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SURREY
COUNTY COUNCIL

Making Surrey a better place

Surrey Pension Fund

Annual Report 2011

Contents

Introduction

This annual report sets out key information about how the Fund is managed for the benefit of all employing bodies, contributors and beneficiaries.

The actuarial valuation was the main challenge that we faced during 2010-2011. That challenge began during 2009-2010 when we opened discussions with the actuary about how we would respond to the valuation results. There were many discussions between officers and the Fund actuary during the year and we engaged with employers as soon as we had a firm idea of what the results were going to be. All employers were invited to attend valuation surgeries in November 2010 to discuss their individual results. Take-up of this offer was disappointing, but it was a useful exercise and the input that we received at these surgeries helped us to form a solution that was in the best interests of as many employers as possible. For those employers with the strongest covenant we were able to stabilise contributions at the rate in payment in 2010-2011. At a time when spending restraint was at the forefront of all of our minds this was an extremely important new approach that meant that additional employer costs of £25million for the three years from 1 April 2011 were avoided. For some other employers we were able to phase in the increase in contribution rates. A summary of the valuation process and the issues that were considered at the time can be found in the Funding Strategy Statement (pages 40-69).

The increase in the Fund's market value, as shown in the statistical summary on page 6, reflects the continued recovery in world markets in 2010-2011. This meant that we had a second consecutive year of good investment returns that exceeded the return that we assumed during the actuarial valuation process. However, we still see the impact of a very difficult preceding couple of years in the five-year investment return. At the time of writing the market value of the Fund is hovering around the £2 billion mark. This is disappointing compared to where we were at year end but it is no secret that there has been significant volatility in the investment markets over the summer months, driven by concerns about government responses to the debt crisis. Paul Meredith, the Fund's independent investment advisor, reflects on this in his annual review on pages 18-21.

The average local authority fund returned 8.2% in 2010-2011, and the Surrey Fund achieved a return of 8.9%. We therefore achieved a return ahead of the local authority average for the second consecutive year. A ranking of twenty-six in the local authority league table does not quite match the achievement in 2010, when the Fund was one of the top ten local authority performers. However, this is essentially top quartile performance, which is our target. The out performance compared to the average local authority fund came from a number of sources including asset allocation and the stock selection of individual fund managers. Performance figures for the Fund's managers are shown on page 25.

As in 2009-2010 we made no changes to either the Fund's asset allocation strategy or to the managers mandated to run the Fund. However, following an extensive training programme for the members, most of whom were new to the Investment Advisers Group following the local elections in March 2009, we have moved on to carry out a full review of the

Fund’s investment strategy. We do this every five years and, while the review is ongoing, the issues that we are looking at include whether the Fund has sufficient protection against market volatility, which is timely given the events of recent months. While there is no certainty as to what the final outcome of the review will be, what is clear is that whatever decision will be made will be with reference to the long-term nature of the Fund and its liabilities. Local Government Pension Scheme (LGPS) funds such as ours are in much better shape than other defined benefit funds in that we are not yet wholly reliant on investment income to fund our pensions.

However, there is concern that potential forthcoming changes in the scheme design will lead to members opting out of scheme membership. In turn this may mean that we move to a position where benefits being paid out exceed contributions paid in a lot sooner than we currently expect, which is the point at which we will have to start selling investment assets to pay our pensions. This is the sort of issue that we need to consider when setting our long-term investment strategy.

Turning to the scheme design, we are awaiting the consultation document that follows the March publication of the ‘Hutton’ report on the future of public sector pensions. There are 27 recommendations in the report and many of them, such as the proposal to move to a career average scheme, were expected. A second consultation document on an increase in employee contribution levels has just been received. Hutton’s provisional report made the recommendation that contribution levels should be reviewed and this was confirmed as part of the Comprehensive Spending Review in October 2010 when it was announced that savings of £900 million from the LGPS needed to be found. The LGPS is being treated differently from other public sector schemes in that other ways of achieving the proposed CSR savings, rather than a blanket increase in contribution rates, are being considered. For other public sector schemes an average increase in employee contributions of 3.2% will be applied. The consultation on the LGPS contribution increase involves options for increasing the employee contributions and changing the accrual rate, which will serve to reduce liabilities and costs. It remains to be seen what the outcome of the consultation will be but there is an expectation that the new rates will be phased in from 1 April 2012 while the Hutton recommendations are to be implemented by 2015.

Finally, it goes without saying that we are very proud that the Fund won the Local Government Chronicle Pension Scheme of the Year award (under £2 billion category) in November 2010. The award was made in recognition of the long-term approach that the Fund has taken to investment strategy and the training involved in bringing the members of the Investment Advisers Group up to speed. Fingers crossed for this year’s entry.

Sheila Little
Chief Finance Officer and Fund Administrator
October 2011

Members and Advisers

Administering Authority	Surrey County Council County Hall Kingston upon Thames Surrey KT1 2EA
Administrator	Chief Finance Officer
Investment Advisers County Council Members	 Denise Le Gal Chair Tony Elias (from October 2010) Michael Gosling (to October 2010) John Orrick David Wood
Representatives of Employing Bodies	Cllr Paul Tuley, Runnymede BC Cllr Stuart Selleck, Elmbridge BC
Employee Representative	Don Josey
Professional Investment Advisers	Martyn James, Mercer Ltd (to May 2011) Steve Turner, Mercer Ltd (from May 2011) Paul Meredith, Independent
Chief Finance Officer	Philip Walker (to March 2011) Sheila Little (from March 2011)
Pension Fund & Treasury Manager	Tracey Milner
Pensions Manager	Paul Baker

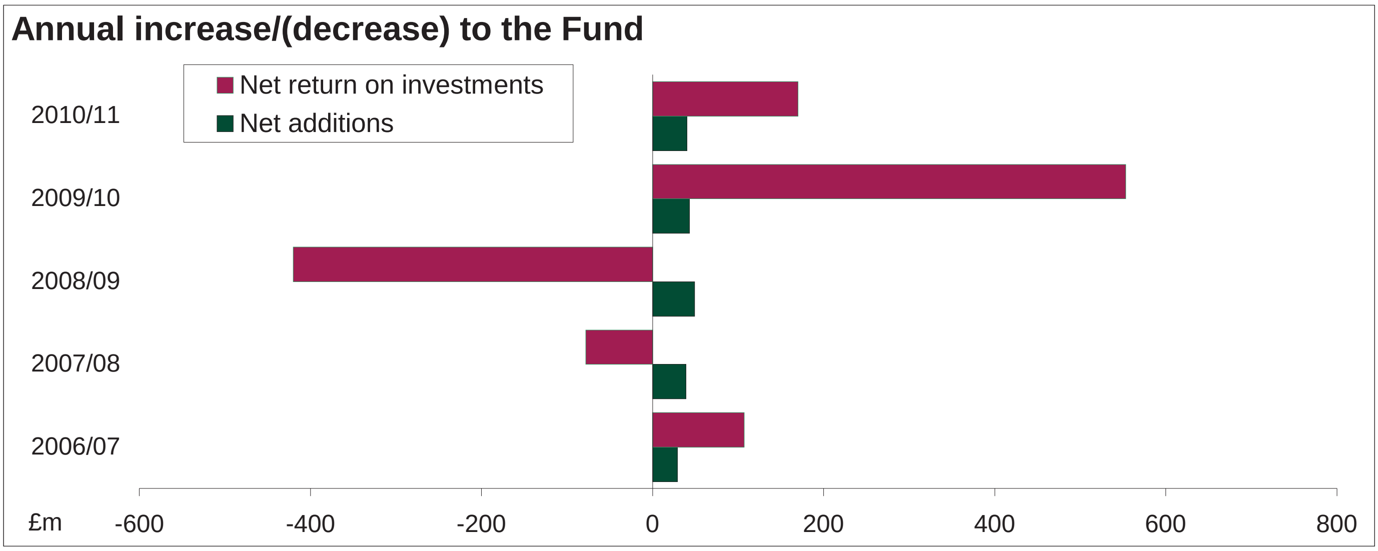
Fund Managers	Esemplia Emerging Markets ING Real Estate JP Morgan Asset Management Legal and General Investment Management Majedie Asset Management Marathon Asset Management Mirabaud Investment Management Ltd Newton Investment Management TCW Investment Management Company UBS Global Asset Management Western Asset Management
Global Custodian	Northern Trust
Private Equity Advisers	Blackrock 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

