulations also impose requirements concerning the terms of appointment and the reviews of the performance of fund managers.

In November 2003 an amendment to the Local Government Pension Scheme Regulations was introduced. This amendment provides Local Authorities with the opportunity to increase their exposure to certain types of investment, but only where:

- proper advice has been obtained.
- the decision has been made with due regard to the general provisions of the regulations.
- the Statement of Investment Principles has been revised and published.

The headrooms are not mandatory and individual authorities can, if they prefer, maintain existing investment policy.

The Surrey Fund has maintained its policy to limit the amount that can be invested in unit trust schemes managed by any one body to 25% of the Fund but with a temporary extension to the 35% permitted by Regulations to enable Legal and General to passively manage assets that were transferred from managers whose mandates were terminated during the 2006 and 2007 calendar years. This agreement persists pending implementation of changes in the Fund's strategic benchmark or the appointment of new manager(s) or an increase in allocation to incumbent managers.

The LGPS (Management and Investment of Funds) Regulations 2009 introduced a requirement that administering authorities must, on or after 1 April 2011, operate a separate bank account for the pension fund which will be distinct from that of the administering authority's own bank account. The Surrey Fund's account was operational on 1 April 2011. The Investment Advisors Group has agreed to follow a treasury management policy that mirrors that of the Council's main policy in terms of counterparty credit rating criteria.

At Surrey the responsibility for the overall direction of the Fund's investment is delegated to the Chief Finance Officer who acts in consultation with the Chair of the Investment Advisors Group. The Investment Advisors Group comprises:

- 4 county council members
- 2 district council members
- 1 representative of the scheme members
- 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. Twice yearly meetings are held with the external managers who explain the reasons for their actions, and propose a strategy for the coming period.

In addition the Fund has investments in private equity funds managed by BlackRock, Goldman Sachs, H G Capital, ISIS Equity Partners, Capital Dynamics and Standard Life Capital Partners.

At 31 March 2012 the market value of assets under management was £2,158.5m, the proportion with each of the managers being:

Investment Manager	Mandate	Funds Under Management £m	Proportion of Funds Under Managements
Passive Core Legal & General Investment Managers	Multi Asset	622.4	28.8%
Active Core			
Western Asset Management	Fixed Interest	309.0	14.3%
ING Real Estate	Property	126.7	5.9%
Majedie Asset Management	UK Equities	133.1	6.2%
Mirabaud Investment Management	UK Equities	85.4	4.0%
UBS Global Asset Management	UK Equities	248.5	11.5%
Marathon Asset Management	Global Equities	275.1	12.7%
Newton Investment Management	Global Equities	153.6	7.1%
Active Regional Specialist Equity			
JP Morgan	Pacific Basin inc. Japan Equities	61.1	2.9%
TCW	US Equities	58.8	2.7%
Other	Private Equity	84.8	3.9%
	Residual cash	0.0	0.0%
TOTAL		2,158.5	100.0%

Market Background

(Courtesy of Paul Meredith, independent investment advisor)

Economic and market background

Developed economies failed to follow the hoped for cyclical recovery pattern of earlier recessions. So for equity markets it was a second year of consolidation, following the dramatic falls in 2008/9 and the partial recovery in 2009/10 as the banking system narrowly averted complete collapse.

The Eurozone economies were generally weakest though collectively less extremely indebted than the US, UK or Japan as increasing lack of competitiveness in the southern periphery relative to Germany has brutally highlighted the dangers in currency without full fiscal union. The acute strain on national budgets led to popular protests and political upheaval and technocrats have been appointed to govern in Italy and briefly in Greece. Sentiment has swung wildly as fears for a disorderly Greek default and possible Euro exit have been assuaged by the European Central Bank [ECB] providing liquidity to banks, though this was deployed mainly to invest in domestic government bonds, which allowed foreign investors to exit and hardly disperses risk. Portugal was bailed out in May 2011 and Greece eventually for the second time in February 2012. Unsurprisingly the stockmarket value of banks and other companies reflected this turmoil.

The US economy was restrained by political machinations over limiting Federal debt and weak consumer spending as house prices adjusted to reflect mortgage foreclosures, forced sales and the prospect of many years of oversupply. The resulting slow return to US growth combined with stagnation in Europe provided weak demand for goods from the former developing economies. Trade imbalances were further assuaged by China's growing imports, as the newly rich sought prestige products, such as BMW cars and Apple iPads. Even in Spain, which had previously seen some of the greatest housing and construction excesses, the trade account moved to near balance, albeit at a crippling cost in consumption and in youth unemployment.

Equity markets were led by the US, which returned 8%, while the UK and Japan both returned 1%, all better than the Euro zone with Germany -8%, France -13%, Spain -24% and Italy -26%. China [including Hong Kong] returned -9%, which was similar to the overall figure for the other "emerging" markets. The overall return from global equities was close to zero. The economically sensitive sectors of mining and oil fell back, giving up their relative outperformance of the previous year. Technology did well returning 14%, led conspicuously by Apple. Consumer staples were relatively strong led by companies well exposed to consumption in emerging markets, notably tobacco. Financials were weak again with banks returning -11%.

UK property overall again returned more than equities at 6% led by offices, particularly in London's West End. However bonds were the stand out leaders as yields were driven down to levels almost unimaginable before the banking crisis and resulting regulatory pressure. UK government index linked returned 21% and fixed interest 19%, both significantly better than credit at 9% and cash at just 0.5%.

Performance

The Surrey fund returned 1.9%, which was below the bespoke benchmark of 3.3% and also below the Local Authority average of 2.6%. This disappointing result was mainly due to the poor performance of our bond manager and one of our two global equity managers. Both the remaining overseas regional specialist managers also performed poorly and the concept and the managers have now been terminated.

Economic Outlook

The steady economic growth to 2007 in the US, UK and most other developed economies was largely based on the rapid industrialization of China and other developing economies. This was well-founded but the flow of cheap imports restrained inflation and permitted interest rates to be kept artificially low. This unsoundly encouraged a credit binge that fuelled speculative price increases in housing and other assets. Banks contrived to disguise the scale and poor quality of much of the borrowing and regulators are still struggling to repair the damage without choking off the availability of credit to consumers and to smaller companies that cannot directly access financial markets. The former inflated tax base has been much reduced, putting an acute strain on public finances and severely limiting the scope for any capital projects or personal tax cuts to help boost growth. Resolution of this debt overhang seems to be preventing the normal path of cyclical recovery.

European experience is mixed with Germany relatively unscathed whereas Spain is struggling to cope with the implosion of its former boom in construction and housing. In the weaker European economies there is much talk of strategies for growth but little sign that there is much political will or electoral support for deregulation or increased capital spending at the expense of current expenditure. The only quick fixes might be a major consumer boom in Germany or the issuance of Eurobonds backed collectively by the governments of the Eurozone. Although German consumption has picked up somewhat, it will always be tempered by ingrained inflation aversion. Also German distaste for any moral hazard suggests that the Eurobond option will be reserved as a potential last throw of the dice if nothing else will save the Euro. This feels like a dangerous bluff with several respectable commentators suggesting that there are only months before markets force their hand – nations borrowing at 6% or more with inflation subdued is unsustainable. At best this leaves the prospect of a prolonged period of Greece, Spain and even Italy wrestling with the appalling austerity that is required to regain competitiveness. Recent experience suggests that this could be punctuated alternately by bouts of panic and euphoric relief as weaker banks either suffer from runs [as Northern Rock did in 2007 or Bankia recently] or benefit from renewed support from the ECB, newly empowered by the proposed development of a banking union. German pressure for greater central control, including national budgets, is making politicians elsewhere appear ineffective, which risks further unrest and potentially a void to be filled by fringe parties espousing nationalism.

At least in the UK both manufacturing and service industries benefit from an exchange rate that should broadly reflect competitiveness. However, continental customers are very important and their markets mostly remain either highly competitive, in Germany and neighbours, or weak, in the southern periphery, and sterling has recently strengthened a bit against the euro. Despite the drip feed of revelations over systemic banking malpractice, London continues to benefit from an inflow of personal wealth from the Gulf and Russia and now increasingly from Greece and Spain, seeking relative security and stability. The UK also benefits from its professionals moving closer to the centres of economic growth in Asia and repatriating earnings.
This shift of power to Asia and particularly to an autocratic China may be less comfortable to international businesses and their shareholders than a world dominated since 1990 by the well-established, if not always well-directed, liberal democratic values of the US. Only the US can credibly ensure that oil supplies from the Gulf will be protected. BP has demonstrated in Russia how difficult it can be to prosper in an authoritarian state. China's support for free trade is utterly commercial. It may be tested as their labour costs are rising steadily; shipping goods around the world is not as cheap as it used to be and western manufacturers seem to be on the brink of significant advances in automated manufacturing. A further unwinding of former big trade imbalances should also be helped as technology leads to a recovery in domestic energy production, particularly US shale gas.

The unwinding of the debt overhang in developed economies will probably remain the dominant factor for some years but confidence in an early return to the growth trend regarded as normal before the world banking crisis would be much enhanced if only Europe could resolve its political problems.

Strategic asset allocation

The central role of equities even in a relatively unconstrained portfolio such as Surrey's is being widely questioned after over a decade in the doldrums, with disconcerting volatility and increasing regulatory pressure on many institutional investors to buy bonds. There is strong historical evidence that the long-term investor should be influenced by valuation rather than by trend or sentiment but the cyclically adjusted price earnings ratio and aggregate market value of companies compared to their net worth suggest that most equity markets are still quite highly valued. By implication the expected returns are broadly in line with the long term average of about 5% real return. This is clearly attractive relative to bonds, with only the longest dated UK government bonds yielding more than projected inflation. UK property yields 6% but significantly less after depreciation and cost of management and there is pressure on rents, particularly on the high street. Many other alternative investments are constrained by the availability and cost of credit whether directly for leverage or indirectly to ensure liquid markets, including for stockmarket flotation of private companies.

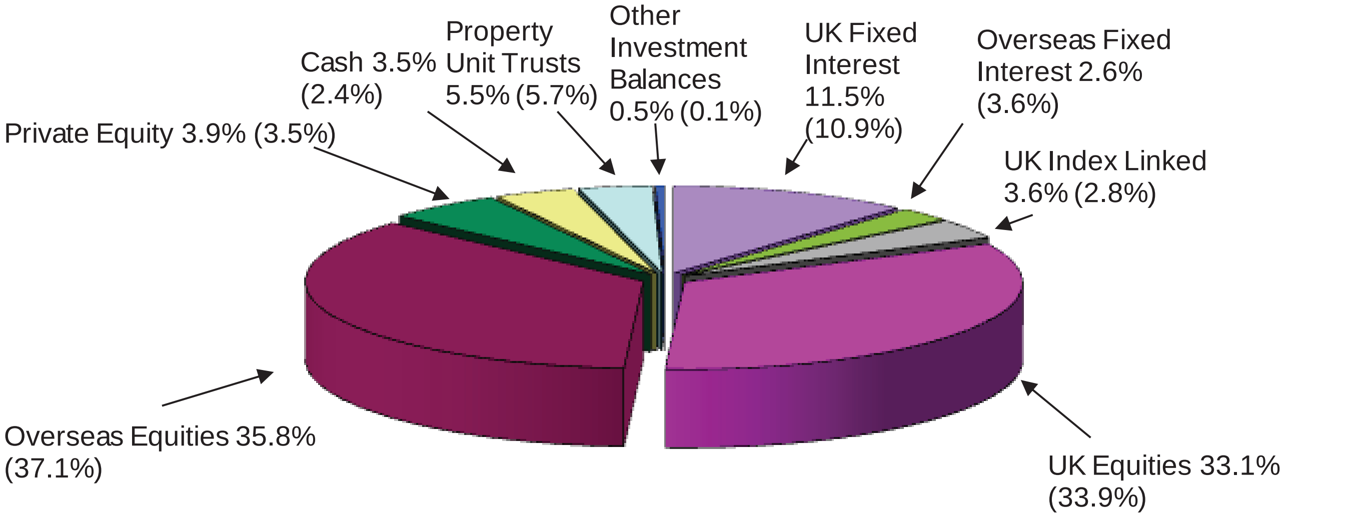
Following a comprehensive review, some significant changes have been made to the strategy of the Fund with a reduction in the equity component from 72% to 63% and a reduction in the target property component from 8% to 7%. This has funded an allocation of 10% in total to two diversified growth or absolute return funds, chosen largely for their low risk characteristics. Within the equity portfolio the former active emerging markets manager was terminated earlier in the year with the assets switched to an index tracking mandate. The review also led to the termination of the concept of specialist regional equity managers, except for UK equities where our experience has been relatively good.

Paul Meredith
August 2012

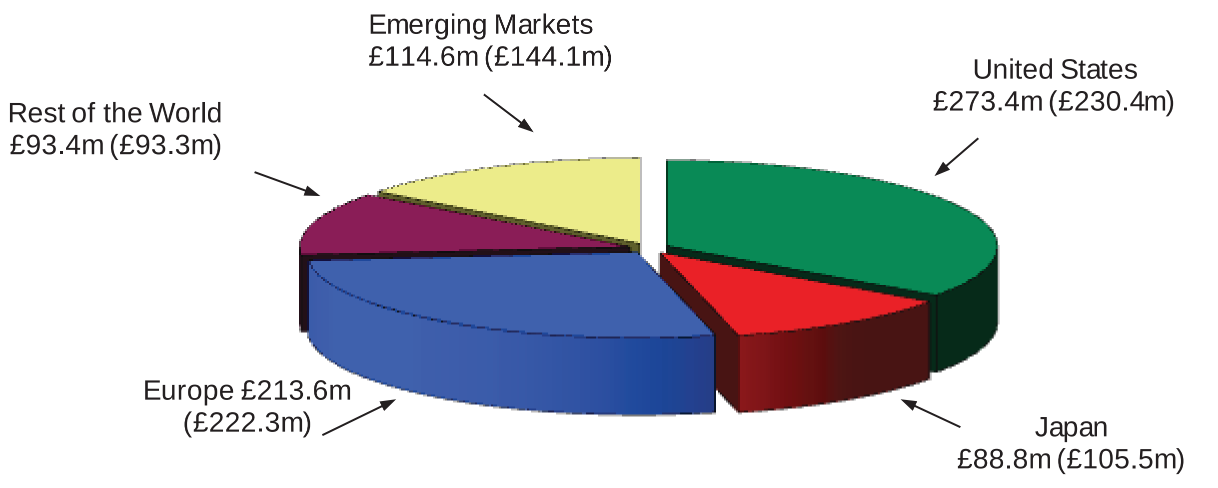
Portfolio Distribution

The distribution of the portfolio at 31 March 2012 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.