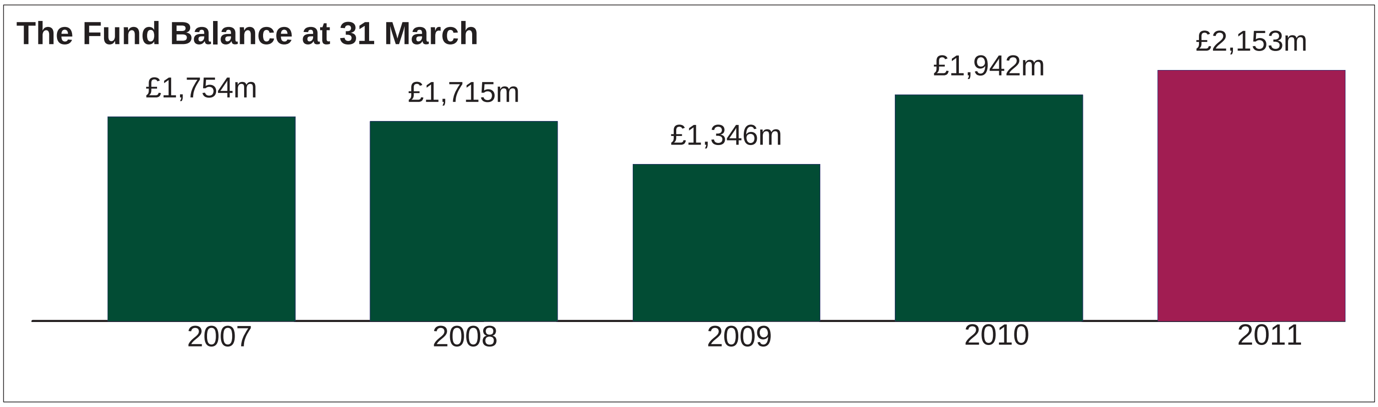
Five Year Profile

Financial Summary

	2006/07 £000	2007/08 £000	2008/09 £000	2009/10 £000	2010/11 £000
Contributions	120,932	133,749	145,998	157,423	157,703
Less benefits and expenses paid	92,422	94,664	94,484	113,960	117,439
Net additions	28,510	39,085	51,514	43,463	40,264
Net investment income **	30,600	32,278	36,220	28,869	32,592
Change in Market Value	76,772	-110,227	-456,126	524,163	137,170
Net return on investments	107,372	-77,949	-419,906	553,032	169,762
Net increase in Fund	135,882	-38,864	-368,392	596,495	210,026
Fund Balance at 31 March (Market Value)	1,753,629	1,714,765	1,346,373	1,942,868	2,152,894

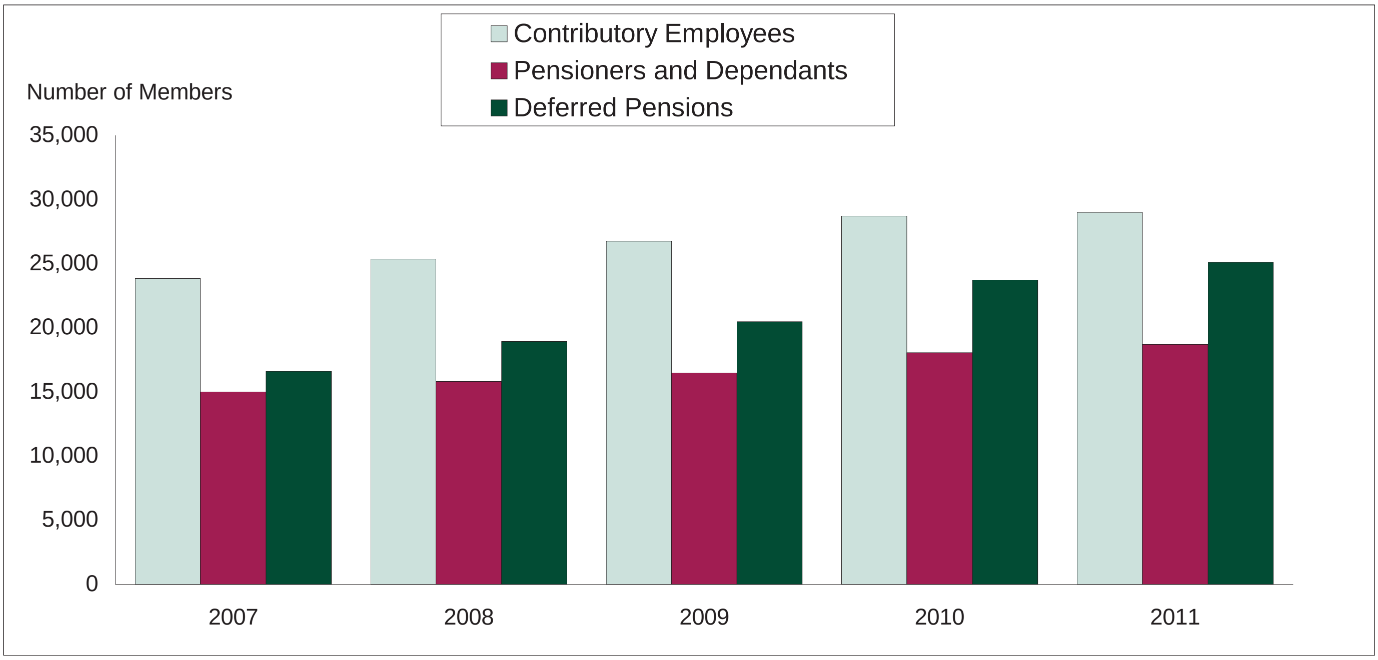
Note ***Net of expenses*





Membership Summary

	2006/07	2007/08	2008/09	2009/10	2010/11
Contributory Employees					
Scheduled Bodies	23,771	25,489	26,791	27,383	27,706
Admitted Bodies	1,574	1,509	1,438	1,339	1,290
	25,345	**26,998**	**28,229**	**28,722**	**28,996**
Pensioners and Dependants					
Scheduled Bodies	14,815	15,389	16,027	16,786	17,316
Admitted Bodies	997	1,109	1,190	1,283	1,385
	15,812	**16,498**	**17,217**	**18,069**	**18,701**
Deferred Pensions					
Scheduled Bodies	17,615	19,053	20,854	22,168	23,507
Admitted Bodies	1,321	1,441	1,520	1,582	1,604
	18,936	**20,494**	**22,374**	**23,750**	**25,111**
	60,093	**63,990**	**67,820**	**70,541**	**72,808**



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	-	£12,900	5.5%
£12,900.01	-	£15,100	5.8%
£15,100.01	-	£19,400	5.9%
£19,400.01	-	£32,400	6.5%
£32,400.01	-	£43,300	6.8%
£43,300.01	-	£81,100	7.2%
More than £81,100			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 2011-2012.

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 2010/2011
The results of the actuarial valuation undertaken at 31 March 2007 applied for the three years commencing 1 April 2008 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 14.7% of pensionable payroll

and

- An individual adjustment to the common rate which was an average of 6.2% 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.

Future Contribution Rates
The Fund Actuary, on completion of his triennial review of the Fund as at 31 March 2010, determined contribution rates applying in the three-year period commencing 1 April 2011. He assessed the Fund's current and future liabilities and determined that it was necessary to increase the rate of employers' common contribution (or future service contribution rate) from 14.7% to 16.3% of pensionable payroll. He also estimated that the average employee contribution rate was expected to be 6.7% of payroll. He also determined that the additional annual sums to be paid by most employers to ensure a return to 100% solvency over the average future working lifetime of the members (20 years) would increase from 6.2% to 8.9% of pensionable payroll.

Details of the valuation process and the contribution rates payable by scheme employers in the three years to 31 March 2014 are shown on page 65 within the Fund's Funding Strategy Statement.

Public Sector Pensions Review

The Government appointed Lord Hutton of Furness to chair an independent Public Service Pensions Commission to undertake a fundamental structural review of public service pension provision. Lord Hutton was asked to produce an interim report in October 2010 considering the case for making short-term savings to public sector pension schemes and a final report before the March 2011 budget.

Interim Report

Lord Hutton's interim report was published on 7 October 2010 and concluded that the most effective way of making short-term savings was to increase employee contributions. The report left it to the government to decide the extent to which employee contributions should increase but recommended that any increases should be gradually phased in between 2012 and 2015 and that there should be some protection for scheme members on low pay.

The Government accepted Lord Hutton's interim report and announced that it wanted to save £2.8bn per year by 2014-15 by increasing employee contributions across the major public sector pension schemes. This equates on average to an increase in employee contributions of 3.2%. However, with the Government's undertaking to afford some protection to the low paid, it means that middle and high earners are likely to incur a higher than 3.2% increase.

The Government has set out its preferred parameters for possible increases and has stated that there should be no increase for employees earning less than £15,000, no more than a 1.5% increase for employees earning up to £21,000 and no more than a 6% increase for high earners. The Government has confirmed that any increases will be applied in stages between April 2012 and April 2015. As a result of these proposed contribution increases there is widespread concern that there will be a high proportion of public sector employees leaving their pension scheme.

The Government recognises that the LGPS as a funded scheme is in a different position to other public sector pension schemes and as such there may be alternative ways to achieve some or all of the required savings other than to simply increase contribution rates. At the time of writing this report the Government has requested that scheme specific discussions should take place with employers and unions with a view to making proposals to the Secretary of State ahead of the formal consultation on proposed changes which is to begin by the end of September 2011.

Final report

Lord Hutton's final report was published on 10 March 2011. The full report can be viewed on www.hm-treasury.gov.uk. A summary of the main conclusions of the report is as follows:

- Public sector employees should be offered career average pension scheme for future service rather than the current final salary pension arrangements.

- Existing members accrued rights should be protected by maintaining the final salary link for past service.

- Normal retirement ages should be in line with member's state pension age to keep pace with changes in life expectancy.

- A fixed cost ceiling should apply to each scheme. The cost ceilings will set a limit on contributions made by employers and ultimately, the taxpayer to ensure public sector pension schemes remain affordable and sustainable.

The Government has accepted Lord Hutton's recommendations for the long-term reform of public sector pension schemes. Individual scheme specific consultations will now place on the design of each scheme with a view to an implementation date in 2015.

Pension Increases

The Government announced changes to the way cost-of-living increases to public sector pensions are measured. Previously, annual increases applied to pensions in payment, deferred pensions and pension contribution pay ranges were all linked to increases to the Retail Price Index. From 1 April 2011 they will be linked to increases to the Consumer Price Index, which it is expected will yield lower increases.

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 Prices Index (CPI). The increase in the CPI during the 12–month review period from October 2009 to September 2010 was 3.1%. Therefore, the revised pay ranges applicable from 1 April 2011 are as follows:

Full-time equivalent pay	Contribution
£0 to £12,900	5.5%
£12,900.01 to £15,100	5.8%
£15,100.01 to £19,400	5.9%
£19,400.01 to £32,400	6.5%
£32,400.01 to £43,300	6.8%
£43,300.01 to £81,100	7.2%
More than £81,100	7.5%

Academies

If a school is granted academy status by the Department for Education the pension regulations require that it is treated as a separate local government pension scheme employer. As a result of the Government's decision to extend the academy program to a wider range of schools it is therefore expected that there will be an increase in the number of new employers within the fund as inevitably some schools will convert to academy status. Although only one school converted to academy status in 2010-2011, a further 12 schools had converted to academy status by 31 July 2011.

New Scheme Employers

Cleves School Academy Trust
Joined 1.11.2010

Oxted Parish Council
Joined 1.1.2011

Achieve Lifestyle
Joined 1.4.2011

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 authorities that administer the LGPS. The Surrey Pension Fund appears in the lower cost quartile for administration, being 29% lower than the average administration cost.

Membership Activity Summary

Active Members		
Active Members at 1 April 2010		**28,722**
New Joiners		4,758
Probation Trust transfer to ESCC	- 233	
Retirements	- 666	
Deferred Pensions	- 3,002	
Deaths	- 29	
Other Transfers, Refund etc.	- 475	
Refunds Pending	- 79	
Total Leavers		**- 4,484**
Active Members at 31st March 2011		**28,996**
Pensioner Members (including Dependants)		
Pensions in Payment at 1 April 2010		**18,069**
New Pensioner Members		1,409
Probation Trust transfer	- 167	
Deaths	- 592	
Ceased children's pensions	- 18	
Total Leavers		**- 777**
Pensions in Payment at 31 March 2011		**18,701**
Deferred Pensioners		
Deferred Pensions at 1 April 2010		**23,750**
New Deferred Pensions (ex-employees)		**3,002**
New Deferred Pensions (divorce credit members)		**3**
Probation trust transfer	- 275	
Transfers	- 823	
Pensions coming into payment	- 521	
Deaths	- 25	
Total Leavers		**- 1,644**
Deferred Pensioners at 31 March 2011		**25,111**
Total Membership at 31 March 2011		**72,808**

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 Advisers 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 Advisers Group. The Investment Advisers Group comprises

- 4 county council members
- 2 district council members
- 1 representative of the scheme members
- 2 professional investment advisers

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 and Standard Life Capital Partners.

At 31 March 2011 the market value of assets under management (excluding assets held by Surrey County Council) was £2,120.8million; 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	530.4	25.0%
Active Core			
Western Asset Management	Fixed Interest	285.0	13.4%
ING Real Estate	Property	123.3	5.8%
Majedie Asset Management	UK Equities	126.2	6.0%
Mirabaud Investment Management	UK Equities	84.1	4.0%
UBS Global Asset Management	UK Equities	243.2	11.5%
Marathon Asset Management	Global Equities	274.6	13.0%
Newton Investment Management	Global Equities	161.4	7.6%
Active Regional Specialist Equity			
Esemplia Emerging Markets	Emerging Markets	94.2	4.4%
JP Morgan	Pacific Basin inc. Japan Equities	64.6	3.0%
TCW	US Equities	59.5	2.8%
Other	Private Equity	74.2	3.5%
	Residual cash	0.1	0.0%
TOTAL		2,120.8	100.0%

Market Background

(Courtesy of Paul Meredith, independent investment adviser)

Economic and market background
Throughout the previous year all risk assets rebounded dramatically in a "relief" rally as it became increasingly apparent that the banking crisis was contained, albeit with unprecedented support from Western governments. Unsurprisingly 2010/11 was a period of consolidation as markets grappled with the unpredictable long term effects of these extraordinary measures.

Exceptionally low interest rates were intended to ensure a robust recovery by promoting capital investment and sustaining consumption. Despite an unwelcome by-product in speculation in physical assets, including gold and silver, economic activity did recover slowly in the developed world. Recovery was very slow in countries with the greatest previous banking and property excesses, such as the UK and some fringe Euro states. Our new Coalition Government used its fresh mandate to start addressing the chronic budget imbalance with spending far exceeding a tax base much reduced by the banking crisis. Successively Greece, Ireland and Portugal received support from other Euro members and the IMF. But in the developing economies, including China, activity rebounded much more vigorously, further boosting commodities and leading to suggestions of a permanent "two speed" world.

Global equities returned just 8%, with East Asia leading, Thailand returning 36% and Korea, Indonesia and Malaysia around 25%. Japan lagged with -4% after dipping at year-end on the economic disruption of the tsunami to its "just in time" manufacturing. Within Europe, Scandinavia and Germany performed significantly better than the southern periphery. By sector, global oils at 21% and mining at 16% reflected the surge in their product and also industrials and telecoms were relatively strong at around 15%. The laggards were banks, mainly on fears of tougher solvency requirements, and pharmaceuticals, given the dwindling pipeline of patented pills: both returned -1%. Growth and momentum portfolio characteristics generally prevailed over value.

UK equities returned 9%: still benefitting from the long term weakness in sterling but restrained by the collapse in BP shares after the Deepwater Horizon oil spill disaster, by the revelation of the banks' payment protection insurance scam and by fears for consumption as the austerity Budget began to hurt, particularly through 20% VAT. UK property overall returned marginally more than equities but with a marked difference between London offices still rebounding sharply from the depths of the banking crisis. Bonds were marginally behind equities at 7% for gilts, both fixed and index linked, and credit after its stellar recovery in the previous year returned just 5%.

Performance

With equities, property and bonds providing such similar overall returns it was a year in which manager success rather than asset allocation was the key to performance. Generally this was satisfactory and the overall Fund return at 8.9% was just ahead of the fund's bespoke benchmark of 8.2% and also the Local Authority median of 8.2%.

Economic Outlook

For many decades developed economies have mostly surprised by the strength and cohesion of recovery from recessions giving credence to the concept of a coordinated economic cycle. However the causes of the recent hiatus have hardly been addressed, the International Monetary Fund has suggested that the present recovery may be "multi-speed" and the last major worldwide financial crisis in the 1930s may be a better historical guide with recovery fitful and generally delayed.

The Chinese Renimbi and the German Euro are still overly competitive though the trade imbalances between these big exporters and the US and other consumer economies have been improved somewhat by recession. An increasingly global economy is still subject to diverse and often apparently uncoordinated national policies on regulation, taxation and interest rates. The loose monetary policy of the US devalues the dollar as a reserve currency and speculation in gold and commodities suggests that there is generally little confidence in the fiat money system. A weak dollar also risks fuelling inflation in economies where the exchange rate is controlled. Indeed in China the authorities are already restricting credit to restrain breakneck growth and there must be limits to the acquiescence of the Chinese people in democratic and environmental shortcomings with increasing visibility of stark and growing inequality.

The corollary of German efficiency is that the Euro zone may have to be curtailed eventually to exclude countries unable to regain lost competitiveness. Greece heads the queue of those incapable of servicing existing debt. The latest "solution" to Greece's problems involves an interest rate subsidy effectively from taxpayers, mostly German, with private investors, mainly banks, taking a voluntary "haircut", which supposedly will not be repeated elsewhere. Subsequent significant direct ECB support for the Italian and Spanish bond markets seems a further desperate gamble to relieve pressure on the solvency of European banks. However without full fiscal integration further losses will have to be recognised with the potential to induce a further leg to the banking crisis.

Confidence in the "fractional reserve" banking model continues to depend implicitly on Government support. With their major client companies able to borrow directly from markets on better terms, banks have found it irresistible to move into generally unproductive financial engineering on the back of this moral hazard. Globally coordinated banking regulation and solvency standards are urgently needed but national priorities are inhibiting progress and the downgrade of US government debt threatens to further destabilise over-geared financial institutions short of suitable additional collateral demanded by regulators.

The Arab "Spring" is hoped to lead eventually to something more like the liberal democracies which have been at the core of past economic development. Egypt and Tunisia progress slowly but there is not much precedent for smooth transition in any resource dependent country like Libya. Perversely continuity of oil supply may depend on the major Arabian producers continuing to bribe their subjects and subjugate their immigrant labour force. This hardly seems a recipe for sustained stability and the cost of doing so will tend to underpin the price of oil, which is already a significant constraint on growth.

Manufactured exports to emerging markets from Germany and from parts of the US have recovered, supporting their local economies. But in the UK, as in much of fringe Europe, manufacturing is no longer big enough to make a major overall contribution. Indeed the strength and durability of recovery in the UK economy remains worryingly dependent on a sustained pick-up in wider private sector capital investment and skills and job creation, all on an unprecedented scale. Companies have shown resolution in retaining labour but consumer confidence is weak and the effect of Government spending and employment restraints is beginning to bite. Real household income after taxes is falling and will be further restrained as interest rates rise eventually from current crisis levels.

Resolution of the burgeoning debt overhang could take many years of restraint and painfully slow growth not only in the Euro periphery but also in the US and the UK where the level of household debt is also uncomfortably high. Emerging economies are not so constrained and should outpace the developed West. Germany and core Euro will almost certainly lead the fringe. London's international exposure suggests that it will continue to lead the rest of the UK. However most large companies compete internationally and share prices should generally discount these variations. At the time of writing [30th August] markets have just suffered three weeks of wild gyrations on some weak economic indicators; US politicians scrambling to avoid defaulting on their national debt; and a lack of governance in the Euro area raising the spectre of a renewed banking crisis. The world order is changing and it seems inevitable that geopolitical and domestic cohesion will continue to be tested.