Portfolio distribution at 31 March 2012 (31 March 2011)

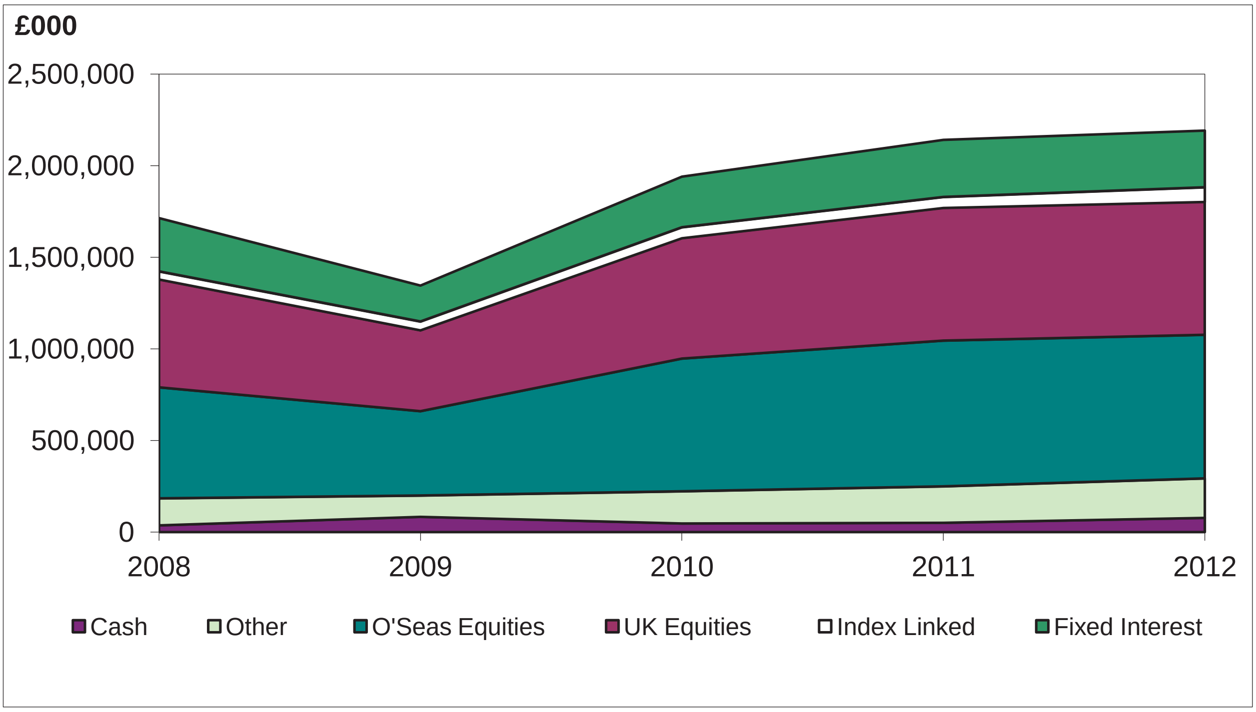


Overseas equities distribution at 31 March 2012 (31 March 2011)



Investment Distribution

The chart below shows how the Fund has been invested over the last five years.



Investment Activity

Eleven fund managers undertook the management of investments during 2011/2012 in a specialist structure of passive core, active core and regional specialist managers and are shown in the table below. Ten of the managers remained in place at the 31 March 2012. The mandate with Esemplia was terminated in September 2011 and the assets realised in tranches between October and December 2011. No new manager mandates were implemented during 2010/2011.

The target asset allocation of the fund was unchanged during 2011/2012.

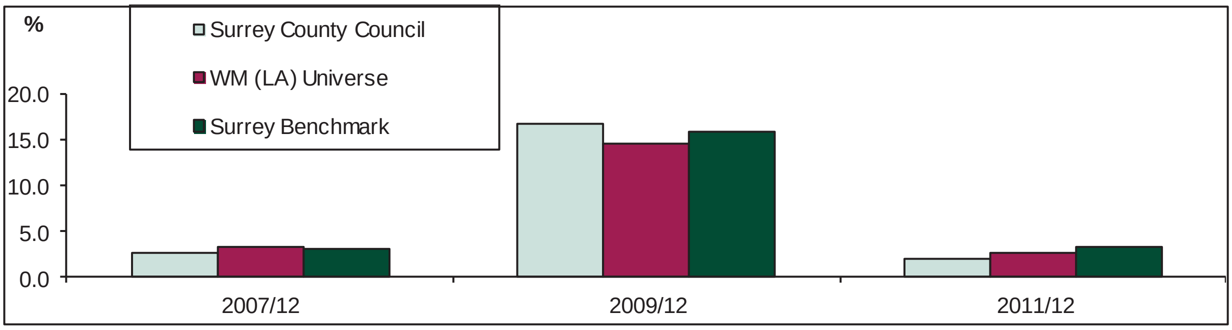
On 9 May 2011an additional cash allocation of £10m was made to Legal and General following a re-balancing exercise. This involved comparing the actual allocation to each of the fund's managers with the target allocation as defined in the fund's strategic asset/manager allocation. The cash allocation was funded from balances held internally by SCC. Legal and General also received £62.6m of the £72.6m proceeds of the Esemplia portfolio. The remaining £10m was added to internal cash balances, which were low following the bulk transfer of Surrey and Sussex Probation Board employees to the East Sussex pension fund on 7 October 2011. The transfer value was £26.4m.

Investment Performance

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 is performing over the short and longer-term periods in comparison to the WM Universe and the Surrey Benchmark.



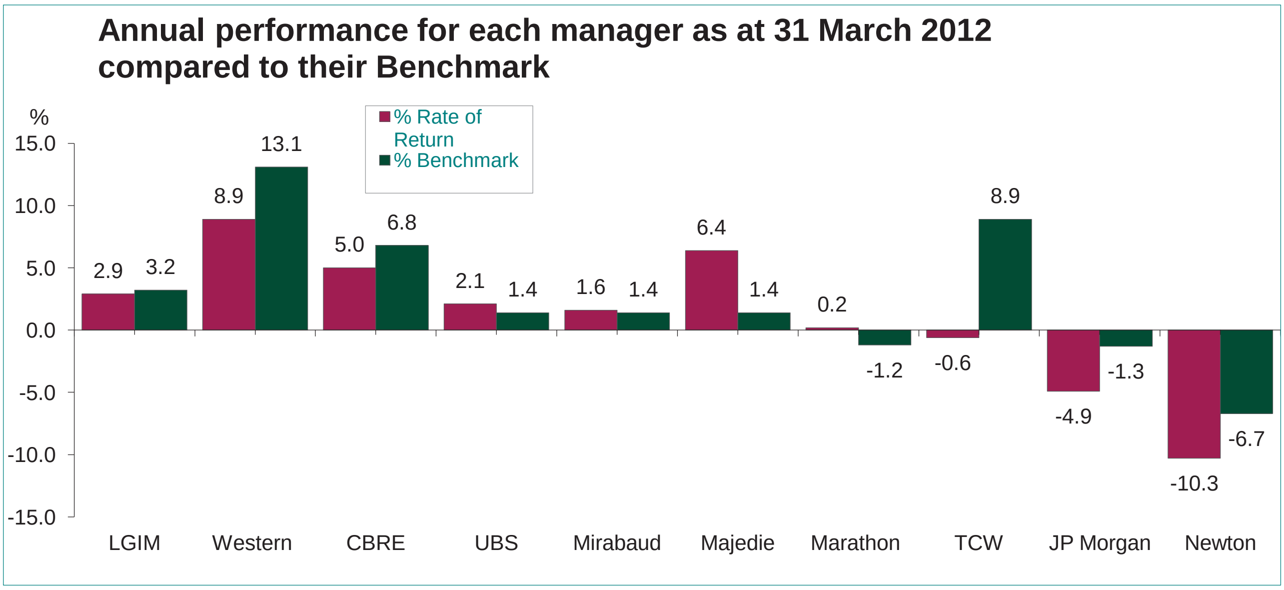
Annual returns over each of the last five years, and the average for the last three and five years were as follows:

Financial Years	**SCC** %	**WM Local Authority Universe** %	**WM Ranking**	**Surrey Benchmark** %
2011-2012	1.9	2.6	73	3.3
2010-2011	8.9	8.2	26	8.2
2009-2010	42.9	35.2	6	39.1
2008-2009	-24.7	-19.9	86	-20.0
2007-2008	-4.4	-2.8	68	-3.3
2009-2012 (3 year average)	16.6	14.5	12	15.9
2007-2012 (5 year average)	2.7	3.2	60	3.1

All the rates of return quoted take into account investment income as well as realised and unrealised capital profits or losses in the period.

Annual Returns for Fund Managers

The annual investment returns as at 31 March 2012 for each fund manager are shown below.



Performance Commentary

The average local authority fund returned 2.6% in 2011/2012, the third consecutive positive annual return. The Surrey Fund returned 1.9%. The bespoke customised benchmark, which reflects the unique asset allocation strategy of the Fund, showed a return of 3.3% in the year, which was ahead of the local authority average. However, average underperformance by fund managers against their benchmarks of 1.4% offset this gain. A return of -0.7% compared to the customised benchmark means that the Fund did not meet its target of +1.0% in the year. Over the five years the Fund's return was 0.5% p.a. behind the local authority average.

The Fund also has a commitment to invest up to 5% of the fund in private equity. The following table shows the Fund's private equity investments as at 31 March 2012 and the latest available performance figure, represented by the Internal rate of Return (IRR), for each fund.

Name	Currency	Inception	Commitment	Investment (drawn) at	Distributions (received) at	IRR Latest Available
				31 March 2012		
UK Funds			£m	£m	£m	
HG Capital MUST 3	£	2001	2.0	1.7	1.9	11.0%
HG Capital MUST 4	£	2002	3.0	2.4	3.9	25.0%
HG Capital 5	£	2006	10.0	7.6	6.0	12.6%
HG Capital 6	£	2009	10.0	6.9	0.1	Too early
ISIS II	£	1999-2002	12.0	7.3	13.4	17.0%
ISIS III	£	2003	14.0	12.4	22.9	24.0%
ISIS IV	£	2007	15.0	9.0	3.6	13.8%
Euro Funds						
Standard Life ESP II	€	2004	8.8	7.7	6.2	n/a
Standard Life ESP 2006	€	2006	13.2	9.7	0.8	n/a
Standard Life ESP 2008	€	2008	10.6	3.3	0.2	n/a
Standard Life ESF	€	2011	14.0	0.6	0.0	n/a
US Funds						
BlackRock Div PEP I	$	2001	3.1	3.1	4.1	13.6%
BlackRock Div PEP II	$	2003	3.1	3.0	1.9	10.7%
BlackRock Div EP III	$	2005	10.9	9.7	0.7	1.3%
GSAM PEP 2000	$	2000	5.9	6.5	8.3	15.0%
GSAM PEP 2004	$	2004	6.2	6.6	2.5	6.3%
GSAM PEP 2005	$	2006	10.6	9.4	1.6	-2.7%
GSAM PEP X	$	2008	11.2	5.5	0.3	4.1%
GSAM PEP XI	$	2011	11.2	0.6	0.0	Too early
Capital Dynamics US Solar	$	2011	15.6	8.1	0.0	Too early

Statement of Investment Principles 2011/12

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 Annexe 1 of this Statement.

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 Surrey CC's website. The extent to which there was compliance with the Fund's governance policy can be found in this annual report.

Investment policy and associated monitoring and review are delegated to the Chief Finance Officer who exercises the power to invest the Fund's monies in consultation with the Investment Advisors Group, which is made up of:

- four nominated members of the County Council
- two representatives from the District Councils nominated by the Surrey Local Government Association
- a representative of the members of the Fund
- a representative of the Fund's professional investment advisor
- an independent advisor
- the Chief Finance Officer

The Advisors meet quarterly and make a report to the County's Audit & Governance Committee. The Advisors are not trustees (technically the Department for Communities and Local Government is the trustee) but act in a quasi-trustee role.

2 Investment Objectives
The investment objectives are to maximise investment returns over the long term within specified risk tolerances relevant to the current funding level. Investment returns are defined as the overall rates of return (capital growth and income).

3 Investment Style and Management

The investment style is to appoint expert Fund Managers with a clear performance benchmark and place maximum accountability for performance against that benchmark on the Fund Manager.

Historically, three active multi-asset managers managed the fund. This approach had proved effective for the Fund over the longer term and, where results had been less good, reviews took place and fund managers replaced if appropriate, as happened in 1998
.

In 2003 Watson Wyatt, the then specialist investment advisor to the pension fund, advised that the prevailing fund management arrangements were sub-optimal and that a specialist structure should be considered. This structure sub-divided investments into three types, each with a different level of risk and target return profile:

Type of funds	Level of Risk	Target Return Out-Performance p.a.
Passive (index-tracker)	Low	0 – 0.5%
Active core	Medium	0.75% - 2.5%
Active regional specialists	High	3%
TOTAL	Medium	1%

The **passive** element consists of a range of asset classes where the investment objective is to track a relevant index (e.g. FTSE All-Share for UK equities) and produce a return that is as close as possible to the index return.

The **active core** consists of a range of asset classes where the investment objective is to beat the index by some 0.75% - 2.5% per annum. Due to the difficulty in finding fund managers that are “best in class” in all types of asset, the active core consists of specialist managers in the key asset classes of UK equities, Global Equities, Bonds and Property. **Specialist managers** are known for their investment expertise and returns in any one particular asset type, rather than for a bundle of asset types, as is the case with multi-asset or balanced managers.

The **regional specialist** element contains of a number of fund managers that specialise in specific equity regions with a higher investment target and, by implication, are taking a higher level of risk.

Fees paid to managers vary due to a number of factors including 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 although performance fees are in place for a number of the Fund’s managers.

Following an extensive procurement exercise the Fund moved to the specialist manager structure in 2004. At that time substantial changes to the fund management arrangements were made and subsequently two investment mandates were terminated.

The following table shows the target managed Fund structure as at 31 March 2012 (excluding private equity):
N.B. The fund structure was amended in May 2012.

	Manager	% of Fund
Passive Multi asset	Legal and General	29.0
Active Core		
Bonds	Western Asset Management	14.0
Property Fund of Funds	ING Real Estate	8.0
UK Equity 1	UBS Global Asset Management	13.0
UK Equity 2	Mirabaud	4.0
UK Equity 3	Majedie	6.0
Global Equity 1	Marathon Asset Management	12.0
Global Equity 2	Newton Investment Management	8.0
Active Regional Specialists		
Pacific Basin Inc Japan Equity	JP Morgan	3.0
US Equity	TCW	3.0

*Reflects indefinite passive management of fund flows following active mandate terminations.

The proportion of the fund allocated to each specialist manager was determined with reference to the overall asset allocation specified in the Fund's customised benchmark. This benchmark was initially established in 2000 and reviewed in 2006. The consequence of the 2006 review was an increase in the Fund's targeted allocation to global equity (from 30% to 36% of the total Fund) and a reduction in the allocation to UK equity. The target allocation to property has also increased (from 5% to 8%). The introduction of a passive currency mandate was introduced as a result of this review as a means of managing the impact of currency movements on a portfolio with an increasing allocation to global equity. The number of managers appointed under the structure reflects the need to diversify by manager and the need to spread risk. 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 Investment Advisors Group 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.

The following table shows the Fund's private equity investments as at 31 March 2012.