Strategic asset allocation

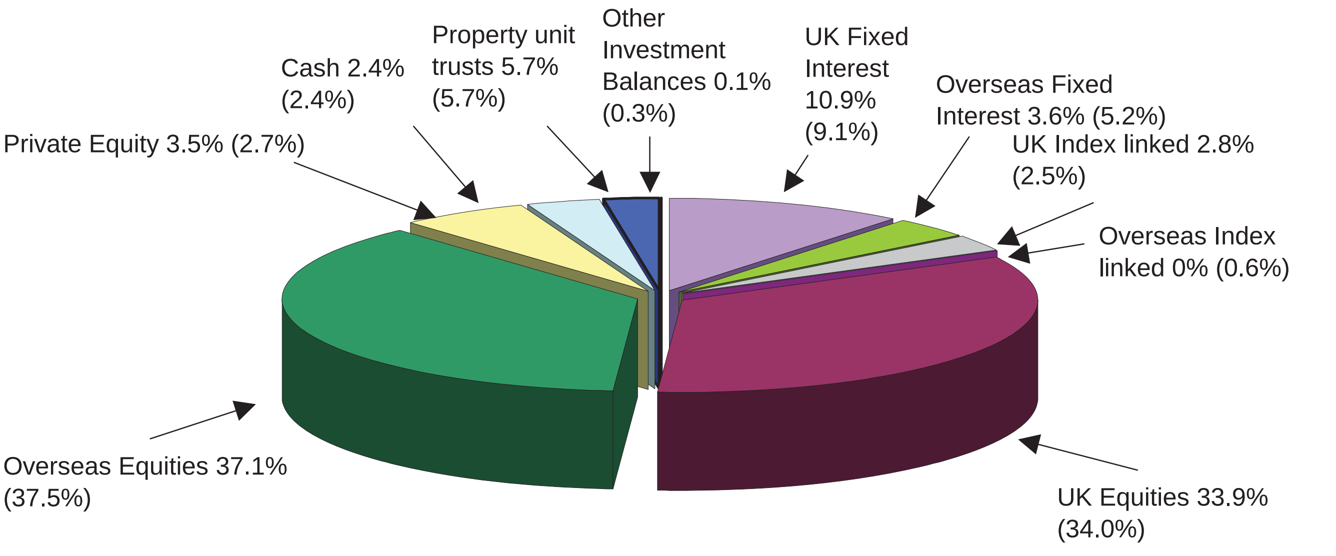
The key strategic decision for the Fund is the extent of exposure to equities. The best generally accepted fundamental valuation guides are the cyclically adjusted price earnings ratio and market value compared to net worth. Even after the recent setback these suggest that markets are still overvalued and expected returns below long term trend. However the simpler and widely quoted price to next years forecast earnings ratio is positive and the earnings yield compares very favourably with that on government bonds. But both these signals reflect current remarkably buoyant profit margins, which must suffer as austerity hits consumption and government spending. Moreover these conditions are hardly favourable for property or most alternative investments. Therefore the bulk of the Fund is held in equities to produce the long-term returns from global activities that should best help to minimise employer contributions. This key element has been endorsed in the current formal review of strategy and has not been materially changed by the Hutton proposals on the future of the LGS. The review is likely to increase exposure to overseas equities including emerging markets with a reduced emphasis on the UK. A small absolute return component will be considered within the mandate of our bond manager, Western Asset Management. Consideration will also be given to introducing an absolute return equity mandate. Index tracking is being considered for those segments where there is inadequate confidence that active management will add value after fees.

Paul Meredith
Independent Investment Adviser
30th August 2011

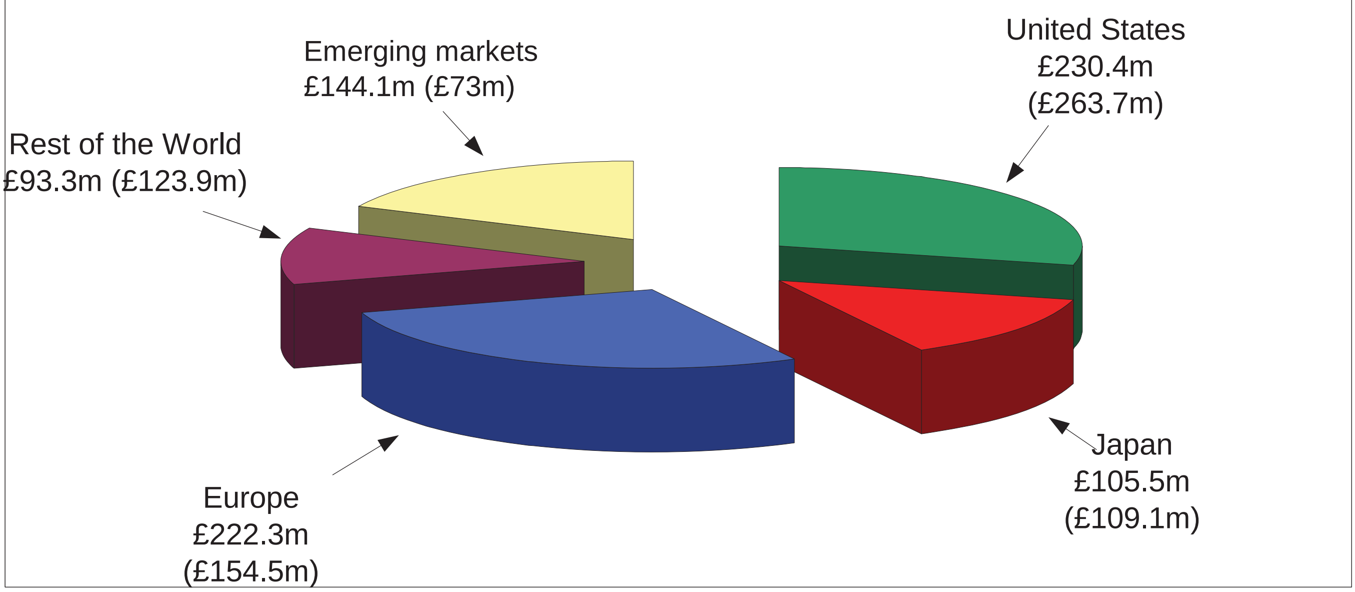
Portfolio Distribution

The distribution of the portfolio at 31 March 2011 is shown below. The larger chart shows distribution over the entire structure of the portfolio, whereas the smaller chart provides more detailed analysis of the overseas equity sectors.

Portfolio distribution at 31 March 2011 (31 March 2010)

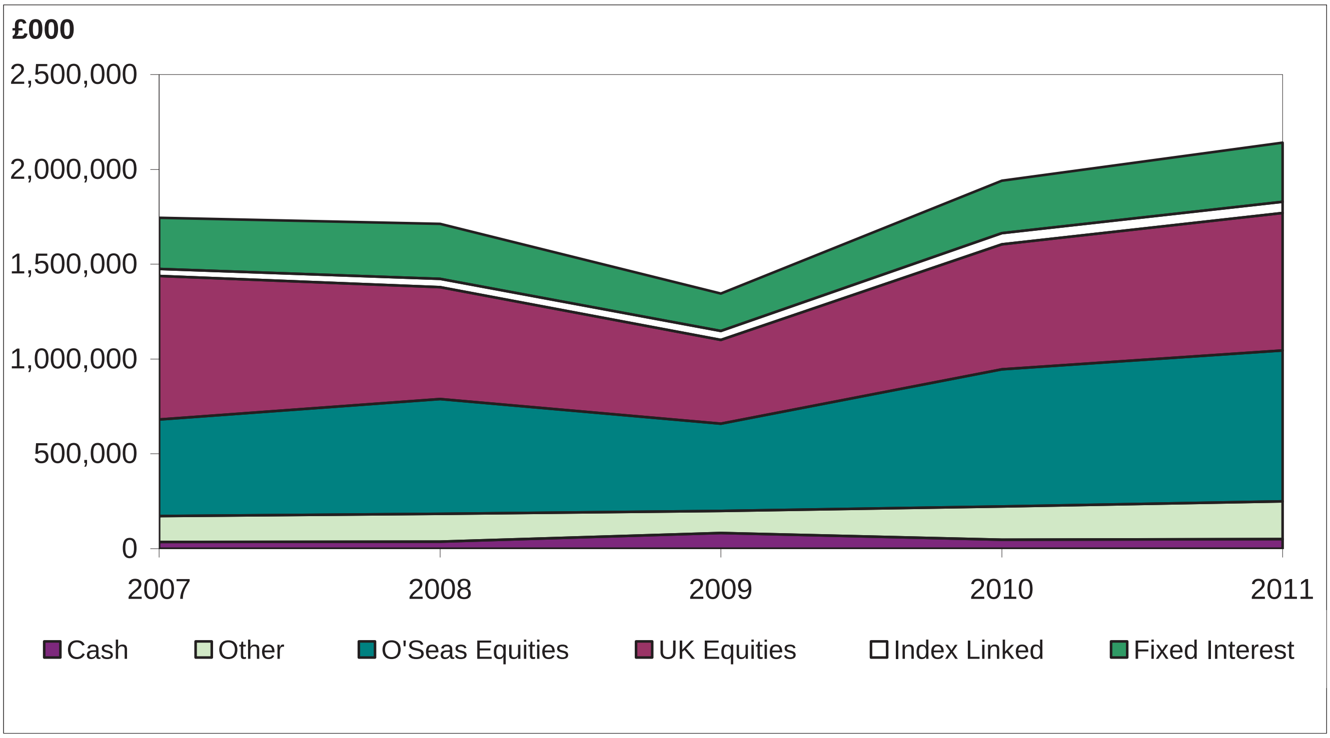


Overseas equities distribution at 31 March 2011 (31 March 2010)



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 2010/2011 in a specialist structure of passive core, active core and regional specialist managers. No new manager mandates were put in place during 2010/2011 and no mandates were terminated. The asset allocation of the Fund was unchanged during 2010/2011.