Name	Currency	Inception	Commitment £/€/$
UK Funds			
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
ISIS II	£	1999-2002	12.0
ISIS III	£	2003	14.0
ISIS IV	£	2007	15.0
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
US Fund			
Capital Dynamics US Solar Fund	$	2011	25.0
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

4 Policy on Kinds of Investment

The Investment Advisors Group, having regard to funding levels, cash needs and risk tolerance, determines the overall Fund asset mix. The last formal asset-liability modeling (ALM) study took place in 2006, which resulted in updates to the customised benchmark that was initially established following the 2000 ALM study.

The following table shows the strategic asset allocation benchmark for both the managed Fund (i.e. excluding private equity) and the total fund as at 31 March 2012:

		Target Allocation exc. Private Equity	Target Allocation inc. Private Equity
Bonds		%	
	Gilts	8.0	7.6
	Corporate Bonds	8.0	7.6
	Index-Linked gilts	4.0	3.8
Property		8.0	7.6
Total Bonds/Property		28.0	26.6
UK Equity		36.0	34.2
Overseas Equity		36.0	34.2
	North America	14.0	13.3
	Europe ex UK	9.0	8.6
	Japan	6.0	5.7
	Pacific ex Japan	3.0	2.9
	Emerging markets	4.0	3.8
Total Equity		72.0	68.4
Private Equity		n/a	5.0
TOTAL		100.0	100.0

NB: The asset allocation benchmark was amended in May 2012.

The Investment Advisors Group keeps a watching brief on the suitability of the fund benchmark until it is formally reviewed. A strategic review of the Fund's benchmark and manager structure began in July 2011 and is expected to be fully implemented by August 2012.

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
- 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. No stock lending took place in 2010-11.

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 Regulations) 2009 (as amended from time to time).

5 Investment Performance Targets and Benchmarks

The over-riding aim is to run the Pension Fund in accordance with relevant legislation and the following performance target:

"to outperform the Surrey benchmark performance by 1% per annum over a rolling 3 year period, with a maximum underperformance of -2% in any one year."

The Surrey benchmark, against which the Fund's overall managed fund performance is measured, is shown below in detail. The IAG considers the Fund's actual performance compared to with what it would have been had the assets been invested in the proportions identified in the following table. The table reflects the benchmark determined as a result of the 2006 Asset Liability Modelling Study. The appropriateness of the benchmark is currently being considered as part of the 2011 review of the Fund's strategic asset allocation.

Asset Class	Benchmark Allocation	Permitted tolerance range	Index
	%	%	
UK Equities	36	30 – 40	FTSE All Share
Overseas Equities			
US/North America	14	10 – 20	FTSE World Index – North America
Europe	9	5 – 13	FTSE World Index – Europe
Japan	6	3 – 9	FTSE World Index – Japan
Pacific Rim	3	0 – 5	FTSE World Index – Asia Pacific
Emerging Markets	4	0 – 6	MSCI Index (Emerging Markets)
UK Fixed Interest Gilts	8	5 – 10	FTSE Actuaries Govt. All-Stock
Sterling non-Government Bonds	8	5 – 10	Merril Lynch All Non-Gilt Index
Index-Linked Gilts	4	0 – 6	FTSE Actuaries Govt. I-L All-stock
Property	8	0 – 12	IPD UK All Balanced Funds
Cash	0	0 – 5	LIBID 7 Day Rate

Individual Fund managers have different outperformance targets that reflect the level of risk to be taken by each manager and are summarised in the table below.

Individual manager performance is measured with reference to the relevant portion of the benchmark, e.g. the UK equity managers are measured with reference to the FTSE All-Share index, and the relevant individual outperformance target.

Type of funds	Level of Risk	Target Return Out-Performance p.a.
Passive (index-tracker)	Low	0 – 0.5%
Active core	Medium	0.75% - 2.5%
Active regional specialists	High	3%
TOTAL	Medium	1%

The performance target for the private equity Funds is to outperform returns on quoted UK equities, as measured by the FTSE All Share Index, by 2% p.a.

6 Policy on Risk
Fund Managers are required to implement appropriate risk management measures and to operate in such a way that the possibility of undershooting the performance target is kept within acceptable limits. Active monitoring of individual manager and overall portfolio risk is maintained through the use of an independent risk monitoring service.

A risk register for the Pension Fund is reviewed on an annual basis, or more frequently as required, by the IAG and the Council's Audit and Governance Committee. The risk register covers all potential risks to the Fund in the following areas: demographics, financial, governance, people, regulation and reputation.

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 (currently 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 Investment Advisors Group.

An Annual General Meeting is held and is open to all Fund employers.

10 Ethical and Environmental Investment
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 expects the Fund Managers to take note of the possibility that substantial ethical or environmental considerations may be among those bringing a particular investment decision into the "potentially contentious" category referred to in paragraph 11.

11 Corporate Governance
The Fund wishes to be an active shareholder and exercise its voting rights to promote and support good corporate governance principles. In practice, Managers are delegated authority to exercise the Fund's voting rights in this respect subject to seeking the Council's specific approval in respect of potentially contentious issues (those which receive significant press or media coverage) and reporting quarterly on action taken.

Since 2008/2009 the Fund has been a member of the Local Authority Pension Fund Forum, thus demonstrating a commitment to socially responsible investment and the promotion of high standards of governance and corporate social responsibility.

12 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. From 1 April 2011 a separate bank account has been 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..

13 Administration
On behalf of Surrey County Council, the Chief Finance Officer is required to exercise continual monitoring of the managers' investment related actions and administration. This includes:

- maintaining the investment ledger and suitable accounting procedures for Fund assets
- preparing and submitting statistics quarterly for performance measurement independent of the managers
- preparing a quarterly report to the Investment Advisors Group and the Audit and Governance Committee
- preparing the audited annual report and accounts for employing bodies – in line with statutory deadlines
- publishing a report on the County website that is available to stakeholders
- maintaining an up to date record of cash balances at Surrey to ensure surplus cash is invested promptly or that resources are available to meet the benefit outflow as it arises.

Annexe 1
Myners Investment Principles – Compliance Statement

Statutory Instrument 2002 No. 1852 required that Surrey County Council, administering authority of the Surrey Pension Fund, publish details of the extent to which the Fund complied with the ten principles identified as indicators of best practice in the Myners Review of Institutional Investment which was published in 2001.

In 2007 HM Treasury sponsored the NAPF to conduct a review of progress made throughout the pensions industry since the introduction of the Myners principles in 2001. The resultant report 'Institutional Investment in the UK: Six years on' was followed by a wide consultation exercise culminating in the original ten principles being replaced by six new principles.

The new principles were launched in October 2008 and HM Treasury and the Department for Work and Pensions jointly commissioned the Pensions Regulator to oversee an Investment Governance Group given the task of implementing the new principles across all UK pension funds.

In response to the HM Treasury report 'Updating the Myners Principles: A Response to Consultation', LGPS administering authorities are now required to prepare, publish and maintain statements of compliance against a set of six principles for pension fund investment, scheme governance, disclosure and consultation. These principles replace the original ten Myners principles. The requirement to report on compliance is embedded in Regulation 12 (3) of The LGPS (Management and Investment of Funds) Regulations 2009.

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 Investment Advisors Group is supported in its decision-making role by the Chief Finance Officer and the Pension Fund and Treasury Manager.

Members of the Investment Advisors Group participated in a series of training events following the formation of the new group subsequent to the 2009 local elections. Members all undertook a self-assessment questionnaire to determine training need as part of their induction process. Training has been delivered through a formal programme and topic specific training was provided at every quarterly meeting to ensure readiness for the 2011 strategy review.

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 a Funding Strategy Statement and are directly linked to the triennial actuarial valuation. The investment objectives are clearly stated in the Statement of Investment Principles and were last reviewed as part of the 2006 Asset Liability Modelling study (ALM). The Fund's asset allocation is currently being reviewed and it is expected that any changes will be implemented by 31 August 2012.

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 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 longevity monitoring service, the longevity assumptions that the actuary adopted at the 2010 valuation are a bespoke set of assumptions that 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 since the last valuation.

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 regularly against targets, which are specified in the contract between SCC and the manager. Northern Trust, 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 both the Investment Advisors Group and Audit and Governance Committee on a quarterly basis. Fund managers present to the Investment Advisors Group on at least an annual basis and officers have at least one additional meeting per annum to discuss the portfolio composition, strategy and performance.

Consideration has been given to quantitative measures to assess the performance of the Investment Advisors Group although options other than meeting attendance are limited.

Principle 5 Responsible ownership

Administering authorities should:

- Adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents
- 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 ISC Statement of Principles.

The Statement of Investment Principles includes a statement on responsible ownership. 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 became a member of the Local Authority Pension Fund Forum in 2008/2009, thus demonstrating a commitment to socially responsible investment and the promotion of high standards of governance and corporate social responsibility.

Many of the Fund's managers are signed up to the UN Principles of Responsible Investment (UNPRI), which provides a framework for investors to consider environmental, social and corporate governance issues when making investment decisions.

On an annual basis those managers that are not signed up are required to provide a statement on how far they do comply with the UNPRI and their reasons for not becoming a signatory.

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 communications policy statement, governance policy compliance statement, 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 Audit and Governance Committee on the management of the Fund's investments are publicly available on the council's website.

Pensions newsletters are sent to Fund members.

Funding Strategy Statement

Introduction:

1. This is the Funding Strategy Statement (FSS) of the Surrey Pension Fund, which is administered by Surrey County Council. This statement updates the FSS that was published in March 2008 following receipt of the 2007 actuarial valuation results and consultation with scheme employers and the Fund Actuary (Hymans Robertson LLP).

2. This statement reflects the discussions between the Administering Authority, scheme employers and Hymans Robertson LLP during the 2010 actuarial valuation process, and is effective from 31 March 2011.

3. The FSS is reviewed in detail at least every three years in line with triennial actuarial valuations being carried out. The next full review is due to be completed by 31 March 2014.

4. The FSS forms part of a framework which includes:

a) the LGPS Regulations (Regulation 76A and 77 of the 1997 Regulations and Regulations 35-37 of the LGPS (Administration) Regulations 2008 are particularly relevant);
b) the Rates and Adjustments Certificate, which can be found appended to the Fund Actuary's latest triennial actuarial valuation report;
c) the Statement of Investment Principles (SIP)
d) the Fund's governance statement and governance compliance statement

5. All of the above mentioned documents are publicly available with the latter three documents published on the Surrey County Council website at www.surreycc.gov.uk.

6. This is the framework within which the Fund's actuary carries out triennial valuations to set contribution rates for individual scheme employers 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.

Purpose of the Funding Strategy Statement:

7. The Local Government Pension Scheme (England and Wales) (Amendment) Regulations 2004 came into effect on 1 April 2004. The Regulations provided the statutory framework within which LGPS administering authorities were required to prepare a first Funding Strategy Statement (FSS) by 31 March 2005.

   The Department for Communities and Local Government (CLG) has stated that the purpose of the funding strategy 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 requirement to maintain as nearly constant employer contribution rates as possible; and
   - to take a prudent longer-term view of funding those liabilities.

8. The intention is for this strategy to be both cohesive and comprehensive for the Fund as a whole, recognising that these will be individually desirable but conflicting objectives that need to be balanced and reconciled. Whilst the position of individual employers must be reflected in the FSS, it must remain

a single strategy for the Administering Authority to implement and maintain.

This statement aims therefore to set out how the Administering Authority has balanced the conflicting aims of affordability of contributions, transparency of processes, stability of employer contributions and prudence in the funding basis.

Background to the Surrey Pension Fund:

9. As at 31 March 2010 the total value of the Pension Fund was £1.94bn and in 2009/2010 employer contributions into the pension fund amounted to £106.6m. Employee contributions amounted to £32.3m.

10. There are over 70 employers involved in the Surrey Pension Fund. The largest employers, in terms of the number of active members and monetary contributions to the Pension Fund, are Surrey County Council, the Borough and District Councils, Surrey Police Authority and the University of Surrey.

11. The level of contributions into the fund to be paid by each employer is determined by the triennial actuarial valuation. The 2010 actuarial valuation has determined the level of contributions to be paid by employers during the period 1 April 2011 to 31 March 2014.

12. Officers of Surrey CC received the preliminary results of the valuation in October 2010. Results were circulated to all employers by early January 2011. This allowed employers to comment on, or query, assumptions or individual results and to ensure that any changes in contribution rates could be incorporated into the budget setting process for 2011/2012.

13. This activity was key to ensuring that the requirement of consulting with relevant interested parties on the Funding Strategy and actuarial valuation process could take place.

The aims and purpose of the Pension Fund:

14. The **aims** of the Fund are to:

- enable employer contribution rates to be kept as nearly constant as possible and at reasonable cost to the taxpayers, scheduled, resolution and admitted bodies
- manage employers' liabilities effectively
- ensure that sufficient resources are available to meet all liabilities as they fall due
- maximise the returns from investments within reasonable risk parameters.

15. The **purpose** of the Fund is to:

- receive monies in respect of contributions, transfer values and investment income, and
- pay out monies in respect of scheme benefits, transfer values, costs, charges and expenses, as defined in the Local Government Pension Scheme Regulations and in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (As Amended).

Responsibilities of key parties:

16. Surrey County Council, as Administering Authority, will:

- collect employee and employer contributions
- invest surplus monies in accordance with the relevant regulations
- ensure that cash is available to meet liabilities as and when they fall due
- manage the actuarial valuation process in consultation with Hymans Robertson LLP, the Fund Actuary
- prepare and maintain a Funding Strategy Statement (FSS) and a Statement of Investment Principles (SIP), both after proper consultation with interested parties, and
- monitor all aspects of the Fund's performance and funding and amend the FSS/SIP as appropriate.

17. Individual employers in the Fund will:

- deduct contributions from employees' pay correctly
- pay all contributions, including their own as determined by Hymans Robertson LLP, promptly by the due date
- exercise discretions within the regulatory framework
- make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits and early retirement strain, and
- notify Surrey County Council promptly of all changes to membership, or as may be proposed, which affect future funding.

18. Hymans Robertson LLP, the Fund Actuary, will:

- prepare actuarial valuations, including the setting of employers' contribution rates after agreeing assumptions with the Administering Authority and having regard to the FSS, and
- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters.

Solvency issues and target funding levels:

19. Surrey County Council, as Administering Authority, prudentially seeks to achieve full funding.

20. The Fund actuary is required to report on the "solvency" of the whole fund at least every three years. 'Solvency" for ongoing employers is defined to be the ratio of the market value of assets to the value placed on accrued benefits on the Fund Actuary's *ongoing funding basis*. This quantity is known as a funding level.

21. The Fund Actuary agrees the financial and demographic assumptions to be used for each such valuation with the Administering Authority. The fund operates the same target funding level for all other employers of 100% of its accrued liabilities valued on the ongoing basis, unless otherwise determined (see below).

22. The overall solvency of the Fund at the 2010 valuation was 72%, which compares with 79% at the 2007 valuation.

23. The ongoing funding basis has traditionally been used for each

triennial valuation for all employers in the fund. This approach assumes a long-term participation in the Fund, and is described in the following sections.

24. In the circumstances where:

- the employer is an Admission Body but not a Transferee Admission Body, and
- the employer has no guarantor, and
- the admission agreement is likely to terminate within the next 5 to 10 years or lose its last active member within that timeframe:

the Administering Authority may vary the discount rate used to set the employer contribution rate. In particular, contributions may be set for an employer to achieve full funding on a more prudent basis (e.g. using 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 when a cessation valuation is carried out.

25. The Administering Authority also reserves the right to adopt the above approach in respect of those 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.

Contribution rates:

26. The employer's contribution rate consists of two elements:

    i. The ongoing rate, which provides for the year-by-year accrual of benefits for current employees

    ii. A lump sum in respect of past service liabilities, which is determined by an employer's share of the Fund deficit, liquidated over a specified number of years

Background and historical funding levels:

27. For many years up to 1989, legislation required that the Fund was adequate to meet all liabilities, i.e. was 100% solvent. In 1989 the regulations in force specified that the target level of funding need only be 75% of future liabilities, thereby leading to a reduction in costs that was intended to offset the impact of the new community charge system.

28. A further complexity arose in 1990 following the 1989 review. Prior to that year the employers' contribution had been set in two parts.

    i. A rate was set to provide for the basic benefits of the Scheme through the Fund

    ii. A further rate was set to meet the cost of pension increases and other non-statutory benefits on a "pay as you go" basis. Pension increases are the annual uprating of pensions in payment for cost of living.

29. Following the implementation of new regulations from 1 April 1990, the cost of inflation proofing both pension payments and deferred benefits was incorporated within the overall fund

and met through a single employers' contribution rate. This change resulted in a reduction in the solvency level and also to an overall reduction in employers' contributions.

30. Regulations issued by the Department of the Environment in 1992 specified a return to the former target funding level of 100%. Consequently, since April 1993, those employers with an excess of liabilities over assets ("past service deficiency") have been paying additional contributions into the Fund in order to return to 100% solvency over the remaining working lifetime of the members of the Fund.

31. The actuarial valuation as at 31 March 1998 determined that the fund was 75% funded, i.e. that the assets of the fund were sufficient to cover 75% of its liabilities. The reasons behind the funding level include those issues mentioned above, together with a change in the tax treatment of pension funds in 1997, which removed the ability for funds to claim credits on tax paid on dividends. This government policy change reduced the funding level of the Surrey Pension Fund by around 8%.

32. The overall funding level at 31 March 2001 remained broadly unchanged over the three year inter-valuation period (1998-2001), mainly because poor investment performance relative to the 1998 valuation assumptions offset the contributions being made toward liquidating the deficiency.

33. The funding level as at 31 March 2004 reduced to 68%. This was again because poor investment performance relative to the 2004 valuation assumptions offset the contributions being made toward the deficiency.

34. At the time of the 2004 valuation a number of ways of mitigating the impact of the increase in contribution rates resulting from the reduction in funding level were identified. Following consultation with fund employers and the Fund Actuary it was agreed to allow for the proposed abolition of the 'rule of 85' and to take credit for the additional return that the Fund was expected to generate as a result of being more heavily invested in equities after a change in investment strategy. In addition, the deficit recovery period was increased from 13 years to 20 years to reflect the increase in the remaining working life-time of active members.

35. The previous actuarial valuation, carried out as at 31 March 2007, saw the funding level increase to 79.3%. However, ongoing contribution rates increased as a result of the changes in the regulations governing the application of the LGPS, effective from 1 April 2008, the allowance for improvements in longevity and an increase in expected future salary and price inflation.

Ongoing funding basis: Life expectancy

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

37. 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.

38. 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 "medium cohort" and a 1% p.a. minimum underpin to future reductions in mortality rates. The approach taken is considered reasonable in light of the long-term nature of the Fund and the assumed level of security that underpins members' benefits.

Financial assumptions:

38. Having analysed historic results and future projections of equity returns the Fund Actuary and the Administering Authority agreed that credit should be taken for the additional return that the Fund should generate due to being more heavily invested in equities. To ensure prudence it was assumed that this return would again be 1.6% p.a. more than that which may be achieved if the Fund was invested solely in government bonds. Applying a higher equity premium than 1.6% would result in a higher funding level and lower contribution rates but it is felt that it would be imprudent to do so. Similarly, applying a lower equity risk premium (say 1.25%) would result in a lower funding level and higher contribution rates but it is the intention of the Funding Strategy Statement to ensure that employer contribution rates should be kept as nearly constant as possible and at reasonable cost to the taxpayers and employing bodies.

39. The other financial assumptions used during the 2010 valuation are as follows:

	2007 % p.a.		2010 % p.a.	
	Nominal	Real	Nominal	Real
Gilt yield (base discount rate)	4.5%	1.3%	4.5%	1.2%
Asset Outperformance Assumption	1.6%		1.6%	
Discount Rate	6.1%		6.1%	
Pay increases[1]	4.7%	1.5%	5.3 %	2.0%
Pension Increases[2]	3.2%	-	3.3 %	-
Price inflation	3.2%	-	3.8%	-

[1]Pay for public sector employees will be frozen by Government until 2012, with a flat increase of £250 being applied to all those earning less than £21,000 pa. Although this “pay freeze” does not officially apply to local government employers, it has been suggested that they are expected to show similar restraint in respect of pay awards. Based on an analysis of the membership in LGPS funds, the average expected increase in pensionable pay across all employees should be around 1% pa for the next two years. Therefore the salary increase assumption at the 2010 valuation has been set to 1% pa for 2010/11 and 2011/12. After this point, the assumption will revert back to RPI plus 1.5% pa, as adopted for the previous valuation.

[2]The Chancellor of the Exchequer announced in his Emergency Budget on 22 June 2010 that the consumer prices index (CPI) rather than the retail prices index (RPI) will be the basis for future increases to public sector pensions in deferment and in payment. This proposed change has been allowed for in the valuation calculations as at 31 March 2010. At the previous valuation, we derived our assumption for RPI from market data as the difference between the yield on long-dated fixed interest and index-linked government bonds. At this valuation, we propose to adjust this market-derived rate downwards by 0.5% pa to allow for the “formula effect” of the difference between RPI and CPI. Basing pension increases on CPI rather than RPI will serve to reduce the value placed on the Fund’s liabilities.

Future service contribution rates:

40. The future service element of the employer contribution rate is calculated on the ongoing valuation basis, with the aim of ensuring that there are sufficient assets built up to meet future benefit payments in respect of future service.

41. 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. 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 lower discount rate (most usually for Admission Bodies in the circumstances outlined in paragraph 24).

42. 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 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:

i. Employers that admit new entrants

The employer’s future service rate will be based upon the cost (in excess of members’ contributions) of the benefits that employee members earn from their service each year. Technically these rates will be derived using the *Projected Unit Method* of valuation with a one-year control period.

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 profile of employees matures (e.g. because of lower recruitment) the rate would rise.

ii. Employers that do not admit new entrants

Certain Admission Bodies have closed the scheme to new entrants. This is expected to lead to the average age of employee members increasing over time and hence, all other things being equal, the future service rate is expected to increase as the membership ages.

To give more long-term stability to such employers' contributions, the Attained Age funding method is normally adopted. This will limit the degree of future contribution rises by paying higher rates at the outset.

Both future service rates will include expenses of administration to the extent that they are borne by the Fund and include an allowance for benefits payable on death in service and ill health retirement.

Adjustments for individual employers:

43. Adjustments to individual employer contribution rates are applied both through the calculation of employer-specific future service contribution rates and the calculation of the employer's funding position.

    The combined effect of these adjustments for individual employers applied by the Fund Actuary relate to:

    - past contributions relative to the cost of accruals of benefits;
    - different liability profiles of employers (e.g. mix of members by age, gender, manual/non manual);
    - the effect of any differences in the valuation basis on the value placed on the employer's liabilities;
    - any different deficit/surplus spreading periods or phasing of contribution changes;
    - the difference between actual and assumed rises in pensionable pay;
    - the difference between actual and assumed increases to pensions in payment and deferred pensions;
    - the difference between actual and assumed retirements on grounds of ill-health from active status;
    - the difference between actual and assumed amounts of pension ceasing on death;
    - the additional costs of any non ill-health retirements relative to any extra payments made;

    over the period between each triennial valuation.

44. Actual investment returns achieved on the Fund between each valuation are applied proportionately across all employers. 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.

45. The Fund Actuary does not allow for certain relatively minor events occurring in the period since the last formal valuation when calculating the share of the Fund assets attributable to

each employer (see paragraph 48), 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.

Asset share calculations for individual employers:

46. The Administering Authority does not account for each employer's assets separately. The Fund's actuary is required to apportion the assets of the whole fund between the employers at each triennial valuation using the income and expenditure figures provided for certain cash flows for each employer. This 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 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.

47. The Administering Authority recognises the limitations in the process, but having regard to the extra administration cost of building in new protections, it considers that the Fund Actuary's approach addresses the risks of employer cross-subsidisation to an acceptable degree.

Stability of employer contributions:

48. 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 prudential strategies that the Administering Authority may deploy in order to maintain employer contribution rates at as nearly a constant rate as possible. These include, where circumstances permit:-

    a. capping of employer contribution rate increases / decreases within a pre-determined range ("Stabilisation")
    b. the use of extended deficit recovery periods
    c. the phasing in of contribution increases / decreases
    d. the pooling of contributions amongst employers with similar characteristics

Stabilisation:

49. There can be occasions when, despite the deployment of contribution stabilising mechanisms such as pooling, phasing and the extension of deficit recovery periods, the theoretical employer contribution rate is not affordable or achievable. This can occur in times of tight fiscal control or where budgets have been set in advance of new employer contribution rates being available.

50. In view of this possibility, the Administering Authority has commissioned the Fund Actuary to carry out extensive modelling to explore the long term effect on the Fund of capping future contribution increases. The results of this modelling indicate that it is justifiable to limit employer contribution rate changes to +1% / -1% of employers' contributions per annum from 1 April 2014, with fixed contributions until then, subject to the following conditions being met:
    - The Administering Authority is satisfied that the status of the employer merits adoption of a stabilised approach; and
    - there are no material events between now and 1 April 2011 which render the stabilisation unjustifiable.

51. In the interests of stability and affordability of employer contributions, the Administering Authority, on the advice of the Fund actuary, believes that the results of the modelling demonstrate that stabilising contributions can still be viewed as a prudent longer-term approach. However, employers whose contribution rates have been "stabilised" and are therefore 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.

52. The Fund currently has a strong net cash inflow and can therefore take a medium to long term view on determining employer contribution rates to meet future liabilities through operating a fund with an investment strategy that reflects this long term view. It allows short term investment markets volatility to be managed so as not to cause volatility in employer contribution rates.

53. The LGPS regulations require the longer term funding objectives to be to achieve and maintain assets to meet the projected accrued liabilities. The role of the Fund Actuary in performing the necessary calculations and determining the key assumptions used, is an important feature in determining the funding requirements. The approach to the actuarial valuation and key assumptions used at each triennial valuation form part of the consultation undertaken with the FSS.

Deficit recovery periods:

54. The Administering Authority instructs the actuary to adopt specific deficit recovery periods for all employers when calculating their contributions. The Administering Authority normally targets the recovery of any deficit over a period not exceeding 20 years. However, these are subject to the maximum lengths set out in the table overleaf:

	Maximum Length of Recovery Period
Statutory bodies with tax raising powers	20 years
Academies	20 years
Admission bodies with funding guarantees	20 years
Private contractors admitted under Best Value Regulations	The remaining contract period
All other types of employer	A period equivalent to the remaining working lifetime of active members

55. This *maximum* period is used in calculating each employer's *minimum* contributions. And employers may opt to pay higher regular contributions than these minimum rates. The deficit recovery period starts at the commencement of the revised contribution rate (1 April 2011 for 2010 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 to improve the stability of contributions.

56. Following the completion of the 2010 valuation, some employers may have a funding level greater than 100%. These employers will have a choice not afforded to many other employers in the fund. Any employers deemed to be in surplus may be permitted to reduce their contributions below the cost of accruing benefits, by spreading the surplus element over the maximum periods shown above for deficits in calculating their minimum contribution. However if they take the full benefit of their surplus re-payments then their ability to withstand future adverse shocks in the 2013 valuation will be diminished. Employers should consider carefully whether or not to take the full benefit of their current surplus. It is recommended that employers in surplus do not reduce their contribution rate from the rate certified at the 2007 valuation.

Phasing of contribution rates:

57. Transferee Admission Bodies are not eligible for phasing in of contribution rises. Other employers may opt to phase in contribution rises as follows:

- for employers contributing at or above its future service rate in 2010/11, phasing in the rise in employer contributions over a period of three years;
- for employers contributing at less than its future service rate in 2010/11 the employer should at least pay its future service rate in 2011/12.

58. Any contribution reductions will be subject to the 'stabilisation mechanism' set out in paragraph 49 for public sector bodies. Other bodies (including Transferee Admission Bodies) can take the reduction with immediate effect.

59. Employers that are permitted, and elect to use, a longer deficit spreading period than was used at the 2007 valuation or to phase-in contribution changes will be assumed to incur a

greater loss of investment returns on the deficit by opting to defer repayment. Thus, deferring paying contributions is expected to lead to higher contributions in the long-term (depending on the actual financial and demographic performance of the Fund relative to the valuation assumptions).

60. However any adjustment is expressed for different employers, the overriding principle is that the discounted value of the contribution adjustment adopted for each employer will be equivalent to the employer's deficit.

Pooled contributions:

61. With the advice of the Actuary the Administering Authority allows smaller employers of similar types to pool their contributions as a way of sharing experience and smoothing out the effects of costly but relatively rare events such as ill-health retirements or deaths in service.

62. Employers who are permitted to enter (or remain in) a pool at the 2010 valuation will be advised of their contribution rate and that it is subject to a pooling arrangement unless they seek in writing to be excluded from the pool.

63. Schools generally are also pooled with their funding Council. However there may be exceptions for specialist or independent schools such as Academies.

64. From time to time the Administering Authority may set up pools for employers with similar characteristics

Additional flexibility in return for added security:

65. Where the above methods for improving stability of employer contributions do not automatically apply, 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). 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.

66. 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.

Regular reviews:

67. The Administering Authority reserves the right to review contribution rates and amounts, and the level of security provided, at regular intervals. These intervals may be annual, in the case of Admitted Bodies and/or in the last few years of the employer's contract.

68. Such reviews may be triggered by 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.

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

Admitted bodies ceasing:

70. Admission Agreements for Transferee Admitted Bodies are assumed to expire at the end of the contract. Admission Agreements for other employers are generally assumed to be open-ended but can be terminated at any point subject to the terms of the agreement.

71. Notwithstanding the provisions of the Admission Agreement, the Administering Authority considers any of the following as triggers for the termination 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 Admitted Body;
- Any breach by the Admitted 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 Admitted Body to pay any sums due to the Fund within the period required by the Fund; or
- The failure by the Admitted Body to renew or adjust the level of the bond or indemnity, or to confirm an appropriate alternative guarantor, as required by the Fund.

72. If an Admitted Body's admission agreement is terminated, the Administering Authority will instruct the Fund Actuary to carry out a termination valuation to determine whether there is any deficit or surplus. Where there is a deficit, payment of this amount in full would normally be sought from the Admitted Body; where there is a surplus it should be noted that current legislation does not permit a refund payment to the Admitted Body.