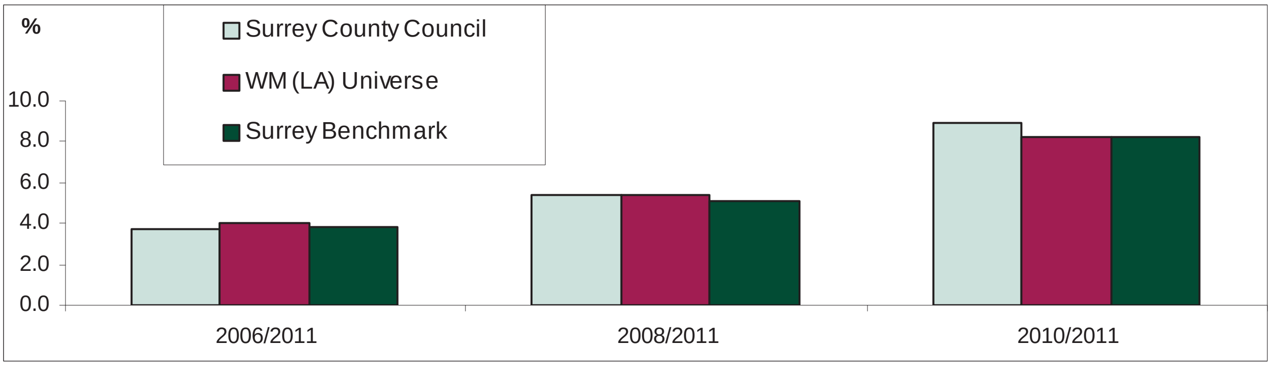
During the year additional cash allocations were made to ING (£1.2m), Newton (£10m), Western (£10m) and LGIM (£35m), following re-balancing exercises. Re-balancing involves comparing the actual allocation to each of the Fund's managers with the target allocation as defined in the Fund's strategic asset/manager allocation. The cash allocations were funded from balances held internally by SCC.

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.



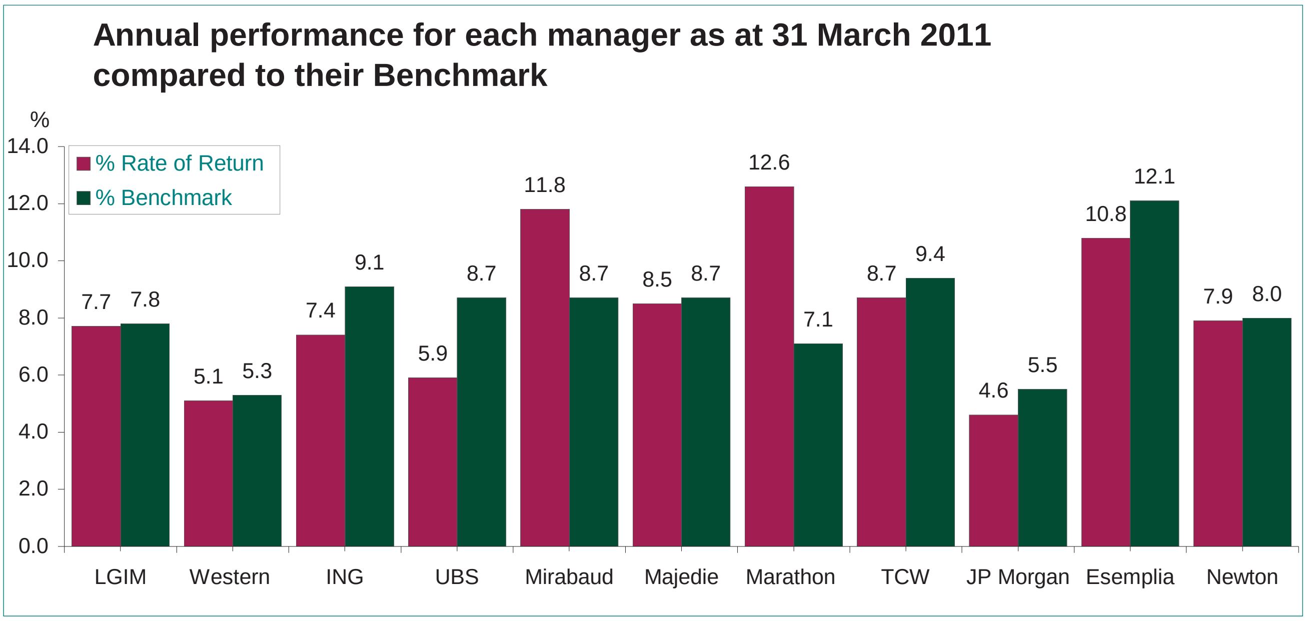
Annual returns over each of the last five years, and for three, five and ten years were as follows:

Financial Years	SCC %	WM Local Authority Universe %	WM Ranking	Surrey Benchmark %
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
2006-2007	7.0	7.0	50	7.0
2008-2011 (3 year average)	5.4	5.4	46	5.1
2006-2011 (5 year average)	3.7	4.0	56	3.8
2001-2011 (10 year average)	5.3	5.3	36	n/a

All the rates of return quoted take into account investment income as well as realised and unrealised capital profits or losses in the period. The Surrey benchmark figure for the 10 year period is not available since the inception date for the specialist structure was 2004.

Annual Returns for Fund Managers

The annual investment returns as at 31 March 2011 for each fund manager are shown below.



Performance Commentary

The average local authority fund returned 8.2% in 2010/2011, the second consecutive positive annual return. The Surrey Fund returned 8.9% with the outperformance relative to the local authority average coming from both asset allocation (which includes the Fund's currency hedge) and stock selection of the Fund's managers. The bespoke customised benchmark, which reflects the unique asset allocation strategy of the Fund, showed a return of 8.2% in the year, which was in line with the local authority average. Again the Fund achieved outperformance against the customised benchmark, since a number of the Fund's managers outperformed their individual benchmarks in the year. An excess 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 longer-term the Fund's return was in line with that of 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 2011 and the latest available performance figure, represented by the Internal rate of Return (IRR), for each fund. An estimate of the IRR of the whole of the Surrey private equity programme gives a return of 12.0% since mid 1998, when the programme in its current form began.

Name	Currency	Inception	Commitment	Investment (drawn) at	Distributions (received) at	IRR Latest Available
				31 March 2011		
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	4.1	25.0%
HG Capital 5	£	2006	10.0	8.1	3.4	15.0%
HG Capital 6	£	2009	10.0	4.3	0.0	Too early
ISIS II	£	1999-2002	12.0	7.3	13.3	17.0%
ISIS III	£	2003	14.0	12.4	12.7	21.0%
ISIS IV	£	2007	15.0	6.1	3.6	18.1%
Euro Funds						
Standard Life ESP II	€	2004	8.8	8.0	5.9	n/a
Standard Life ESP 2006	€	2006	13.2	8.9	0.3	n/a
Standard Life ESP 2008	€	2008	10.6	2.5	0.0	n/a
US Funds						
Blackrock Div PEP I	$	2001	3.1	3.0	3.7	14.0%
Blackrock Div PEP II	$	2003	3.1	3.0	1.5	11.0%
Blackrock Div EP III	$	2005	10.9	9.8	0.0	-0.9%
GSAM PEP 2000	$	2000	5.9	6.4	7.1	14.3%
GSAM PEP 2004	$	2004	6.2	6.3	1.7	1.0%
GSAM PEP 2005	$	2006	10.6	8.7	0.7	Too early
GSAM PEP X	$	2008	11.2	3.5	0.0	Too early

Statement of Investment Principles

1 Overall Responsibility

The County Council is the designated statutory body responsible for administering the Surrey Pension Fund on behalf of the constituent Scheduled and Admitted Bodies. The Council is responsible for setting investment policy, appointing suitable persons to implement that policy and carrying out regular reviews and monitoring of investments. The content of this Statement reflects the County Council's compliance with the requirements of the Myners Review of Institutional Investment, which can be found at 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 Advisers 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 adviser
- an independent adviser
- the Chief Finance Officer

The Advisers meet quarterly and make a report to the County's Audit & Governance Committee. The Advisers 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. 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 adviser 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 mangers 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 current target managed Fund structure (i.e. excluding private equity):

	Manager	% of Fund
Passive*	Legal and General	26.0
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		
Emerging Markets Equity	Esemplia Emerging Markets	3.0
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 Advisers 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 2011.

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
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

4 Policy on Kinds of Investment

The Investment Advisers Group, having regard to funding levels, cash needs and risk tolerance, determines the overall Fund asset mix. The last formal asset-liability modelling (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 current strategic asset allocation benchmark for both the managed Fund (i.e. excluding private equity) and the total fund:

	Target Allocation exc Private Equity	Target Allocation inc Private Equity
Bonds	%	
Gilts	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

The Investment Advisers 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 conclude by 31 March 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 securities 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 Advisers 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 below.