73. The approach adopted to value the departing employer's liabilities for this valuation will depend upon the circumstances. For example:

a) For Transferee Admitted Bodies, the assumptions applying at the contract end would normally be those used for an ongoing valuation to be consistent with those used to calculate the initial transfer of assets to accompany the active member liabilities transferred.

b) For non Transferee Admitted 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 other ongoing employers. The actuary will therefore adopt valuation assumptions which, to the extent reasonably practicable, protect the other employers from the likelihood of any material loss emerging in future. Where there is a guarantor for future deficits and contributions, the cessation valuation will normally be calculated using the ongoing basis as described in paragraph 40. Where such 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" with no allowance for potential future investment outperformance and with an allowance for further future improvements in life expectancy. This could give rise to significant payments being required.

c) For Admitted Bodies with guarantors, it may be possible to simply transfer the former Admitted 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.

74. Under 72(a) and 72(b), any shortfall would usually be levied on the departing Admitted Body as a lump sum payment unless there are alternative sources of funds such as guarantees or bonds in place.

75. In the event that the Fund is not able to recover the required payment in full directly from the Admitted Body or from any bond, indemnity or guarantor, then:

i) in the case of Transferee Admitted Bodies the Awarding Authority will be liable for future deficits and contributions arising. At its absolute discretion, the Administering Authority may agree to recover any outstanding amounts via an increase in the Awarding Authority's contribution rate over an agreed period, outside any stabilisation mechanism in place.

ii) in the case of other Admitted Bodies where there is no guarantor, the unpaid amounts fall to be shared amongst all of the employers in the Fund. This may require an immediate revision to the Rates and Adjustments Certificate affecting other employers in the Fund, or instead be reflected in the contribution rates set at the next formal valuation following the cessation date.

76. As an alternative to 74(ii) above, where the ceasing Admitted Body is continuing in business, the Fund at its absolute discretion reserves the right to enter into an agreement with the ceasing Admitted 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 valuation basis: deficit recovery payments would be derived from this cessation amount. This approach would be monitored as part of each triennial valuation and 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.

Early retirement costs:
Non ill health retirements

77. The actuary's funding basis makes no allowance for premature retirement except on grounds of ill health. Employers are required to pay additional contributions ('strain') wherever an employee retires before attaining the age at which the valuation assumes that benefits are payable. With the agreement of the Administering Authority the payment can be spread as follows:
    - Major Employing bodies - up to 5 years
    - Community Admitted Bodies - up to 3 years
    - Transferee Admitted Bodies - payable immediately.

78. However, due to the current difficult economic conditions and cuts in budgets, the Administering Authority may permit alternative repayment terms for a temporary period: for the most secure employers only (i.e. those who are precepting and eligible for the stabilisation mechanism), the Fund will allow the option of repayment of early retirement strain costs over a longer period. In practice this will be effected by:
    - assessing at the end of each financial year the additional liabilities arising from early retirements in that year,
    - converting these into an additional contribution rate expressed as a percentage of payroll (based on a 20 year deficit recovery period). This is paid in addition to the stabilised contribution rate.

79. It is assumed that members' benefits on age retirement are payable from the earliest age that the employee could retire without incurring a reduction to any of their benefit and without requiring their employer's consent to retire. The additional costs of premature retirement are calculated by reference to these ages (NB the relevant age may be different for different periods of service, following the benefit changes from April 2008).

Ill health monitoring:

80. Admitted Bodies will usually have an 'ill health allowance'; Scheduled Bodies may have this also, depending on their agreement terms with the Administering Authority. Under these circumstances, the Fund monitors each employer's, or pool of employers, 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 will be charged additional contributions on the same basis as apply for non ill-health cases. Details will be included in each separate Admission Agreement.

Ill health insurance:

81. 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;
    - there is no need for monitoring of allowances.

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

The 2010 valuation results:

83. The following table summarises the main results of the 2010 valuation together with comparative figures for the previous valuation:

	2007 Valuation	2010 Valuation
Active Members		
Number of active members	25,358	28,651
Total Annual Pensionable Pay	£540.2m	£665.4m
Average Pensionable Pay	£21,307	£23,226
Deferred Pensions		
Number of Deferred Pensioners	20,737	25,659
Total annual value of deferred pensions payable in future	£25.2m	£30.4m
Pensioners and Widow(er)s		
Number of pensioners	15,896	17,999
Total annual pensions payable	£62.6m	£78.2m
Average pension in payment	£3,937	£4,347
Value of Liabilities	£2,218.8m	£2,698.9m
Market Value of the Fund	£1,759.3m	£1,944.4m
Deficit	£459.6m	£754.5m
Solvency Level of the Fund	79%	72%
Employer Average Contribution Rate		
Future Service	14.70%	16.30%
Past Service Deficit	6.20%	8.90%
Total Employer Rate	20.90%	25.20%

84. The resultant employer contribution rates applicable from 1 April 2011 are shown in Annexe A, together with deficit recovery periods agreed for all employers in the Fund. This is a statement of the minimum contributions to be paid by each employer and employers can pay additional amounts toward the deficit.

85. Historically, tax raising bodies have preferred to express the deficit recovery contributions as a monetary amount rather than as a percentage of payroll. This is to ensure that any large

reductions in payroll do not result in lower than expected contributions to the fund deficit. For the 2010 valuation, deficit recovery contributions for the majority of employing bodies are being expressed as a monetary amount (rather than a percentage of payroll). Academy schools that have been admitted to the Fund subsequent to the valuation are the only exception and will pay deficit contributions expressed as a percentage of payroll until the 2013 valuation results are implemented.

Links to the Fund's investment policy set out in the Statement of Investment Principles:

86. 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.

87. The Fund's Statement of Investment Principles is a formal statement of how the county council carries out these responsibilities. The latest effective SIP is published on Surrey County Council's website.

88. The Investment Advisors Group, having regard to funding levels, cash needs and risk tolerance, determines the overall Fund asset mix. The Fund has had a customised benchmark in place since the 2000 asset-liability modelling (ALM) study.

The identification of risks and counter-measures:

89. The County Council recognises that there are certain risks that may impact on this FSS. The risks and measures to be taken to counter these risks include:

Financial 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. Analyse progress at three yearly valuations for all employers. Inter-valuation roll-forward to liabilities between formal valuations subject to market experience.
Inappropriate long-term investment strategy.	Set Fund-specific benchmark, informed by Asset-Liability modelling of liabilities. Consider measuring performance relative to bond-based target, absolute returns or a Liability Benchmark Portfolio and not relative to indices.
Fall in risk-free returns on Government bonds, leading to rise in value placed on liabilities.	Inter-valuation monitoring, as above. Some investment in bonds helps to mitigate this risk.
Active investment manager under-performance relative to benchmark.	The Investment Management Agreement (between SCC and the fund manager) clearly states the Customer's expectations in terms of performance targets. Investment manager performance is reviewed on a quarterly basis. The Investment Advisors Group is positioned to move quickly if it is felt that targets will not be met.
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 are reminded 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.	Seek feedback from employers on scope to absorb short-term contribution rises. Mitigate impact through deficit spreading and phasing in of contribution rises.

Demographic Risks	Summary of Control Mechanisms
Pensioners living longer.	Set mortality assumptions with some allowance for future increases in life expectancy. The Fund actuary monitors combined experience of around 50 funds to look for early warnings of lower pension amounts ceasing than assumed in funding. The council encourages any employers concerned at costs to promote later retirement culture. Each 1-year rise in the average age at retirement would save roughly 5% of pension costs.
Maturing Fund – i.e. proportion of actively contributing employees declines relative to retired employees.	Continue to monitor at each valuation, consider seeking monetary amounts rather than % of pay and consider alternative investment strategies.
Deteriorating patterns of early retirements.	Employers are charged the extra capital cost of non ill health requirements following each individual decision. Employer ill health requirement experience is monitored.
A company admitted to the Fund as an admission body may become financially unviable.	A surety bond is required to cover the potential risk of the admitted body becoming insolvent and the value of this surety or bond is reviewed regularly to ensure it provided adequate cover for the financial risks involved.
Ill-health retirements significantly more than anticipated.	Monitoring of each employer's ill-health experience on an ongoing basis. The employer may be charged additional contributions if this exceeds the ill-health assumption built in.
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: For employers in the stabilisation mechanism, may be brought out of that mechanism to permit appropriate contribution increases. For other employers, review of contributions is permitted in general between valuations and may require a move in deficit contributions from a percentage of payroll to fixed monetary amounts.

Regulatory Risk	Summary of Control Mechanisms
Changes to regulations, e.g. more favourable benefits package, potential new entrants to scheme, e.g. part-time employees.	Surrey CC considers all consultation papers issued by the Government and comments where appropriate. The results of the Hutton review are not expected to affect the Fund until after the 2013 valuation, and so will be incorporated at that time. Any changes to member contribution rates or benefit levels will be carefully communicated with members to minimise possible opt-outs or adverse actions.
Changes to national pension requirements and/or HMRC rules e.g. changes arising from the Hutton Review of public sector pensions.	

Governance 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).	Employers are required to inform Surrey CC of any significant changes in membership numbers on a timely basis. Surrey CC monitors employer contributions on a monthly basis and queries any obvious variations. Employers are required to produce a year-end report on membership numbers. The council carries out in depth movement analysis on an annual basis. The Actuary may be instructed to consider revising the rates and Adjustments certificate to increase an employer's contributions (under Regulation 38) between triennial valuations. Deficit contributions are expressed as monetary amounts (see Annexe A).
Administering Authority not advised of an employer closing to new entrants.	This is only relevant to employers with an admission agreement (scheduled and resolution bodies cannot close the scheme to new entrants). It is a requirement of the admission agreement that Surrey CC is informed if the employer closes to new members.
Administering Authority failing to commission the Fund Actuary to carry out a termination valuation for a departing Admission Body and losing the opportunity to call in a debt.	In addition to Surrey CC monitoring membership movements on a quarterly basis, it requires employers with Transferee Admission Agreements to inform it of forthcoming changes.
An employer ceasing to exist with insufficient funding or adequacy of a bond.	Surrey CC believes that it would normally be too late to address the position if it was left to the time of departure. The risk is mitigated by: 1. Seeking a funding guarantee from another scheme employer, or external body, where possible. 2. Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice. 3. Vetting prospective employers before admission. 4. Where permitted under the regulations requiring a bond to protect the scheme from the extra cost of early retirements on redundancy if the employer failed. 5. Reviewing bond or guarantor arrangements at regular intervals. 6. Reviewing contributions if thought appropriate.

Consultation and publication:

90. This is the third Funding Strategy Statement for the Surrey Pension Fund. This updates the Funding Strategy Statement that was published following the 2007 actuarial valuation and reflects discussions between the Administering Authority, Hymans Robertson LLP and scheme employers during the 2010 actuarial valuation process.

91. The Administering Authority consulted the employers in the Fund on the funding strategy in the run up to the publication of the first strategy in 2005, the second strategy in 2008 and once again throughout the 2010 actuarial valuation process.

92. Draft valuation results were circulated to all employers by early January 2011. This allowed employers to comment on, or query, assumptions or individual results and to ensure that any changes in contribution rates could be incorporated into the budget setting process for 2011/2012.

93. The funding strategy is posted on Surrey CC's website, together with a copy of the Fund Actuary's report on the actuarial valuation. All employers will be sent a link to the website so that they can access the reports.

Annexe A

Statement of MINIMUM contributions to be paid by participating employers

	Deficit Recovery Period	Percentage of payroll due	Additional Monetary Amount		
		1 April 2011 to 31 March 2014	1 April 2011 to 31 March 2012	1 April 2012 to 31 March 2013	1 April 2013 to 31 March 2014
	Yrs		£	£	£
Large Scheduled bodies					
Surrey County Council	20	14.8%	16,797,000	16,797,000	16,797,000
Surrey Police Authority	20	12.0%	1,026,000	1,026,000	1,026,000
Elmbridge Borough Council	17	14.5%	756,000	756,000	756,000
Epsom & Ewell Borough Council	20	15.5%	418,000	418,000	418,000
Guildford Borough Council	20	14.6%	1,483,000	1,483,000	1,483,000
Mole Valley District Council	20	15.5%	578,000	578,000	578,000
Reigate & Banstead Borough Council	20	15.2%	1,167,000	1,167,000	1,167,000
Runnymede Borough Council[2]	20	16.3%	362,000	362,000	362,000
Spelthorne Borough Council	20	15.8%	478,000	478,000	478,000
Surrey Heath Borough Council	20	15.7%	381,000	381,000	381,000
Tandridge District Council	20	16.5%	931,000	931,000	931,000
Waverley Borough Council	17	16.5%	1,009,000	1,009,000	1,009,000
Woking Borough Council	20	15.0%	1,360,000	1,360,000	1,360,000

Notes to Large Scheduled bodies schedule:

1. All employers accepted the proposal to stabilise contributions at the rate in payment in 2010/2011.
2. Deficit recovery period increased from 17 to 20 years.

		Percentage of payroll due	Additional Monetary Amount		
	Deficit Recovery Period	1 April 2011 to 31 March 2014	1 April 2011 to 31 March 2012	1 April 2012 to 31 March 2013	1 April 2013 to 31 March 2014
Small Scheduled bodies	Yrs		£	£	£
Ash Parish Council	20	19.2%	5,202	6,819	8,437
Bisley Parish Council	20	18.6%	0	0	0
Bramley Parish Council	20	19.2%	147	328	510
Claygate Parish Council	20	18.7%	119	66	13
Compton Parish Council	20	17.9%	0	0	0
Cranleigh Parish Council	20	19.2%	3,531	3,674	3,818
East Horsley Parish Council	20	18.7%	106	63	21
Effingham Parish Council	20	18.7%	0	7	14
Epsom & Walton Downs Conservators	20	19.2%	6,526	6,639	6,753
Farnham Town Council	20	19.2%	4,419	11,002	17,585
Frensham Parish Council	20	18.7%	157	83	10
Godalming Town Council	20	19.2%	5,366	6,206	7,046
Godstone Parish Council	20	18.7%	62	39	17
Haslemere Town Council	20	18.7%	434	241	49
Horley Town Council	20	19.2%	3,006	4,178	5,349
Lingfield Parish Council	20	18.7%	0	6	11
Merton & Sutton Joint Cemetery Board	20	19.2%	5,440	6,497	7,554
Nonsuch Park Jt. Management Committee	20	19.2%	6,143	6,311	6,480
Send Parish Council	20	19.2%	452	757	1,062
Shere Parish Council	20	19.2%	1,250	1,853	2,456
Tongham Parish Council	20	19.2%	171	393	616
Valuation Tribunal Service	20	15.6%	9,000	10,000	11,000
Warlingham Parish Council	20	18.7%	39	23	7
West End Parish Council	20	18.7%	84	51	18
Windlesham Parish Council	20	19.2%	1,714	3,865	6,017
Witley Parish Council	20	19.2%	891	2,105	3,318
Worplesdon Parish Council	20	18.7%	331	179	27

Notes to Small Scheduled bodies schedule:

1. The above statement reflects the decision to permit phasing in of deficit recovery payment increases.

	Deficit Recovery Period	Percentage of payroll due	Additional Monetary Amount		
		1 April 2011 to 31 March 2014	1 April 2011 to 31 March 2012	1 April 2012 to 31 March 2013	1 April 2013 to 31 March 2014
	Yrs		£	£	£
Academies[1]					
Cleves	20	25.6%	n/a	n/a	n/a
Glyn School	20	22.3%	n/a	n/a	n/a
Sunbury Manor	20	22.4%	n/a	n/a	n/a
Weydon	20	19.3%	n/a	n/a	n/a
Blenheim High School	20	24.2%	n/a	n/a	n/a
Collingwood	20	21.6%	n/a	n/a	n/a
Epsom and Ewell High School	20	21.6%	n/a	n/a	n/a
Fullbrook School	20	26.3%	8,000	8,000	8,000
George Abbot	20	22.9%	n/a	n/a	n/a
Goldsworth School	20	24.1%	n/a	n/a	n/a
Hinchley Wood School	20	22.2%	n/a	n/a	n/a
Howard of Effingham	20	22.2%	n/a	n/a	n/a
Magna Carta	20	22.2%	n/a	n/a	n/a
Rodborough Technology College	20	24.5%	n/a	n/a	n/a
Rosebery School	20	28.4%	n/a	n/a	n/a
Rydens	20	19.4%	n/a	n/a	n/a
South Farnham	20	21.5%	n/a	n/a	n/a
Thamesmead	20	22.5%	n/a	n/a	n/a
The Beacon School	20	32.7%	n/a	n/a	n/a
The Raleigh	20	25.4%	n/a	n/a	n/a
Thomas Knyvett	20	22.2%	n/a	n/a	n/a
Woolmer Hill Technology College	20	27.7%	n/a	n/a	n/a

	Deficit Recovery Period	Percentage of payroll due 1 April 2011 to 31 March 2014	Additional Monetary Amount 1 April 2011 to 31 March 2012	1 April 2012 to 31 March 2013	1 April 2013 to 31 March 2014
	Yrs		£	£	£
Colleges/Universities[2]					
Brooklands College	20	17.1%	83,284	124,142	165,000
East Surrey College	20	16.1%	63,919	103,596	144,000
Esher College3	20	16.7%	21,200	22,300	23,600
Godalming College	20	16.7%	9,664	18,132	26,600
Guildford College of FE & HE[3]	20	15.6%	440,000	463,000	488,000
NESCOT	20	16.6%	139,126	232,563	326,000
Reigate College	20	16.7%	10,158	19,029	27,900
Strodes College	20	16.7%	7,213	13,507	19,800
University for the Creative Arts	20	16.0%	307,372	440,686	574,000
University of Surrey	20	16.4%	492,277	822,639	1,153,000
Woking College	20	16.7%	4,021	7,561	11,100

Notes to Academies/Colleges/Universities schedule:

1. For ease of administration, deficit contributions are to be recovered as a percentage of payroll for the period to 1 April 2014 hence there is no additional monetary amount.

1. Reflects the decision to permit phasing in of deficit contribution increases unless otherwise stated.

2. The schedule reflects an employer decision not to phase in increases in deficit contributions.

	Deficit Recovery Period	Percentage of payroll due 1 April 2011 to 31 March 2014	Additional Monetary Amount 1 April 2011 to 31 March 2012	1 April 2012 to 31 March 2013	1 April 2013 to 31 March 2014
	Yrs		£	£	£
Admitted bodies					
Ability Housing	n/a	21.5%	0	0	0
Accent Peerless Housing Group	7.9	18.8%	338,000	356,000	375,000
A2 Dominion Housing[1 3]	10.0	23.1%	178,000	187,000	197,000
Babcock 4S Ltd	7.2	20.2%	419,000	442,000	465,000
Carillion	5.9	21.1%	52,000	55,000	58,000
Childhood First[12]	5	24.3%	250,000	263,000	277,000
Care Quality Commission	6	21.0%	79,000	84,000	88,000
Elmbridge Housing Trust	6.6	20.0%	75,000	79,000	83,000
Fusion Lifestyle[1]	n/a	17.7%	0	0	0
George Burley & Sons	n/a	18.2%	0	0	0
Hanover Housing Association	7.9	18.1%	1,201,000	1,264,000	1,331,000
Mole Valley Housing Association	7.5	20.7%	50,000	52,000	55,000
Moor House School[1]	7.4	16.8%	169,000	179,000	188,000
Princess Alice Hospice[1]	4.5	19.2%	8,500	9,000	9,500
Raven Housing Trust	8.2	19.9%	100,000	105,000	111,000
Reigate Grammar School[12]	20	19.2%	94,000	99,000	104,000
Ringway	10	21.2%	2,000	2,000	2,000
Rosebery Housing Association	7.3	19.2%	11,000	11,500	12,000
Royal Grammar School, Guildford[12]	20	19.2%	54,500	57,000	60,000
SERCO	n/a	18.3%	0	0	0
Sir William Perkins's School[12]	20	19.2%	26,000	27,000	28,500
Skanska Construction UK	n/a	21.3%	0	0	0
Southern Alcohol Advisory Service[1]	9.4	15.5%	17,000	18,000	19,000
Surrey Association for Visual Impairment[1]	7	19.2%	97,000	102,000	108,000
Surrey Sports Park	n/a	10.9%	0	0	0
SWT Countryside Services Ltd[1]	8.8	22.1%	20,000	21,000	22,000
Waverley Hoppa Transport	6.3	19.4%	8,000	8,000	8,000
Woking Community Transport	7.3	19.2%	10,500	11,100	11,700

Notes to Admitted Bodies schedule:

1. Denotes registered charity.

2. Deficit recovery period extended beyond the average remaining future working life to remaining future working life of the youngest active member. This recovery period will be re-visited when the youngest active member leaves the employing body and the employer has been advised that higher deficit contributions may be required.

3. The employer is required to provide a bond to cover the difference between the actual contributions paid and the higher contributions that would be required if a lower deficit recovery period was used. If agreement on the adequacy of the bond is not in place by 30/6/2011 then the employer is required to pay the higher contributions.

Governance Compliance Statement 2011-12

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:

Principle A – Structure

		Not compliant	Partially Compliant	Fully Compliant
a)	The management of the administration of benefits and strategic management of Fund assets clearly rests with the main committee established by the appointing council		√	
b)	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		√	
c)	That where a secondary committee or panel has been established, the structure ensures effective communication across both levels			√
d)	That where a secondary committee or panel has been established, at least one seat of the main committee is allocated for a member from the secondary committee or panel		√	

	Reason for non-compliance (Regulation 73A(1)(c) 1997 Regulations
a)	Responsibility is currently divided between the Investment Advisors Group, the Audit and Governance Committee and the People, Performance and Development Committee. Following a Governance review the Committee structure is being reviewed and will be revised with effect from May 2014.
b)	We do not have anyone formally representing ex-members (pensioners/deferred members) or admitted bodies – although the first group is technically covered by the trade union representative
c)	n/a
d)	n/a

	Comments on ratings given above
a)	Both Audit & Governance and the People Performance and Development Committees consider the management of administration of benefits at SCC. Employer discretions are considered under arrangements established by individual employers. Audit & Governance Committee receives quarterly reports on the activities of the Investment Advisors Group.
b)	
c)	Audit & Governance Committee receives quarterly reports on the activities of the Investment Advisors Group.
d)	The Chair of the Audit & Governance Committee is invited to observe the meetings of the Investment Advisors Group. In October 2010 it was agreed that a member of the Audit & Governance Committee would replace an IAG member who had decided to step down from the IAG.

Principle B – Representation

		Not compliant	Partially Compliant	Fully Compliant
a)	That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include: i) employing authorities (including non-scheme employers, e.g. admitted bodies); ii) scheme members (including deferred and pensioner scheme members); iii) independent professional observers, and iv) expert advisors (on an ad-hoc basis)		√	
b)	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			√

	Reason for non-compliance (Regulation 73A(1)(c) 1997 Regulations
a)	We do not have anyone formally representing ex-members (pensioners/deferred members) or admitted bodies – although the first group is technically covered by the trade union representative The activities of the administering authority and the investment panel are reviewed on an annual basis by the Fund's auditors – the appointment (and cost) of an independent professional observer is considered to be surplus to requirements.

Principle C – Selection and role of lay members

		Not compliant	Partially Compliant	Fully Compliant
a)	That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee			√

	Reason for non-compliance (Regulation 73A(1)(c) 1997 Regulations
a)	n/a

	Comments on ratings given above
a)	Terms of reference are given to members when joining the Investment Advisors Group. The terms of reference are publicly available since they are published within the Governance Policy Statement.

Principle D – Voting

		Not compliant	Partially Compliant	Fully Compliant
a)	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		√	

	Reason for non-compliance (Regulation 73A(1)(c) 1997 Regulations
a)	The fact that non elected members do not have voting rights is clearly stated with the governance policy statement – however, the justification is not clear

	Comments on ratings given above
a)	All elected members of the administering authority have voting rights as a matter of course (under the Local Government (Committee and Political Groups) Regulations 1990 SI No 1553 5(1) (d). The provisions of Section 13 (3) and (4) of the Local Government and Housing Act 1989 allow an administering authority discretion as to whether or not a member of the Investment Panel who is not a member of that authority is treated as a voting or non-voting member. To this end, all elected members have voting rights. Other members do not have formal voting rights. However, it is extremely rare for formal votes to take place and non-elected members are encouraged to participate in debate.

Principle E – Training/Facility Time/Expenses

		Not compliant	Partially Compliant	Fully Compliant
a)	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			√
b)	That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or other form of secondary forum			√

	Comments on ratings given above
a)	The terms of reference for members of the Investment Advisors Group include a statement of training requirements. Formal investment training has taken place during 2011 prior to the review of investment strategy. Most meetings of the IAG include some training and invitations to attend conferences and other training are included in IAG meeting papers. A formal training programme will be set up in response to the outcome of the training needs analysis that has recently been completed. Elected members receive member allowances, although there is no special allowance for the Chair of the IAG as is the case for council committees.
b)	The terms of reference for members of the Investment Advisors Group apply to all members. Non-elected members are able to claim expenses related to their membership of the Investment Advisors Group.

Principle F – Meetings (frequency/quorum)

		Not compliant	Partially Compliant	Fully Compliant
a)	That an administering authority's main committee or committees meet at least quarterly			√
b)	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			√
c)	That administering authorities who do not include lay members in their formal governance arrangements, provide a forum outside those arrangements by which the interests of key stakeholders can be represented			√

	Comments on ratings given above
a)	
b)	Audit & Governance Committee receives quarterly reports on the activities of the Investment Advisors Group.
c)	A Pension Fund AGM, to which key stakeholders are invited, has been held for over 10 years.

Principle G – Access

		Not compliant	Partially Compliant	Fully Compliant
a)	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 committees			√

	Comments on ratings given above
a)	Members of Audit & Governance Committee who are not members of the Investment Advisors Group may request to see papers that are presented to the Investment Advisors Group. These papers may be required to be considered as Part 2 items (confidential and not for publication).

Principle H – Scope

		Not compliant	Partially Compliant	Fully Compliant
a)	That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.			√

	Comments on ratings given above
a)	Wider scheme issues are considered either by the Investment Advisors Group, Audit & Governance Committee or the People Performance and Development Committee– with referral between groups as appropriate

Principle I – Publicity

		Not compliant	Partially Compliant	Fully Compliant
a)	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			√

	Comments on ratings given above
a)	The Fund's governance arrangements, which include terms of reference for members of the Investment Advisors Group, are published on Surrey CC's website and the governance compliance statement is published within the Pension Fund annual report. The annual report is also available on the Council's website and is sent to all major stakeholders.

Report of the Actuary for the Year Ended 31 March 2012

Surrey Pension Fund: Actuarial Statement for 2010/11
This statement has been prepared in accordance with Regulation 34(1) 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 2011/12.

Description of Funding Policy
The funding policy is set out in the Surrey Pension Fund's (the Fund) Funding Strategy Statement (FSS), dated 25 March 2011. In summary, the key funding principles are as follows:

- to ensure the long-term solvency of the Fund, i.e. that sufficient funds are available to meet all pension liabilities as they fall due for payment;
- to ensure that employer contribution rates are as stable as possible;
- to minimise the long-term cost of the scheme by recognising the link between assets and liabilities and adopting an investment strategy that balances risk and return;
- to reflect the different characteristics of employing bodies in determining contribution rates where the Administering Authority considers it reasonable to do so;
- 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 50% chance that the Fund will return to full funding over 24 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 2010. This valuation revealed that the Fund's assets, which at 31 March 2010 were valued at £1,944 million, were sufficient to meet 72.0% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2010 valuation was £755 million.

Individual employers' contributions for the period 1 April 2011 to 31 March 2014 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 2011.

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 2010 valuation were as follows:

Financial Assumptions	31 March 2010 % p.a. Nominal	% p.a. Real
Discount rate	6.1%	2.8%
Pay increases *	5.3%	2.0%
Price inflation/Pension increases	3.3%	-

* plus an allowance for promotional pay increases. Short term pay growth was assumed to be 1% p.a. for 2010/11 and 2011/12, reverting to 5.3% p.a. thereafter.

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	21.9 years	24.0 years
Future Pensioners	23.9 years	25.9 years

Copies of the 2010 valuation report and FSS are available on request from Surrey County Council, administering authority to the Fund.

Experience over the year since April 2011

The Administering Authority monitors the funding position on a regular basis as part of its risk management programme. The most recent funding update was produced as at 31 March 2012. It showed that the funding level (excluding the effect of any membership movements) decreased over 2011/12. The reasons for this were:

- Total investment returns were lower than the long term assumption made at the 2010 valuation;
- A fall in Government bond yields, leading to a fall in the overall change to the real discount rate resulting in an increase to the value placed on liabilities.

The next actuarial valuation will be carried out as at 31 March 2013. 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

23 May 2012

Statement of Responsibilities

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.
- 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 82 to 110 present a true and fair view of the Surrey County Council Pension Fund at 31 March 2012 and its income and expenditure for the year then ended.

Sheila Little BA CPFA

Chief Finance Officer and
Deputy Director for Change and Efficiency

23 August 2012

Opinion of the Auditors

Independent auditor's report to the Members of Surrey County Council

Opinion on the pension fund accounting statements

I have audited the pension fund accounting statements for the year ended 31 March 2012 under the Audit Commission Act 1998. The pension fund accounting statements comprise the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

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 of Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Chief Financial Officer and auditor

As explained more fully in the Statement of the Chief Financial Officer's Responsibilities, the Chief Financial Officer is responsible for the preparation of the pension fund's financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Financial Officer; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on accounting statements

In my opinion the pension fund's accounting statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2012 and the amount and disposition of the fund's assets and liabilities as at 31 March 2012, other than liabilities to pay pensions and other benefits after the end of the scheme year; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

Opinion on other matters
In my opinion, the information given in the annual report for the financial year for which the accounting statements are prepared is consistent with the accounting statements.

Matters on which I report by exception
I report to you if, in my opinion the governance compliance statement does not reflect compliance with the Local Government Pension Scheme (Administration) Regulations 2008 and related guidance. I have nothing to report in this respect

Paul Grady
Officer of the Audit Commission

Bridge House
1 Walnut Tree Close
Guildford
GU1 4UA

26 September 2012

Annual Accounts 2011/12

The accounts on the following pages give a stewardship report on the financial transactions of the Surrey Pension Fund during 2011/2012 and of the disposition of its assets at 31 March 2012.

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 around 70 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 2011 and 31 March 2012 are:

2010/2011		2011/2012
28,996	Employees in the Fund	29,120
18,701	Pensioners	19,664
25,111	Deferred Pensioners	26,583
72,808	**Total**	**75,367**

Fund Account

	Note	31 March 2011 £000	31 March 2012 £000
Contributions and Benefits			
Contributions receivable	8	**139,933**	**138,582**
Transfers in	9	**17,770**	**13,968**
		157,703	**152,550**
Benefits payable	10	**-102,104**	**-109,800**
Leavers	11	**-13,534**	**-35,835**
Administrative expenses	14	**-1,801**	**-1,717**
		-117,439	**-147,352**
Net additions from dealings with members		**40,264**	**5,198**
Returns on investments			
Investment income	16	**38,982**	**42,887**
Change in market value of investments	17	**137,170**	**1,441**
Investment management expenses	15	**-6,390**	**-6,150**
Net returns on investments		**169,762**	**38,178**
Net increase (decrease) in the Fund during the year		**210,026**	**43,376**
Net Assets of the Fund			
At 1 April		**1,942,868**	**2,152,894**
At 31 March		**2,152,894**	**2,196,270**

Statement of Net Assets

	Note	1 April 2010 £000	31 March 2011 £000	31 March 2012 £000
Investment Assets	17			
Fixed Interest Securities		276,314	311,766	309,600
Index Linked Securities		59,424	59,512	79,752
Equities		1,382,254	1,520,898	1,510,160
Property Unit Trusts		109,721	121,614	120,306
Private Equity		59,071	74,215	84,776
Derivatives	17c			
- Options		14		
- Futures		24	100	126
- Foreign Exchange Forward Contracts		1,224	1,280	7,939
Cash		56,003	55,949	70,564
Other Investment Balances		7,865	11,567	18,281
Investment Liabilities	17			
Derivatives	17c			
- Futures		-703	-305	0
- Foreign Exchange Forward Contracts		-9,748	-6,624	-1,414
Other Investment Balances		-1,548	-9,156	-8,297
Net Investment Assets		1,939,915	2,140,816	2,191,793
Current Assets	12	5,804	15,809	9,071
Current Liabilities	13	-2,851	-3,731	-4,594
Net Assets of the Fund		1,942,868	2,152,894	2,196,270

I certify that the Statement of Accounts presents a true and fair view of the financial position of the Pension Fund at 31 March 2012 and the amount and disposition at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after that date.

S D Little

Sheila Little
Chief Finance Officer
23 August 2012

Notes to the Statement of Accounts

Note 1: Description of the fund

The Surrey Pension Fund ('the fund') is part of the Local Government Pension Scheme 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 2011/12 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 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.

The fund is overseen by the Investment Advisors Group (IAG) and is scrutinised by the Audit & Governance Committee at Surrey County Council.

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 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 range from 5.5% to 7.5% of pensionable pay for the financial year ending 31 March 2012. Employee contributions are matched by employers' contributions which are set based on triennial actuarial funding valuations. The last such valuation was at 31 March 2010. Currently employer contribution rates range from 12.0% to 114.4% of pensionable pay.

d) Benefits

Pension benefits under the LGPS 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 pension section of the Surrey County Council website.

Note 2: Basis of preparation

The Statement of Accounts summarises the fund's transactions for the 2011/12 financial year and its position at year-end as at 31 March 2012. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 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 on an International Accounting Standard (IAS) 19 basis, is disclosed at Note 22 of these accounts.

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.

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/out 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

- 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.

- 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.

- 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.
- 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 suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a fund expense as it arises.

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
Financial assets are included in the net asset statement on a fair value basis as at the reporting date. 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:

- 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.

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

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

i) Valuations of delisted securities are based on the last sale price prior to delisting, or where subject to liquidation, the amount the council expects to receive on wind-up, less estimated realisation cost.

ii) Securities subject to takeover offer the value of the consideration offered under offer, less estimated realisation costs.

iii) 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.

-Limited partnerships
Fair value is based on the net asset value ascertained from periodic valuations provided by those controlling the partnership.

-Pooled investment vehicles
Pooled investment vehicles are valued at closing bid price if both bid and offer prices are published; or if single 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 at 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 it AVC provider, however a small number of members remain with 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 2012 was £85 million (£74 million 31 March 2011).

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 a summarised in note 25. This estimate is subject to significant variances based on changes to the underlying assumptions.

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

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

The items in the net asset statement as at 31 March 2012 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 of 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 valued at fair values provided by the administrators of the funds. These investments are not publically listed and as such there is a degree of estimation involved in the valuation.	The total private equity investments in the financial statement are £85 million. There is a risk that this investment may be over or under stated in the accounts.

Note 6: Prior year adjustment

Following testing as part of the 2011/12 audit it became apparent that a balance of £160,000 classed as cash in the 2010/11 accounts should actually be classed as a debtor. This follows a reclassification of general ledger codes related to BACS and cheque payments.

Note 7: Events after the balance sheet date

Since 31 March 2012 there has been a decline in the global stock market which would impact upon the market value of the fund's investments were they to be valued as at the date these accounts were authorised. The estimated value of the fund at 30 June 2012 is £2,151m, a decrease of £45m on the value of the fund at 31 March 2012. The change is deemed to be a non-adjusting post-balance sheet event.

There have been no events since 31 March 2012, and up to the date these accounts were authorised that require any adjustment to these accounts.

Note 8: Contributions receivable

	2010/2011 £000	2011/2012 £000
By Category		
Employers	106,970	106,671
Members	32,963	31,911
	139,933	**138,582**
By Authority		
Administering Authority	76,292	75,435
Scheduled bodies	55,374	52,266
Admitted bodies	8,267	10,881
	139,933	**138,582**

Note 9: Transfers in from other pension funds

	2010/2011 £000	2011/2012 £000
Group transfers in from other schemes	0	0
Individual transfers in from other schemes	17,770	13,968
	17,770	**13,968**

Note 10: Benefits payable

	2010/2011 £000	2011/2012 £000
By Category		
Pensions	79,664	86,143
Commutation and lump sum retirement benefits	19,737	20,667
Lump sum death benefits	2,641	2,946
	102,042	**109,756**
By Authority		
Administering Authority	49,143	51,916
Scheduled bodies	47,082	49,746
Admitted bodies	5,817	8,094
	102,042	**109,756**

Note the total does not include interest on late payment of benefits £43,793 (£62,035)

Note 11: Payments to and on account of leavers

	2010/2011 £000	2011/2012 £000
Group transfers to other schemes	0	26,376
Individual transfers to other schemes	13,516	9,448
Refunds of contributions	18	15
Payments for members joining state schemes	0	-4
	13,534	**35,835**

Note 12: Debtors

	2010/2011 £000	2011/2012 £000
Central Government bodies	926	187
Other local authorities	10,302	6,727
NHS bodies	0	0
Public corporations and trading funds	1	8
Other entities and individuals	4,580	2,149
	15,809	**9,071**

Note 13: Creditors

	2010/2011 £000	2011/2012 £000
Central Government bodies	646	1,065
Other local authorities	1,681	1,548
NHS bodies	0	0
Public corporations and trading funds	0	13
Other entities and individuals	1,404	1,968
	3,371	**4,594**

Note 14: Administrative expenses

	2010/2011 £000	2011/2012 £000
Employee related	992	961
Support services	673	644
External audit fee*	13	40
Legal and other professional services	7	10
Actuarial fees	116	61
	1,801	**1,717**

* The Audit Commission agreed a revised audit fee of £42,750 in June 2010 for the 2009/10 audit and subsequently issued a credit note for £30,250. The figure shown above for 2010/11 includes the standard fee for 2010/11 and incorporates the refund for 2009/10.

Note 15: Investment expenses

	2010/2011 £000	2011/2012 £000
Management fees	6,072	5,776
Custody fees	252	254
Performance measurement services	6	4
Investment consultancy fees	60	112
Interest paid	0	4
	6,390	**6,150**

Note 16: Investment income

	2010/2011 £000	2011/2012 £000
Fixed interest		
UK	7,259	7,757
Overseas	3,710	2,759
Index linked		
UK	540	600
Overseas	102	0
Equities		
UK	14,849	18,083
Overseas	7,562	7,764
Property unit trusts	4,408	5,645
Private equity	0	0
Cash	552	279
	38,982	**42,887**

Note 17: Reconciliation of movements in investments and derivatives

	Value at 1 April 2011 £000	Purchases at Cost £000	Sale Proceeds £000	Market Movements £000	**Value at 31 March 2012 £000**
Fixed Interest Securities	**311,766**	222,692	-250,837	25,979	**309,600**
Index Linked Securities	**59,512**	40,563	-33,022	12,699	**79,752**
Equities	**1,520,898**	395,688	-369,926	-36,500	**1,510,160**
Property Unit Trusts	**121,614**	31,970	-31,794	-1,484	**120,306**
Private Equity	**74,215**	23,229	-20,658	7,990	**84,776**
Derivatives					
- Futures	**-205**	12,840	-500	-12,009	**126**
- FX Contracts	**-5,344**	8,426	-1,326	4,769	**6,525**
	2,082,456	**735,408**	**-708,063**	**1,444**	**2,111,245**
Cash	**55,949**			-3	**70,564**
Other Investment Balances	**2,411**			0	**9,984**
	2,140,816			**1,441**	**2,191,793**

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 fees, commissions, stamp duty and other fees. Transaction costs incurred during the year amounted to £1.34m (£1.46m in 2010/2011). Derivative receipts and payments represent the realised gains and losses on futures contracts. The Fund's objective is to decrease risk in the portfolio by entering into futures positions to match assets that are already held in the portfolio.

Note 17b: Analysis of investments

	31 March 2011 £000	31 March 2012 £000
Fixed Interest Securities		
UK public sector & quoted	149,845	173,517
UK unit trusts	83,990	79,064
Overseas public sector & quoted	77,931	57,019
Overseas unit trusts	0	0
	311,766	**309,600**
Index Linked Securities		
UK public sector & quoted	37,748	58,332
UK unit trusts	21,764	21,420
Overseas public sector & quoted	0	0
	59,512	**79,752**
Equities		
UK quoted	456,202	472,392
UK unit trusts	269,154	253,990
Overseas quoted	401,198	396,642
Overseas unit trusts	394,344	387,135
	1,520,898	**1,510,160**
UK Property Unit Trusts	**121,614**	**120,306**
Private Equity		
UK unquoted	14,261	12,705
UK unit trusts	59,954	72,071
	74,215	**84,776**
Derivatives		
Futures	-205	126
Foreign Exchange Forward Contracts	-5,344	6,525
	-5,549	**6,651**
Cash		
Sterling deposits	**55,949**	**70,564**
Other Investment Balances		
Outstanding Sales	4,721	11,115
Outstanding Purchases	-9,156	-8,297
Accrued Investment Income	6,846	7,166
	2,411	**9,984**
Total Investments	**2,140,816**	**2,191,793**

Note 17c: Analysis of derivatives

Futures

Futures contracts are exchange traded contracts to buy or sell a standard quantity of a specific asset at a pre-determined future date.

At 31 March 2012 the Fund had one futures contract in place with a net unrealised gain of £125,630 (net unrealized loss of £204,884 at 31 March 2011)

Contract	Expiration Date	Expiration Date Within	Type of Underlying Investment	Economic Exposure	Asset £'000	Liability £'000
Futures	27/06/2012	3 Months	Exchange traded UK Government Bonds	33,666	126	0

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 2011 the Fund had forward currency contracts in place with a net unrealised loss of £5,344,177 (£8,523,771 at 31 March 2010).

No of Contracts	Contract Settlement Date Within	Currency		Notional Amount (local currency)		Asset	Liability
		Bought	Sold	Bought (000)	Sold (000)	£'000	£'000
1	1 month	EUR	GBP	40	-33		
8	2 months	EUR	GBP	27,988	-23,362	58	-81
1	1 month	GBP	DKK	4	-35		
2	1 month	GBP	EUR	939	-1,123	3	
12	2 months	GBP	EUR	117,135	-141,045	103	-577
2	1 month	GBP	JPY	43	-5,722		
5	2 months	GBP	JPY	60,774	-7,328,383	5,007	
2	1 month	GBP	USD	17	-27		
18	2 months	GBP	USD	203,332	-323,510	2,643	
2	1 month	IDR	GBP	628,250	-43		
1	2 month	PHP	GBP	26,535	-388		-1
1	5 months	USD	AUD	3,472	-3,285	101	-27
1	3 months	USD	BRL	2,162	-4,018	23	-28
1	4 months	USD	EUR	3,139	-2.439		-70
1	1 month	USD	GBP	583	-364		
15	2 months	USD	GBP	85,733	-54,236		-562
1	4 months	USD	GBP	3,637	-2,347		-69
						7,939	**-1,414**

Note 18: 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 2011			As at 31 March 2012		
	Designated as fair value though profit and loss	Loans and receivables	Financial liabilities at amortised costs	Designated as fair value though profit and loss	Loans and receivables	Financial liabilities at amortised costs
	£000	£000	£000	£000	£000	£000
Financial assets						
Fixed interest securities	311,766			309,600		
Index linked securities	59,512			79,752		
Equities	1,520,898			1,510,160		
Property unit trusts	121,614			120,306		
Private equity	74,215			84,776		
Derivatives	1,380			8,065		
Cash		55,949			70,564	
Other investment balances	11,567			18,281		
Debtors		15,809			9,071	
	2,100,952	**71,758**		**2,130,940**	**79,635**	
Financial liabilities						
Derivatives	-6,929			-1,414		
Other investment balances	-9,156			-8,297		
Creditors			-3,731			-4,594
	-16,085		**-3,731**	**-9,711**		**-4,594**
	2,084,867	**71,758**	**-3,731**	**2,121,229**	**79,635**	**-4,594**

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

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

Level 1

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

Listed investments are shown a 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 the 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. Some funds provide valuations quarterly whist others only sixth monthly. The accounts include £33 million worth of private equity investments which were valued as at 31 December 2011. Cash flow adjustments have been made to roll forward these valuations to the 31 March 2012.

31 March 2012	Quoted market price Level 1	Using observable inputs Level 2	With significant unobservable inputs Level 3	Total
Financial assets				
Financial assets though profit & loss	2,017,344	28,820	84,776	2,130,940
Loans & receivables	79,635			79,635
Total financial assets	**2,096,172**	**28,820**	**84,776**	**2,210,575**
Financial liabilities				
Financial assets though profit & loss	-9,711			-9,711
Financial liabilities at amortised costs	-4,594			-4,594
Total financial liabilities	**-14,305**			**-14,305**
Net financial assets	**2,082,584**	**28,820**	**84,776**	**2,196,270**

31 March 2011	Quoted market price Level 1	Using observable inputs Level 2	With significant unobservable inputs Level 3	Total
Financial assets				
Financial assets though profit & loss	2,002,287	24,449	74,215	2,100,951
Loans & receivables	71,759			71,759
Total financial assets	**2,074,046**	**24,449**	**74,215**	**2,172,710**
Financial liabilities				
Financial assets though profit & loss	-16,085			-16,085
Financial liabilities at amortised costs	-3,731			-3,731
Total financial liabilities	**-19,816**			**-19,816**
Net financial assets	**2,054,026**	**24,449**	**74,215**	**2,152,894**

Note 18c: Book cost

The book cost of all investments at 31 March 2012 is £1,887,182,964 (£1,783,304,749 at 31 March 2011).