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

Members of the Investment Advisers 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 is 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 March 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 Advisers Group and Audit and Governance Committee on a quarterly basis. Fund managers present to the Investment Advisers 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 Advisers 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.

In 2011/2012 further consideration will be given to whether the Fund should sign up to the Financial Reporting Council's Stewardship Code. At the time of writing, five of the Fund's managers have signed up to the Code, covering 56% of the Fund's assets.

In addition, Hymans Robertson (Fund actuary) and Mercers (investment consultant) are signed up to the Code.

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.

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:

25. 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:

26. 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.

27. 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.

28. 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.

29. 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.

30. 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%.

31. 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.

32. 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.

33. 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.

34. 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

35. 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.

36. 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.

37. 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 below:

	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. 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.

68. 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:

69. 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.

70. 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.

71. 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.

72. 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.

73. 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.

74. 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.

75. 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

76. 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.

77. 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.

78. 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:

79. 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:

80. 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.

81. 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:

82. 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%

83. 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.

84. 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:

85. 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.

86. 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 CC's website.

87. The Investment Advisers 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:

88. 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 Advisers 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:

89. 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.

90. 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.

91. 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.

92. 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

Small Scheduled bodies	Deficit Recovery Period Yrs	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 £
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 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		£	£	£
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
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 College[3]	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.
2. Reflects the decision to permit phasing in of deficit contribution increases unless otherwise stated.
3. 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 2010-11

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)	n/a
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 by under arrangements established by individual employers. Audit & Governance Committee receives quarterly reports on the activities of the Investment Advisers Group.
b)	
c)	Audit & Governance Committee receives quarterly reports on the activities of the Investment Advisers Group.
d)	The Chair of the Audit & Governance Committee is invited to observe the meetings of the Investment Advisers 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.
b)	

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 Advisers 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 Advisers Group include a statement of training requirements. Having bedded in the current IAG, formal investment and actuarial training has taken place during 2010. It is intended that each future meeting of the IAG will include some training and invitations to attend conferences and other training are included in IAG meeting papers. Specialist training sessions will be set up as required, ahead of making decisions about strategic issues. 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 Advisers Group apply to all members. Non-elected members are able to claim expenses related to their membership of the Investment Advisers 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 Advisers 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 Advisers Group may request to see papers that are presented to the Investment Advisers 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 Advisers 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 Advisers 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 2011

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 2010/11.

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 2010

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 2011. It showed that the funding level (excluding the effect of any membership movements) remained broadly unchanged over 2010/11.

The next actuarial valuation will be carried out as at 31 March 2013. The FSS will also be reviewed at that time.

Bryan T Chalmers

Bryan Chalmers

Fellow of the Institute and Faculty of Actuaries

For and on behalf of Hymans Robertson LLP

15 June 2011

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.

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 2011 under the Audit Commission Act 1998. The pension fund accounting statements comprise the Fund Account, the Net Assets Statement and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

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 Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. My responsibility is to audit the accounting 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 accounting statements sufficient to give reasonable assurance that the accounting 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 fund; and the overall presentation of the accounting statements. I read all the information in the annual report to identify material inconsistencies with the audited accounting 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 2011 and the amount and disposition of the fund's assets and liabilities as at 31 March 2011, other than liabilities to pay pensions and other benefits after the end of the scheme year; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

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

Paul Grady
Officer of the Audit Commission

Bridge House
1 Walnut Tree Close
Guildford
GU1 4UA

15 October 2011

Accounting Policies

Accounting Standards

The accounts have been prepared to meet the requirements of Local Government Pension Scheme Regulations (LGPS) and in accordance with the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Local Authority Accounting 2010/2011, following the adoption of International Financial Reporting Standards (IFRS). There are no material differences arising from the transition to IFRS.

Actuarial Position

The accounts summarise the transactions of the Scheme and the net assets of the Fund. The adoption of IFRS requires that the actuarial present value of promised retirement benefits be disclosed by the Fund. The Fund Actuary has produced a report providing this information, which is referenced in Note 20 and Annexe 1 of the accounts. The Fund Actuary also produces an annual statement on the actuarial position of the Fund, which is included on Page 75 of this annual report, and recognises the obligations to pay pensions and benefits that fall due after the financial year.

Contributions, Benefits and Transfer Values

- Contributions and benefits are included on an accruals basis.
- Transfer values are accounted for on a cash basis. No allowance is made for outstanding transfer values because of uncertainty arising from the options available to transferred staff.

Investments

Investments are included in the accounts at market value. The basis of determining market values is described below:

- All securities listed on order driven exchanges are valued at closing prices at the year-end. Other securities listed on recognised stock exchanges are valued at bid prices at close of business on the last trading day of the financial year.
- Unlisted securities are included at fair value having due regard to latest dealings, professional valuation and other appropriate financial information.
- Holdings in pooled investment vehicles are included at the closing bid price if both bid and offer prices are published or if single priced, at the closing single price.
- The sterling values of overseas securities have been assessed on the currency exchange rates ruling on the last trading day of the financial year.
- Options are valued at their mark to market value.
- Open futures contracts are included in the net asset statement at their fair market value, which is the unrealised profit or loss at the current bid or offer market quoted price of the contract.
- Forward foreign exchange contracts are valued by determining the gain or loss that would arise from closing out the contract at the reporting date.

Investment Income

Interest and dividends due but not received on holdings quoted ex-dividend at 31 March 2008 have been accrued and included as investment income.

Taxation

Investments

- The Fund 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 a withholding tax in the country of origin, unless exemption is permitted as in the United States and Australia. Tax deducted in some European countries is recovered.

VAT

- All VAT paid is recoverable, and is accounted for through the County Fund.

Administrative 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.

- Investment management expenses include fees to the investment managers, the custodian, the actuary for investment related services and the performance measurement services together with the County Council costs incurred on administration and monitoring of investment related issues.

Fund Account

	Note	31 March 2010 £000	31 March 2011 £000
Contributions and Benefits			
Contributions receivable	1	**139,823**	**139,933**
Transfers in	3	**17,600**	**17,770**
		157,423	**157,703**
Benefits payable	2	**-95,814**	**-102,104**
Leavers	4	**-16,497**	**-13,534**
Administrative expenses	5	**-1,649**	**-1,801**
		-113,960	**-117,439**
Net additions from dealings with members		**43,463**	**40,264**
Returns on investments			
Investment income	7	**34,523**	**38,982**
Change in market value of investments	16	**524,163**	**137,170**
Investment management expenses	6	**-5,654**	**-6,390**
Net returns on investments		**553,032**	**169,762**
Net increase (decrease) in the Fund during the year		**596,495**	**210,026**
Net Assets of the Fund **At 1 April**		**1,346,373**	**1,942,868**
At 31 March		**1,942,868**	**2,152,894**

Statement of Net Assets

	Note	1 April 2009 £000	31 March 2010 £000	31 March 2011 £000
Investment Assets	16			
Fixed Interest Securities		**195,983**	**276,314**	**311,766**
Index Linked Securities		**47,729**	**59,424**	**59,512**
Equities		**901,981**	**1,382,254**	**1,520,898**
Property Unit Trusts		**73,321**	**109,721**	**121,614**
Private Equity		**36,621**	**59,071**	**74,215**
Derivatives	17			
- Options			**14**	
- Futures			**24**	**100**
- Foreign Exchange Forward Contracts		**8,168**	**1,224**	**1,280**
Cash		**86,804**	**56,003**	**56,109**
Other Investment Balances		**11,345**	**7,865**	**11,567**
Investment Liabilities				
Derivatives	17			
- Futures			**-703**	**-305**
- Foreign Exchange Forward Contracts		**-12,016**	**-9,748**	**-6,624**
Other Investment Balances		**-5,407**	**-1,548**	**-9,156**
Net Investment Assets		**1,344,529**	**1,939,915**	**2,140,976**
Current Assets	8	**4,467**	**5,804**	**15,649**
Current Liabilities	9	**-2,623**	**-2,851**	**-3,731**
Net Assets of the Fund		**1,346,373**	**1,942,868**	**2,152,894**

I certify that the Statement of Accounts presents a true and fair view of the financial position of the Pension Fund at 31 March 2011 and the amount and disposition at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after that date.