Note 19: Outstanding commitments

At 31 March 2012 the Fund held part paid investments on which the liability for future calls amounted to £74,906,438 (£60,387,893 as at 31 March 2011).

Note 20: Nature and extent of risks arising from financial instruments

The fund's primary long-term risk is that the fund's assets will fall short of its liabilities (i.e. 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 Investment Advisors Group (IAG). Risk management policies are established to identify and analyse the risks faced by the council's pensions operations. Polices 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 and yield movements and the asset mix.

To mitigate market risk, the Pension Fund is invested in a diversified 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 diversified 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 practical.

Equity futures contracts and exchange traded option contracts on individual securities may also be used to manage market risk on equity investment.

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.

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 2012/13 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

Other price risk – Sensitivity Analysis

Asset Type	Value at 31 March 2012 (£)	% Change	Value on Increase	Value on Decrease
UK Equities	726,382	15.6%	839,552	613,212
Overseas Equities	783,777	15.4%	904,244	663,310
Total Bonds	309,600	5.7%	327,154	292,046
ILG	79,752	7.4%	85,654	73,850
Cash	70,564	0.0%	70,564	70,564
Property	120,306	5.8%	127,320	113,292
Total Assets	**2,090,381**		**2,354,502**	**1,826,260**

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 though its holdings in bonds. Western Asset, the Fund's appointed active bond manager, manages this risk. A proportion of the bond portfolio is managed passively by Legal & General.

The fund's direct exposure to interest rate movements as at 31 March 2012 and 31 March 2011 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

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 variable 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 2012	Change in net assets	
		+100 bps	- 100 bps
	£000	£000	£000
Cash & cash equivalents	18,300	183	-183
Cash balances	160	2	2
Fixed interest securities	309,600	3,096	-3,096
Total	**328,060**	**3,281**	**-3,281**

Currency risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The fund is exposed to currency risk on financial instruments that are denominated in any currency other than sterling. The fund holds monetary and non-monetary assets denominated in currencies other than sterling.
The fund therefore has a policy to passively hedge up to 50% of the equity exposure to US Dollar, Yen and the Euro. Legal and General Investment Management manage 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 2012/13 reporting period due to exchange rate movements.The analysis assumes all other variables remain constant.

Asset Type	Value at 31 March 2012 (£)	% Change	Value on Increase	Value on Decrease
Overseas Equities	445,173	9.8%	488,964	401,383
Fixed Interest	8,320	9.8%	9,138	7,501
Property Unit Trust	16,441	9.8%	18,059	14,824
Cash	3,963	9.8%	4,353	3,573
Total	**473,897**	**9.8%**	**520,514**	**427,281**

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 carry 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 institution 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.

Prior to the 1 April 2011 the fund's internally held cash was comingled with that of Surrey County Council.

A separate bank account has been in operation since 1 April 2011.

Both the council's and the fund's bank accounts are with HSBC, which holds AA long term credit ratings (or equivalent) with all three credit rating agencies (Fitch, Moody's, Standard and Poors).

The fund's cash balance is lent to borrowers in accordance with the county council's treasury management strategy, as agreed by the fund's Investment Advisors Group. 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 (LCD) 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 and a money market fund with the Royal Bank of Scotland. In line with the treasury strategy, the maximum deposit level allowed in each account is £15 million. The fund's cash holding under its treasury management arrangements as at the 31 March 2012 was £28.9 million

	Balance at 31 March 2012 £000
Call account	
Natwest	15,000
Money market fund	
Royal Bank of Scotland	13,800
Current account	
HSBC	160
Total	**28,960**

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 and Royal Bank of Scotland. 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. During 2011/12 two short-term loans were required. The fund borrowed £15 million between 27 October and 8 November 2011, and £5 million between 24 November and 8 December 2011. Both loans were made by Surrey County Council. The interest charged was equal to the interest the council would have earned had the cash been invested as planned. The requirement to borrow stemmed from a large cash transfer out of the fund. In October 2011 £27 million cash was transferred to the East Sussex Pension Fund as part of a group transfer of staff, shortly after this a larger than anticipated private equity drawdown of £8.5 million also became due.

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.

Note 21: Related party transactions

i) Employer pension contributions paid by Surrey County Council in 2011/12 amounted to £55,716,313 (£58,408,297 in 2010/11).

	2010/2011	**2011/2012**
Employers' current service contributions	£39,913,593	£38,055,509
Lump sum payments to recover the deficit in respect of past service	£16,627,399	£16,058,267
Payments into the Fund to recover the additional cost of early retirement liabilities	£1,867,305	£1,602,538
	£58,408,297	**£55,716,314**

ii) Surrey Pension Fund paid Surrey County Council £1,544,808 for services provided in 2011/12 (£1,616,903 in 2010/11).

	2010/2011	2011/2012
Treasury management, accounting and managerial services	£228,772	£202,492
Pension administration services	£1,388,131	£1,342,316
	£1,616,903	**£1,544,808**

iii) Net amounts owed by Surrey County Council to the fund as at 31 March 2012 were £740,047 (£24,209,672 at 31 March 2011).

iv) During the year none of the Investment Advisors Group (IAG) undertook any material transactions with the Surrey Pension Fund.

Note 22: Key management personnel

The below employees of Surrey County Council hold key positions in the financial management of the Surrey Pension Fund. Their financial relationship with the fund is disclosed as a proportion of salary costs, including employer pension contributions and national insurance contributions, that can be attributed to the fund.

Position	2011/12 £000	Note
Chief Finance Officer	17,553	1
Pension Fund & Treasury Manager	68,110	2
Senior Accountant	51,769	
	137,432	

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

Note 23: 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:

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 24: Actuarial present value of future retirement benefits

The fund's actuary, Hymans Robertson, has produced a report calculating the present value of promised retirement benefits as at 31 March 2012 was £3,346m (£2,995m at 31 March 2011). See note 25 below.

Note 25: Report of the actuary for the year ended 31 March 2012

IAS 26 requires the actuarial present value of promised retirement benefits to be disclosed (see note 24 above). The actuarial present value of promised retirement benefits is calculated similarly to the defined benefit scheme obligation under IAS 19. The accompanying actuarial report is included as Annexe 1 to these accounts.

Note 26: Statement of Investment Principles

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

Note 27: Annual Report

The Surrey Pension Fund Annual Report 2011/2012 provides further details on the management, investment performance and governance of the Fund.

Report of the Actuary

Annexe 1
Pension Fund Accounts Reporting Requirement

Introduction
CIPFA's Code of Practice on Local Authority Accounting 2011/12 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 accounts:

- showing the figure in the Net Assets 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 actuarial 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.

In order for the Administering Authority to comply, I have provided the information required below.

Balance sheet

Year ended	31 March 2012 £m	31 March 2011 £m
Present Value of Promised Retirement Benefits	3,346	2,995

Liabilities have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2010. I estimate this liability at 31 March 2012 comprises £1,563m in respect of employee members, £645m in respect of deferred pensioners and £1,138m in respect of pensioners. The approximation involved in the roll forward model means that the split of scheme liabilities between the three classes of member may not be reliable. However, I am satisfied the aggregate liability is a reasonable estimate of the actuarial present value of benefit promises. I have not made any allowance for unfunded benefits.

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

It should be noted the above figures are appropriate for the Administering Authority only for preparation of the accounts of the Pension Fund. They should not be used for any other purpose (i.e. comparing against liability measures on a funding basis or a cessation basis).

Assumptions

The assumptions used are those adopted for the Administering Authority's IAS19 reports at each year end as required by the Code of Practice. These are given below. I estimate that the impact of the change to assumptions to 31 March 2012 is to increase the actuarial present value by £94m.

Financial assumptions

My recommended financial assumptions are summarised below:

Year ended	31 Mar 2012 % p.a.	31 Mar 2011 % p.a.
Inflation/Pension Increase Rate	2.5%	2.8%
Salary Increase Rate	4.8%*	5.1%**
Discount Rate	4.8%	5.5%

* Salary increases are 1% p.a. nominal for the three years to year to 31 March 2015 reverting to the long term rate thereafter

** Salary increases are 1% nominal for the period to 31 March 2012, reverting to the long term rate therafter

Longevity assumption

As discussed in the accompanying report, life expectancy is based on the Fund's VitaCurves with improvements from 2007 in line with the Medium Cohort and a 1% p.a. underpin. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	Males	Females
Current Pensioners	21.9 years	24.0 years
Future Pensioners*	23.9 years	25.9 years

* Future pensioners are assumed to be currently aged 45.

Commutation

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 2008 service.

Professional notes

This paper accompanies my covering report titled ‘Actuarial Valuation as at 31 March 2012 for the purposes of International Accounting Standard 19’ dated April 2012. The covering report identifies the appropriate reliances and limitations for e use of the figures in this paper, together with further details regarding the professional requirements and assumptions.

Julie Morrison FFA

14 May 2012

For and on behalf of Hymans Robertson LLP

The Fund’s Largest Shareholdings

	Market Value at 31/03/2012 £m
Top 10 United Kingdom Equities	
Vodafone Group	39.2
BP	38.7
GlaxoSmithKline	36.4
Royal Dutch Shell	33.3
HSBC	16.3
Barclays	14.9
Rio Tinto	13.5
Lloyds Banking Group	13.2
BAE Systems	11.9
Centrica	10.5
	227.9
Top 10 Overseas Equities	
Jardine Matheson	10.6
Liberty Global	5.4
Bangkok Bank	5.2
Roche Holdings	4.5
Microsoft Corporation	4.3
Toyota	4.3
Costco Wholesale	4.3
Altria Agroup	4.2
Amazon	4.1
Thermo Fisher Corporation	4.0
	51.0
Top 5 Unit Trusts	
Legal & General UK Equity	253.0
Legal & General Europe (Ex-UK) Equity	93.1
Legal & General North American Equity	72.9
Legal & General Emerging Markets Equity	66.5
Marathon Global Fund	48.3
	533.8
	812.7

These holdings make up 38% of the total value of the portfolio.

Employer Contribution Rates

Employer Contribution Rates Payable

	Percentage of payroll due 1 April 2011 to 31 March 2012	Deficit Contribution 1 April 2011 to 31 March 2012
Large Scheduled Bodies	%	£000
Surrey County Council	14.8	16,797
Surrey Police Authority	12.0	1,026
Elmbridge Borough Council	14.5	755
Epsom & Ewell Borough Council	15.5	418
Guildford Borough Council	14.6	1,483
Mole Valley District Council	15.5	578
Reigate & Banstead Borough Council	15.2	1,167
Runnymede Borough Council	16.3	362
Spelthorne Borough Council	15.8	478
Surrey Heath Borough Council	15.7	381
Tandridge District Council	16.5	931
Waverley Borough Council	16.5	1,009
Woking Borough Council	15.0	1,360
Academies		
Cleves Junior	24.6	-
Sunbury Manor	22.4	-
Glyn School	22.3	-
Weydon School	19.3	-
Thomas Knyvett Academy	22.2	-
Howard of Effingham Academy	22.2	-
South Farnham	21.5	-
George Abbot	22.9	-
Collingwood	21.6	-
Rodborough Technology College	24.5	-
Rydens	19.4	-
Thamesmead	22.5	-
Magna Carta	24.2	-
The Raleigh	25.4	-
Woolmer Hill Technology College	27.7	-
Epsom and Ewell High School Academy	21.6	-
The Beacon School	32.7	-
Fullbrook School Academy	26.3	8
Rosebery School Academy	28.4	-
Blenheim High School Academy	24.2	-
Hinchley Wood School	22.2	-
Goldsworth School	24.1	-

	Percentage of payroll due 1 April 2011 to 31 March 2014 %	Deficit Contribution 1 April 2011 to 31 March 2012 £
Colleges		
Brooklands College	17.1	124
East Surrey College	16.1	104
Esher College	16.7	22
Godalming College	16.7	18
Guildford College of FE & HE	15.6	463
NESCOT	16.6	233
Reigate College	16.7	19
Strodes College	16.7	14
University College of Creative Arts	16.0	441
Woking College	16.7	8
Small Scheduled Bodies		
Ash Parish Council	19.2	15,366
Bisley Parish Council	18.6	-
Bramley Parish Council	19.2	845
Claygate Parish Council	18.7	88
Compton Parish Council	17.9	-
Cranleigh Parish Council	19.2	7,542
East Horsley Parish Council	18.7	98
Effingham Parish Council	18.7	30
Epsom and Walton Downs Conservators	19.2	13,480
Farnham Town Council	19.2	28,815
Frensham Parish Council	18.7	100
Godalming Town Council	19.2	13,343
Godstone Parish Council	18.7	67
Haslemere Town Council	18.7	322
Horley Town Council	19.2	9,596
Lingfield Parish Council	18.7	25
Merton & Sutton JCB	19.2	14,149
Nonsuch Park JMC	19.2	12,875
Send Parish Council	19.2	1,833
Shere Parish Council	19.2	4,341
Tongham Parish Council	19.2	1,017
Warlingham Parish Council	18.7	36
West End Parish Council	18.7	81
Windlesham Parish Council	19.2	9,960
Witley Parish Council	19.2	5,466
Worplesdon Parish Council	18.7	223

	Percentage of payroll due 1 April 2011 to 31 March 2014 %	Deficit Contribution 1 April 2011 to 31 March 2012 £'000
Admitted Bodies		
Ability Housing	21.5	-
Accent Peerless Housing Group	18.8	356
Apex/A2 Housing Group Ltd	23.1	187
Care Quality Commission	21.0	84
Carillion	21.1	55
Childhood First	24.3	263
Elmbridge Housing Trust	20.0	79
Fusion Lifestyle	17.7	-
George Burley and Sons	18.2	-
Hanover Housing Association	18.1	1,264
Mole Valley Housing Association	20.7	52
Moor House School	16.8	179
Raven Housing Trust	19.9	105
Reigate Grammar School	19.2	99
Ringway Highway Services	21.2	2
Roseberry Housing Association	19.2	12
SWT Countryside Services Ltd	22.1	21
SERCO Ltd	18.3	-
Sir William Perkin's School	19.2	27
Skanska Construction UK Ltd (Streetlighting)	21.3	-
Southern Alcohol Advisory Services	15.5	18
Surrey Association for Visual Impairment	19.2	102
Surrey Sports Park	10.9	-
Surrey Valuation Tribunal	15.6	7
The Princess Alice Hospice	19.2	9
The Royal Grammar School	19.2	57
University of Surrey	16.4	823
VT4S	20.2	442
Waverley Hoppa Transport	19.4	8
Woking Community Transport	19.2	11

Contacts

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 County Council'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

Glossary of Terms

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.

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SURREY
COUNTY COUNCIL

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