Sheila Little
Chief Finance Officer
5 September 2011

	2009/2010 £000	2010/2011 £000
1 Contributions Receivable		
Employees' basic		
Administering Authority	16,949	17,400
Scheduled Bodies	13,303	12,774
Admitted Bodies	2,076	1,975
Employees' additional		
Administering Authority	515	484
Scheduled Bodies	342	268
Admitted Bodies	75	61
Employers' basic		
Administering Authority	39,066	39,914
Scheduled Bodies	29,627	28,409
Admitted Bodies	6,326	6,044
Employers' deficit funding		
Administering Authority	15,813	16,627
Scheduled Bodies	10,047	10,018
Admitted Bodies	0	0
Employers' augmentation		
Administering Authority	0	0
Scheduled Bodies	747	1,136
Admitted Bodies	0	0
Employers' other		
Administering Authority	1,448	1,867
Scheduled Bodies	2,734	2,769
Admitted Bodies	755	187
	139,823	**139,933**

2 Benefits Payable	2009/2010 £000	2010/2011 £000
Retired employees pensions		
Administering Authority	33,491	34,900
Other Scheduled and Admitted Bodies	36,191	37,691
Lump sums		
Administering Authority	7,261	9,999
Other Scheduled and Admitted Bodies	9,782	9,738
Death grants		
Administering Authority	1,039	1,151
Other Scheduled and Admitted Bodies	1,112	1,490
Widows' pensions		
Administering Authority	2,890	2,989
Other Scheduled and Admitted Bodies	3,829	3,912
Children's pensions		
Administering Authority	96	104
Other Scheduled and Admitted Bodies	66	68
Total*	**95,757**	**102,042**

*Note the total does not include interest on late payment of benefits £62,035 (£56,715)

3 Transfers In		
Group transfers in from other schemes	0	**0**
Individual transfers in from other schemes	17,600	17,770
	17,600	**17,770**

4 Leavers	2009/2010 £000	2010/2011 £000
Group transfers to other schemes	0	0
Individual transfers to other schemes	16,471	13,516
Refund of contributions	26	18
State scheme premiums	0	0
	16,497	**13,534**

5 Administrative Expenses		
Administration and Processing	1,536	1,665
Actuarial Fees	34	116
Audit Fee*	78	13
Legal and other Professional Fees	1	7
	1,649	**1,801**

*The Audit Commission agreed a revised audit fee of £42,750 in June 2010 and subsequently issued a credit note for £30,250. The figure shown above for 2009/2010 includes the unadjusted fee of £73,000 whilst the figure for 2010/11 incorporates the subsequent refund issued in 2010/2011.

6 Investment Management Expenses		
Administration, Management and Custody	5,577	6,324
Performance Measurement Services	6	6
Other Advisory Fees	71	60
	5,654	**6,390**

7 Investment Income		
Fixed Interest		
UK	5,833	7,259
Overseas	5,004	3,710
Index Linked		
UK	622	540
Overseas	184	102
Equities		
UK	14,281	14,849
Overseas	6,175	7,562
Property Unit Trusts	2,067	4,408
Private Equity	0	0
Cash	357	552
	34,523	**38,982**

8 Current Assets	2009/2010 £000	2010/2011 £000
Income due from employer in respect of		
- Member Contributions	870	2,684
- Employers Contributions	2,686	7,471
- Added Years Payments	1,323	1,532
- Early Retirement Costs	0	1,379
- Actuarial Recharges	3	27
Benefits	922	1,013
Surrey County Council		1,361
Goldman Sachs		162
Audit Commission		20
	5,804	**15,649**

9 Current Liabilities		
Creditors	1,674	1,372
Benefits	45	32
HM Revenue & Customs	844	646
Surrey County Council	288	1,681
	2,851	**3,731**

10 Unlisted Securities
The value of unlisted securities in the Fund at 31 March 2011 is £74,215,372 (£59,071,246 at 31 March 2010).

11 Outstanding Commitments
At 31 March 2011 the Fund held part paid investments on which the liability for future calls amounted to £60,387,893 (£78,471,685 as at 31 March 2010). The Fund had no sub-underwriting commitments as at 31 March 2011.

12 Additional Voluntary Contribution (AVC's)
AVC's are paid directly to Prudential Life Assurance with a small number still being paid to Equitable Life. AVC's are not included in the accounts of the Pension Fund.

13 Book Cost
The book cost of all investments at 31 March 2011 is £1,783,304,749 (£1,678,473,759 at 31 March 2010).

14 Custody

Surrey's Global Custodian, The Northern Trust Company, provides custody arrangements for securities and cash balances. 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 Equity Partners	Lloyds Banking Group
Standard Life Capital Partners	State Street Global Advisors, Deutsche Bank and JP Morgan.

15 Related Party Transactions

i) Employer pension contributions paid by Surrey County Council in 2010/2011 amounted to £58,408,297 (£56,326,731 in 2009/2010):

	2009/2010 £	2010/2011 £
Employers' current service contributions	39,066,469	£39,913,593
Lump sum payments to recover the deficit in respect of past service	15,812,562	£16,627,399
Payments into the Fund to recover the additional cost of early retirement liabilities	1,447,700	£1,867,305
Total	**56,326,731**	**£58,408,297**

ii) Net amounts owed by Surrey County Council to the Fund as at 31 March 2011 were £24,209,672 (£31,513,835 at 31 March 2010). These included cash balances of £17,754,481 and Net Debtors of £6,455,191.

iii) Interest to the sum of £194,438 was allocated to Pension Fund balances in 2010/2011 (£181,069 in 2009/2010).

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

16 Investments	Value at 1 April 2010 **£000**	Purchases at Cost £000	Sale Proceeds £000	Market Movements £000	**Value at 31 March 2011** **£000**
Fixed Interest Securities	**276,314**	334,185	-301,735	3,002	**311,766**
Index Linked Securities	**59,424**	25,446	-31,505	6,147	**59,512**
Equities	**1,382,254**	338,688	-304,323	104,279	**1,520,898**
Property Unit Trusts	**109,721**	44,697	-39,156	6,352	**121,614**
Private Equity	**59,071**	12,843	-13,843	16,144	**74,215**
Derivatives					
- Options	**14**	204	-126	-92	**0**
- Futures	**-679**	3,792	-1,378	-1,940	**-205**
- FX Contracts	**-8,524**	10,258	-10,338	3,260	**-5,344**
	1,877,595	**770,113**	**-702,404**	**137,152**	**2,082,456**
Cash Deposits	**56,003**			18	**56,109**
Other Investment Balances	**6,317**			0	**2,411**
	1,939,915			**137,170**	**2,140,976**

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 £1.46m (£1.64m in 2009/2010)

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 without disturbing the underlying assets.

		31 March 2010 £000	31 March 2011 £000
16.1	**Fixed Interest Securities**		
	UK public sector & quoted	110,763	149,845
	UK unit trusts	65,098	83,990
	Overseas public sector & quoted	100,453	77,931
	Overseas unit trusts	0	0
		276,314	311,766
16.2	**Index Linked Securities**		
	UK public sector & quoted	28,958	37,748
	UK unit trusts	18,710	21,764
	Overseas public sector	11,756	0
		59,424	59,512
16.3	**Equities**		
	UK quoted	426,830	456,202
	UK unit trusts	231,176	269,154
	Overseas quoted	354,164	401,198
	Overseas unit trusts	370,084	394,344
		1,382,254	1,520,898
16.4	**UK Property Unit Trusts**	109,721	121,614
16.5	**Private Equity**		
	UK unquoted	14,612	14,261
	UK unit trusts	44,459	59,954
		59,071	74,215
16.6	**Derivatives**		
	Options	14	0
	Futures	-679	-205
	Foreign Exchange Forward Contracts	-8,524	-5,344
		-9,189	-5,549
16.7	**Cash**		
	Sterling deposits	56,003	56,109
16.8	**Other Investment Balances**		
	Outstanding Sales	489	4,721
	Outstanding Purchases	-1,548	-9,156
	Accrued Investment Income	7,376	6,846
		6,317	2,411
	Total Investments	**1,939,915**	**2,140,976**

17 Derivatives

The Fund has a policy to 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.

Options

Options are contracts that give the purchaser the right, but not the obligation, to buy (call option) or sell (put option), from/to the seller of the option, a specified quantity of a particular product at a specified price. They can be exchange traded or over the counter contracts.

At 31 March 2011 the Fund had no Option contracts in place (Net unrealised gain of £13,879 at 31 March 2010).

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 2011 the Fund had futures contracts in place with a net unrealised loss of £204,884 (£678,940 at 31 March 2010).

Contract	Expiration Date	Expiration Date Within	Type of Underlying Investment	Economic Exposure	Asset £'000	Liability £'000
Future	09/06/11	3 Months	Exchange traded Japanese Government Bonds	5,252	32	
Future	21/06/11	3 Months	Exchange traded US Treasury Notes	7,352		25
Future	21/06/11	3 Months	Exchange traded US Treasury Bonds	3,469		117
Future	08/06/11	3 Months	Exchange traded German Government Bonds	6,120	68	
Future	28/06/11	3 Months	Exchange traded UK Government Bonds	60,577		163
					100	**305**

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).

				2010/11			
	Contract	Currency		Local Currency		Asset	Liability
No of Contracts	Settlement Date Within	Bought	Sold	Bought (000)	Sold (000)	£'000	£'000
1	1 Month	AUD	GBP	170	-108	1	
1	1 Month	GBP	CHF	259	-382		-2
1	1 Month	GBP	DKK	4	-37		
2	1 Month	GBP	HKD	123	-1,540		
2	1 Month	JPY	GBP	55,372	-416	1	
1	1 Month	USD	JPY	2,368	-196,716	12	-16
8	2 Months	EUR	GBP	10,507	-8,925	374	
11	2 Months	GBP	EUR	103,168	-121,901		-4,725
3	2 Months	GBP	NOK	17,416	-160,938	2	-887
7	2 Months	GBP	JPY	61,650	-8,096,915	666	
16	2 Months	GBP	USD	180,970	-291,514		-973
1	2 Months	JPY	USD	196,716	-2,405	2	-21
11	2 Months	USD	GBP	43,454	-26,901	222	
						1,280	**-6,624**

AUD - Australian Dollars	GBP - Sterling	USD - US Dollars
CHF - Swiss Francs	HKD - Hong Kong Dollar	
EUR - Euro	JPY - Japanese Yen	
DKK – Danish Krone	NOK - Norwegian Krone	

18 Nature and Extent of Risk and how the Pension Fund Manages Those Risks

***Credit risk**:* the possibility that other parties might fail to pay amounts due to the Pension Fund.

***Liquidity risk**:* the possibility that the Pension Fund might not have funds available to meet its commitments to make payments.

***Market risk**:* the possibility that financial loss might arise for the Pension Fund as a result of changes in such measures as interest rates and stock market movements.

Credit risk

The Pension Fund is exposed to credit risk through derivative contracts and its daily treasury activities.

Responsibility for managing the financial risks associated with derivative contracts rests with the appointed investment fund managers, whose performance is regularly monitored and reviewed.

Prior to the 1 April 2011 the Pension Fund's internally held cash was co-mingled with that of Surrey County Council. A separate bank account has been in operation since 1 April 2011. Both the Surrey CC and new Pension Fund bank accounts are held at 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 Advisers 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.

Liquidity risk

The Pension Fund holds a working cash balance or overdraft in its bank account to pay pensions and other benefits. Cash is also required if the Fund's Private Equity Managers issue drawdown notices for additional funds. The Fund currently enjoys 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 involve assessing the level of internal cash available to be invested with managers.

Market risk

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 practicable.

Interest rate risk is the risk to which the Pension Fund is exposed to changes in interest rates and mainly relates to 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.

For investments denominated in non-sterling currencies, the Pension Fund is exposed to currency risk as a result of possible fluctuations in foreign currency exchange rates. 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, investment fund managers will take account of currency risk in their investment decisions.

Price risk is the risk of losses associated with the movement in prices of the underlying assets. By diversifying investments across asset classes and managers, the Pension 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.

An additional area of risk is the outsourcing of custody and accounting services to external third party service organisations. The main service area that the Pension Fund outsources is its custody arrangements with NorthernTrust. The Fund's custodian is responsible for the safekeeping of the Fund's assets and acts as the Fund's clearing bank, settling transactions and collecting income. In addition, they also provide an investment accounting service. Northern Trust is a global industry leader and provides the custodian service to many local government pension scheme administering authorities. A third-party review of Northern Trust's custody capabilities, which took place in 2009, assessed that the custodian was ahead of the industry benchmark when considering various relevant factors, including financial strength and business continuity (including disaster recovery).

19 Post Balance Sheet Events

All employees of Surrey Probation, a scheme employer in the Surrey Pension Fund, transferred to the Surrey and Sussex Probation Board on 1st April 2010 and now participate in the East Sussex Pension Fund. As at September 2011 negotiations between each Fund's actuary on the calculation of the bulk transfer have concluded and it is estimated that £27 million will transfer from the Surrey Fund into the East Sussex Fund during 2011/2012. Transfers are accounted for on a cash basis therefore this is a non adjusting post balance sheet event.

20 Actuarial Present Value of Future Retirement Benefits

The adoption of International Financial Reporting Standards (IFRS) within the 2010/2011 Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Local Authority Accounting, requires that administering authorities of Local Government Pension Funds (LGPS) disclose what IAS 26 refers to as the actuarial present value of promised retirement benefits.

The Surrey Pension Fund's Actuary, Hymans Robertson, has produced a report identifying that the present value of promised retirement benefits as at 31 March 2011 was £2,995m (£3,742m at 31 March 2010). This report, including details of the assumptions used to calculate this figure, can be found at Annexe 1 to this Statement of Accounts.

21 Statement of investment principles

Full details of the fund's investment policy are documented in the Statement of Investment Principles.

22 Employer Contribution Rates Payable

Large Scheduled Bodies	Percentage of payroll due 1 April 2008 to 31 March 2011 %	Deficit Contribution 1 April 2010 to 31 March 2011 £000
Surrey County Council	14.8	16,797
Surrey Police Authority	12.0	1,026
Elmbridge Borough Council	14.5	756
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	417
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
Small Scheduled Bodies		
Ash Parish Council	18.8	5,202
Bisley Parish Council	15.7	-
Bramley Parish Council	18.8	147
Claygate Parish Council	15.7	119
Cranleigh Parish Council	18.8	3,531
East Horsley Parish Council	15.7	106
Epsom & Walton Downs Conservators	18.8	6,526
Farnham Town Council	18.8	4,419
Frensham Parish Council	15.7	157
Godalming Town Council	18.8	5,366
Godstone Parish Council	15.7	62
Haslemere Town Council	15.7	434
Horley Town Council	18.8	3,006
Lingfield Parish Council	15.7	-
Merton & Sutton JCB	18.8	5,440
Nonsuch Park JMC	18.8	6,143
Shere Parish Council	18.8	1,250
Tongham Parish Council	18.8	171
Valuation Tribunal Service	11.7	3,289
Warlingham Parish Council	15.7	39
West End Parish Council	15.7	84
Windlesham Parish Council	18.8	1,714
Witley Parish Council	18.8	891
Worplesdon Parish Council	15.7	331

Employer Contribution Rates Payable

	Percentage of payroll due 1 April 2008 to 31 March 2011 %
Colleges	
Brooklands College	18.9
East Surrey College	15.9
Esher College	15.9
Godalming College	15.9
Guildford College of Technology	19.7
NESCOT	18.6
Reigate College	15.9
Strodes College	15.9
University College of Creative Arts	15.8
Woking College	15.9
Admitted Bodies	
A2 Housing Group Ltd	43.4
Ability Housing Association	17.9
Accent Peerless Housing Group	27.6
Babcock 4S Ltd (VT 4S)	16.4
Carillion	21.9
Childhood First	114.4
Care Quality Commission	19.9
East Surrey Rural Partnership	16.9
Elmbridge Housing Trust	17.5
Fusion Lifestyle	16.6
George Burley & Sons	17.0
Hanover Housing Association	22.9
Mole Valley Housing Association	19.4
Moor House School	15.4
Princess Alice Hospice Trust	22.6
Raven Housing Trust	16.6
Reigate Grammar School	22.6
Ringway	17.5
Rosebery Housing Association	22.6
Royal Grammar School, Guildford	22.6
SERCO	15.0
Sir William Perkins's School	22.6
Skanska	21.3
Surrey Alcohol and Drug Advisory Service	13.8
Surrey Association for Visual Impairment	22.6
Surrey Sports Park	20.0
SWT Countryside Services Ltd	16.9
University of Surrey	19.3
Waverley Hoppa Transport	15.4
Woking Community Transport	22.6

Annexe 1
Pension Fund Accounts Reporting Requirement

Introduction

CIPFA's Code of Practice on Local Authority Accounting 2010/11 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. This change is one of many which are being adopted by employers reporting under CIPFA guidance in the financial year 2010/11.

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.

Assumptions

The assumptions used are those adopted for the Administering Authority's FRS17/IAS19 reports at each year end as required by the Code of Practice. These can be found at the end of this report.

Balance sheet

Year ended	31 March 2011 £m	31 March 2010 £m
Present Value of Promised Retirement Benefits	2,995	3,742

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 2011 comprises £1,371m in respect of employee members, £544m in respect of deferred pensioners and £1,080m 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.

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).

Financial assumptions

My recommended financial assumptions are summarised below:

Year ended	31 Mar 2011 % p.a.	31 Mar 2010 % p.a.
Inflation/Pension Increase Rate	2.80%	3.80%
Salary Increase Rate*	5.10%	5.30%
Discount Rate	5.50%	5.50%

* Salary increases are 1% p.a. nominal for the year to 31 March 2011 and the year to 31 March 2012 reverting to 5.1% thereafter.

Mortality

As discussed in the accompanying report, life expectancy is based on the Fund's VitaCurves with improvements in line with the Medium Cohort and a 1% p.a. underpin from 2007. 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.

Historic mortality

Life expectancies for the below year ends is based on the PFA92 and PMA92 tables. The allowance for future life expectancies is shown in the table below:

Year Ended	Prospective Pensioners	Pensioners
31 March 2010	year of birth, medium cohort and 1% p.a. minimum improvement from 2007	year of birth, medium cohort and 1% p.a. minimum improvement from 2007

Age rating and loadings are applied to the above tables based on membership profile.

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.

Barry McKay FFA

19 May 2011

For and on behalf of Hymans Robertson LLP

The Fund’s Largest Shareholdings

	Market Value at 31/03/2011 £m
Top 10 United Kingdom Equities	
Royal Dutch Shell	43.9
Vodafone Group	37.9
GlaxoSmithKline	36.4
BP	33.3
HSBC	19.9
Rio Tinto	16.2
Unilever	14.0
Anglo American	13.9
Barclays	13.1
BAE Systems	9.9
	238.5
Top 10 Overseas Equities	
Jardine Matheson	8.2
Cablevison Group	4.3
Roche Holdings	4.2
JP Morgan Chase	4.0
Toyota	3.9
Mitsubishi Corporation	3.5
Fresenius	3.4
Sprint Nextel Corp	3.4
Novartis	3.3
Bangkok Bank	3.1
	41.3
Top 5 Unit Trusts	
Legal & General UK Equity	251.6
Legg Mason Emerging Markets	94.2
Legal & General Europe (Ex-UK) Equity	83.5
Legal & General North American Equity	68.6
Marathon Global Fund	48.4
	546.3
	826.1

These holdings make up 40% of the total value of the portfolio.

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 CC's website: www.surreycc.gov.uk

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

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

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

Useful Addresses
Occupational Pensions Board
PO Box 1NN
Newcastle upon Tyne
NE99 1NN

Tel: 0191 225 6316

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

Tel: 0845 601 2923

Email:
enquiries@pensionsadvisoryservice.org.uk

Pensions Ombudsman
11 Belgrave Road
London
SW1V 1RB

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

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

National Website www.lgps.org.uk

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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COUNTY COUNCIL

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